F.No. AERA/20010/MYTP/DIAL/CP-III/2018-19/Vol-I

Order No: 57/2020-21

सत्यमेव जयते

AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

IN THE MATTER OF

DETERMINATION OF AERONAUTICAL TARIFF FOR

INDIRA GANDHI INTERNATIONAL AIRPORT, DELHI (DEL)

FOR THE THIRD CONTROL PERIOD

(01.04.2019 – 31.03.2024)

DATE OF ISSUE: 30th DECEMBER, 2020

AERA BUILDING

ADMINISTRATIVE COMPLEX

SAFDARJUNG AIRPORT

NEW DELHI 110003

LIST OF ABBREVIATIONS

Abbreviation	Expansion
AAI	Airports Authority of India
ACI	Airports Council International
ACLC	Air Cargo Logistic Centre
ADRM	Airport Development Reference Manual
AERA	Airports Economic Regulatory Authority of India
AF	Annual Fee
AGL	Aeronautical Ground Lighting
AHU	Air Handling Unit
AIC	Aeronautical Information Circulars
AOC	Airline Operators Committee
AOCC	Airport Operation Control Centre
AoT	Airports of Thailand
AR	Actual Aero Revenue realised
ARFF	Aircraft Rescue and Fire Fighting
ARR	Aggregate Revenue Requirement
AS	Accounting Standard
ASQ	Airport Service Quality
ATC	Air Traffic Control
ATM	Air Traffic Movement
ATRS	Automatic Tray Retrieval System
AVSEC	Aviation Security
BAC	Base Airport Charges
BCAS	Bureau of Civil Aviation Security
BDE	Book Debt Equity ratio
BHS	Baggage Handling System
BIAL	Bangalore International Airport Limited
BME	Bridge Mounted Equipment
CAGR	Compounded Annual Growth Rate
CAM	Common Area Management
CAPM	Capital Asset Pricing Model
CISF	Central Industrial Security Force
CMS	Control and Monitoring System
CP1	Control Period 1
CP2	Control Period 2
CPD	Commercial Property Development
CPI	Consumer Price Index
CPWD	Central Public Works Department
Cr	Crore

Abbreviation	Expansion
CSMIA	Chhatrapati Shivaji Maharaj International Airport
CSR	Corporate Social Responsibility
CUPPS	Common Use Passenger Processing Systems
CUSS	Common User Self Service
CUTE	Common User Terminal Equipment
CWIP	Capital Work in Progress
DAFFPL	Delhi Aviation Fuel Facility Private Limited
DER	Debt Equity Ratio
DF	Development Fee
DGCA	Directorate General of Civil Aviation
DIAL	Delhi International Airport Limited
DSR	Delhi Schedule Rate
EBS	Early Baggage Storage
ECB	External Commercial Borrowing
EIL	Engineers India Limited
EPC	Engineering, Procurement and Construction
EPOS	Electronic Point of Sale
ERP	Equity Risk Premium
FBO	Fixed Base Operator
FCP	First Control Period
FIDS	Flight Information Display System
FRoR	Fair Rate of Return
FSC	Full-Service Carrier
FY	Financial Year
GoI	Government of India
GoNCT	Government of National Capital Territory of Delhi
GST	Goods and Services Tax
GTR	Gross Target Revenue
HOTO	Hand Over - Take Over
HRAB	Hypothetical Regulatory Asset Base
HVAC	Heating, Ventilation and Air Conditioning
IATA	International Air Transport Association
IBMS	Integrated Building Management System
ICAO	International Civil Aviation Organization
ICWAI	The Institute of Cost & Works Accountants of India
IDC	Interest During Construction
IGIA	Indira Gandhi International Airport
IMG	Inter-Ministerial Group
IRR	Internal Rate of Return

Abbreviation	Expansion
IRS	Internal Revenue Service
IT	Information Technology
ITP	Fuel Into Plane
JV	Joint Venture
Km	Kilometre
L&B	Landrum & Brown
L&T	Larsen & Toubro
LCC	Low Cost Carrier
LED	Light Emitting Diode
LOS	Level of Service
MAHB	Malaysia Airport Holdings Berhad
MAT	Minimum Alternate Tax
MATV	Master Antenna TV
MCLR	Marginal Cost of Lending Rate
MDE	Market Debt Equity ratio
MEP	Mechanical, Electrical and Plumbing
MIAL	Mumbai International Airport Limited
MLCP	Multi-Level Car Park
Mn	Million
MoCA	Ministry of Civil Aviation
MPAS	Mobile Phone Antenna Systems
MPPA	Million Passengers Per Annum
MRO	Maintenance, Repair and Overhaul
MYTP	Multi Year Tariff Proposal
NACO	Netherlands Airport Consultants
NCR	National Capital Region
NGT	National Green Tribunal
NPV	Net Present Value
NTP	North Terminal Precinct
NTR	Net Target Revenue
NUB	New Udaan Bhavan
O&M	Operations & Maintenance
OMDA	Operation, Management and Development Agreement
OPEX	Operational Expenditure
Pax	Passengers
PBT	Profit Before Tax
PCN	Pavement Classification Number
PMC	Project Management Consultancy
PSU	Public Sector Undertaking

Abbreviation	Expansion
PSW	Proximity Score Weighted
PV	Present Value
R&M	Repairs and Maintenance
RAB	Regulatory Asset Base
RBI	Reserve Bank of India
RET	Rapid Exit Taxiways
R_f	Risk Free Rate
RFP	Request for Proposal
Rs.	Rupees
RSD	Refundable Security Deposit
RTL	Rupee Term Loan
RWY	Runway
SCADA	Supervisory Control and Data Acquisition
SCP	Second Control Period
SLM	Straight Line Method
SOP	Standard Operating Procedure
SSA	State Support Agreement
TCP	Third Control Period
TDSAT	Telecom Disputes Settlement and Appellate Tribunal
TMRS	Tetra Mobile Radio Systems
TR	Target Revenue
UDF	User Development Fee
UFIS	Universal Flight Information System
UPS	Uninterrupted Power Supply
USD	United States Dollars
VAT	Value Added Tax
VHT	Vertical Horizontal Traveller
VOR	VHF Omnidirectional Range
VRS	Voluntary Retirement Scheme
WACC	Weighted Average Cost of Capital
WAISL	Wipro Airport IT Services Limited
WDV	Written Down Value
YoY	Year-on-Year

TABLE OF CONTENTS

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

List of Appendices

सत्यमेव जयते

भा.वि.आ.वि.प्रा.

AERA

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

LIST OF TABLES

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

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

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

भा.वि.आ.वि.प्रा.
AERA

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

CHAPTER 1. BACKGROUND

1.1 Introduction

1.1.1 Delhi International Airport Limited (DIAL), was incorporated on 1st March 2006 as a Joint Venture Company with AAI holding 26% equity stake and balance 74% of equity capital acquired by members of the GMR consortium. The GMR consortium comprised of GMR Group entities, Fraport AG, Malaysia Airports Holdings Bhd. and India Development Fund (last two of which exited the consortium subsequently). On 4th April 2006, DIAL signed the Operation, Management and Development Agreement (OMDA) with AAI and took over the operations of the Indira Gandhi International Airport (IGIA) on 3rd May 2006. The current shareholding structure of DIAL has GMR Airports Limited holding 64% of the stake, Fraport AG Frankfurt Airport Services Worldwide holding 10% stake with AAI holding the balance 26% of the stake.

1.1.2 The OMDA has a term of 30 years, with DIAL having a right to extend the agreement for a further period of 30 years, subject to its satisfactory performance under the various provisions governing the arrangement between DIAL and AAI. In addition to OMDA, DIAL has also entered into the State Support Agreement (SSA) with GoI on 26th April 2006 which outlined the support from GoI and has also mentioned the principles of tariff determination to be adhered by the economic regulatory body for airports. Besides OMDA and SSA, the airport operator has also entered into other agreements with the state government and other agencies in order to complete the project and provide various services at the airport.

1.1.3 As per OMDA, AAI granted DIAL the exclusive right and authority, during the term of agreement, to undertake some of the functions of AAI, namely the functions of operations, maintenance, development, design, construction, up-gradation, modernizing, finance and management of the IGI Airport and to perform services and activities constituting aeronautical and non-aeronautical services at the airport.

1.2 Tariff Setting Principles

1.2.1 The tariff determination mechanism towards aeronautical charges shall be as per the principles of the State Support Agreement as stated below;

1) ***Incentives Based:*** *The JVC will be provided with appropriate incentives to operate in an efficient manner, optimizing operating cost, maximizing revenue and undertaking investment in an efficient, effective and timely manner and to this end will utilize a price cap methodology as per this Agreement.*
2) ***Commercial:*** *In setting the price cap, AERA will have regard to the need for the JVC to generate sufficient revenue to cover efficient operating costs, obtain the return of capital over its economic life and achieve a reasonable return on investment commensurate with the risk involved.*
3) ***Transparency:*** *The approach to economic regulation will be fully documented and available to all stakeholders, with the Airports and key stakeholders able to make submissions to AERA and with all decisions fully documented and explained.*
4) ***Consistency:*** *Pricing decisions in each regulatory review period will be undertaken according to a consistent approach in terms of underlying principles.*
5) ***Economic Efficiency:*** *Price regulation should only occur in areas where monopoly power is exercised and not where a competitive or contestable market operates and so should apply only to Aeronautical Services. Further in respect to regulation of Aeronautical Services the approach to pricing regulation should encourage economic efficiency and only allow efficient costs to be*

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

recovered through pricing, subject to acceptance of imposed constraints such as the arrangements in the first three years for operations support from AAI.

6) ***Independence:*** *The AERA will operate in an independent and autonomous manner subject to policy directives of the GOI on areas identified by GOI.*
7) ***Service Quality:*** *In undertaking its role AERA will monitor, pre-set performance in respect to service quality performance as defined in the Operations Management Development Agreement (OMDA) and revised from time to time.*
8) ***Master Plan and Major Development Plans:*** *AERA will accept the Master Plan and Major Development Plans as reviewed and commented by the GOI and will not seek to question or change the approach to development if it is consistent with these plans. However, the AERA would have the right to assess the efficiency with which capital expenditure is undertaken.*
9) ***Consultation:*** *The Joint Venture Company will be required to consult and have reasonable regard to the views of relevant major airport users with respect to planned major airport development.*
10) ***Pricing responsibility:*** *Within the overall price cap the JVC will be able to impose charges subject to those charges being consistent with these pricing principles and IATA pricing principles as revised from time to time including the following:*
    - (i) *Cost reflectivity: Any charges made by the JVC must be allocated across users in a manner that is fully cost reflective and relates to facilities and services that are used by Airport users;*
    - (ii) *Non-discriminatory: Charges imposed by the JVC are to be non-discriminatory as within the same class of users;*
    - (iii) *Safety: Charges should not be imposed in a way as to discourage the use of facilities and services necessary for safety;*
    - (iv) *Usage: In general, aircraft operators, passengers and other users should not be charged for facilities and services they do not use.*

1.2.2 The specific formula for calculating the target revenue which the airport operator is eligible for is as below;

$$\mathbf{TR_i = RB_i \times WACC_i + OM_i + D_i + T_i - S_i}$$

Where

TR = Target Revenue

RB = regulatory base pertaining to Aeronautical Assets and any investments made for the performance of Reserved Activities, *etc. which are owned by the JVC, after incorporating efficient capital expenditure but does not include capital work in progress to the extent not capitalized in fixed assets. It is further clarified that penalties and Liquidated Damages, if any, levied as per the provisions of the OMDA would not be allowed for capitalization in the regulatory base. It is further clarified that the Upfront Fee and any pre-operative expenses incurred by the Successful Bidder towards bid preparation will not be allowed to be capitalized in the regulatory base.*

WACC = nominal post-tax weighted average cost of capital, *calculated using the marginal rate of corporate tax.*

OM= efficient operation and maintenance cost pertaining to Aeronautical Services. *It is clarified that penalties and Liquidated Damages, if any, levied as per the provisions of the OMDA would not be allowed as part of the operation and maintenance cost.*

D = depreciation calculated in the manner as prescribed in Schedule XIV of the Indian Companies Act, 1956. *In the event, the depreciation rates for certain assets are not available in the aforesaid Act, then the depreciation rates as provided in the Income Tax Act for such asset as converted to straight line method from the written down value method will be considered. In the event, such rates are not available in either of the Acts then depreciation rates as per generally accepted Indian accounting standards may be considered.*

T = corporate taxes *on earnings pertaining to Aeronautical Services.*

S = 30% of the gross revenue generated by the JVC from Revenue Share Assets. *The costs in relation to such revenue shall not be included while calculating Aeronautical Charges.*

As per the definitions provided in the OMDA and the SSA;

"Revenue Share Assets" shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of aeronautical related services arising at the Airport and not considered in revenues from Non-Aeronautical Assets (e.g.: Public Admission Fee)

1.2.3 For the purpose of the tariff determination exercise, the depreciation rates as per the Authority's Order No. 35/2017-18 dated January 12, 2018 along with its Amendment to Order No. 35/2017-18 dated April 9, 2018 have been considered. The useful life of these assets as determined by AERA also forms the basis for the depreciation of assets of DIAL as mentioned in the notes to accounts of the annual report of DIAL for FY 2019/auditor certificates submitted by DIAL.

1.2.4 AERA had considered the project cost in Tariff Order for First Control Period based on the allowable project cost determined in the earlier issued Order No. 28/2011-12 dated November 14, 2011. As per the Order No. 28/2011-12, DIAL had submitted a project cost of Rs. 12,857.00 Cr for the First Control Period. The Authority had analyzed DIAL's submission and decided to exclude Rs. 354.14 Cr from the project cost to determine the allowable project cost as part of its decisions in the said order. The excluded costs include the upfront fee of Rs 150 Cr, Rs. 107.15 Cr pertaining to disallowed area of 8652 sq. m, and additional costs related to other items like apron, rehabilitation of runway 10-28, and escalation for reinforcement.

1.2.5 Based on the tariff determination principles and taking into consideration the tariff filings of DIAL, AERA issued the Tariff Order for the First Control Period on April 24, 2012. The Authority determined a one-time increase of 345.92% on the aeronautical tariff with effect from May 15, 2012 which was implemented by DIAL.

1.2.6 With regards to revision in tariff for the Second Control Period, DIAL had submitted its tariff proposal for the Second Control Period on November 11, 2013. Taking into consideration the submission and based on its analysis on the DIAL submissions with regards to each of the building blocks, AERA issued a Consultation Paper for the Second Control Period on January 28, 2015. Post completion of stakeholder discussions, the final Tariff Order for the Second Control Period was issued on December 10, 2015, wherein a one-time decrease in tariff of 89.40% was determined. AERA had also granted, as part of the Tariff Order, an additional ARR of Rs. 691.50 Cr to help DIAL meet its cash deficit on account of reduction in tariff. The Tariff Structure and the rate card arrived at by AERA regarding tariff determination for the Second Control Period were to be applicable from January 01, 2016.

1.2.7 The Hon'ble High Court of Delhi vide its judgement dated 22.01.2015 had allowed DIAL to continue the tariff determined by AERA for the First Control Period vide Tariff Order No. 03/2012-13 dated 20.04.2012 till the disposal of the appeals pending against the said Tariff Order, by the AERAAT. Hence, the Tariff Order for Second Control Period could not be implemented from its intended date.

1.2.8 The Hon'ble Supreme Court had lifted the stay on implementation of the Tariff Order for the Second Control Period post which the tariff implementation for the Second Control Period started on July 7, 2017. The Hon'ble Supreme Court had also directed Hon'ble TDSAT to complete its adjudication on the issues raised.

1.3 <u>Hon'ble TDSAT directions with regards to decisions taken by AERA for the First Control Period</u>

1.3.1 Hon'ble TDSAT had heard the concerns raised by DIAL with regards to decisions taken by AERA for the First Control Period and issued the order for DIAL on April 23, 2018. Further, Hon'ble TDSAT had issued the order for MIAL on Nov 15, 2018 pertaining to concerns raised by them. The Hon'ble TDSAT judgment along with the directions given to AERA based on the plea filed by DIAL and MIAL for the decisions taken by AERA in the First Control Period are as listed below;

(i) In exercise of powers under Section 13 of the AERA Act 2008, AERA is required to respect rights/concessions etc. flowing from lawful agreements / directions viz. OMDA, SSA, etc.

(ii) Contractual rights can be voided only based on explicit statutory provisions or implications from statutory provisions permitting no other option.

(iii) Even when the Airport Operator engages in providing an Aeronautical Service through its servants or agents, the service must be deemed to be the one provided by the Airport Operator. The color of revenue from Aeronautical Service cannot get changed to that of revenue from Non-Aeronautical Service, by an act of delegation or leasing out by the Concessionaire.

(iv) Revenue from Cargo and Ground Handling charges are required to be treated as Non-Aero revenue.

(v) For future, the exercise for Assets allocation has to be redone, if not redone already.

(vi) Levy and determination of User Development Fee (UDF) is lawful but its use and appropriation must also be transparent, lawful and accounted for in the future exercise for tariff determination.

(vii) Refundable Security Deposit (RSD) raised by the airport operator to fund the Project cannot be a zero-cost debt. Its cost needs to be ascertained and made available to the airport operator through appropriate fiscal exercise at the time of next tariff redetermination.

(viii) Although rate of 16% as return on Equity not interfered with, AERA may redo the exercise through a scientific and objective approach, independently of any observations in the Third Control Period.

(ix) The question of 'S' i.e. 30% of the Revenue from Revenue Share Assets as an element of revenue pertaining to aero services for the purpose of calculating 'T' i.e. Aeronautical Taxes is remanded back. Only to this limited extent, we direct AERA to consider the issue afresh through a consultative process in the next control period that may be falling for consideration.

(x) AERA is directed not to exclude the amount of Upfront Fee from the equity share capital of the airport operator while determining WACC.

(xi) If in future the ratio (between domestic and international airlines) in respect of tariff structure/rate card is proposed to be changed to the disadvantage of the appellants, AERA may do so only through a process of detailed consultation and in accordance with the AERA Act 2008.

1.3.2 Hon'ble TDSAT vide their order dated March 20, 2020 had heard the concerns raised by DIAL regarding decision taken by AERA to exclude certain items under the Project Cost to the extent of Rs.

354.14 Cr as part of AERA Order no. 28/2011-12 and had upheld the decisions taken by AERA regarding exclusion of Rs. 354.14 Cr from the allowable project cost. The Hon'ble TDSAT Order had based their decision on the following aspects;

(i) Regarding exclusion of costs of Rs. 23.82 Cr pertaining to additional apron area, Engineer's India Limited (EIL)'s capacity as an expert cannot be doubted as it was earlier associated with the project works related to airport in the capacity of independent engineer and is fully aware of the factors specific to the project. DIAL has not provided any reasons which can be deemed justifiable for rejecting the calculations provided by EIL in their recommendation.

(ii) Regarding exclusion of Rs. 35.67 Cr from escalation of reinforcements, EIL has based its calculation by determining a fair price increase for steel based on average cost of reinforced steel at the relevant time. DIAL has not provided any suitable justifications to discredit the stand of EIL.

(iii) The deduction of Rs. 37.50 Cr made for rehabilitation of runway 10-28 comprises of exclusion of Rs. 20 Cr recommended by EIL and a deduction of Rs. 17.50 Cr which shall be considered as O&M expenditure recommended by KPMG. DIAL has not provided any points which could discredit the views of EIL and KPMG.

(iv) The exclusion of Rs. 107.15 Cr, on account of 8652 sq. m of Gross Floor Area is upheld as the concerned area was not part of DIAL's master plan and EIL, after examining its validity, concluded that sufficient area for Food Court and Retail was already available on departure and arrival levels. DIAL's reasoning that EIL has erred in this aspect (concluding that such area should not have been built and, therefore, should not be included in project cost) is not justifiable.

Further Hon'ble TDSAT had also reiterated that the decision to exclude upfront fee of Rs 150 Cr from the RAB need not be relooked while the same should be considered as part of equity for the limited purpose of determination of WACC as already mentioned in the previous Hon'ble TDSAT judgment as mentioned in para 1.3.1 (x).

1.3.3 AERA had looked at Hon'ble TDSAT Order and had applied the directions as applicable under the various regulatory building blocks towards tariff determination for the Third Control Period as enumerated in the Consultation Paper No. 15/2020-21 issued for the Third Control Period dated June 9, 2020

The Authority had also carried out various independent studies which are listed as below:

- Determination of Return on Equity to be used for computation of Weighted Average Cost of Capital for the Third Control Period.
- Determination of Return to be provided on RSD raised by the Airport Operator and utilized towards development of the Project.
- Determination of Asset Allocation amongst Aeronautical and Non-Aeronautical assets for the Second Control Period.
- Determination of Allocation of Costs for the IT JV amongst aeronautical and non-aeronautical costs for the Second Control Period.
- Determination of Efficient Costs for Phase 3A expansion as proposed in the Third Control Period.
- Determination of Efficient O&M costs for the Second Control Period.

The outcome from these studies were analyzed by AERA and implemented as part of the proposals mentioned in the Consultation Paper No. 15/2020-21 issued for the Third Control Period dated June 9, 2020.

1.4 Base Airport Charges

1.4.1 As part of the tariff determination principles which is provided under the SSA, it specifically mentions that the airport operator is eligible to levy at the minimum Base Airport Charges plus 10% from the third year since the Effective Date as aeronautical tariff. The same is as per the Schedule 6 of the SSA. The relevant extract is as shown below;

"1.The existing AAI airport charges ("Base Airport Charges") will continue for a period of two (2) years from the Effective Date and in the event the JVC duly completes and commissions the Mandatory Capital Projects required to be completed during the first two (2) years from the Effective Date, a nominal increase of ten (10) percent over the Base Airport Charges shall be allowed for the purposes of calculating Aeronautical Charges for the duration of the third (3^{rd}) Year after the Effective Date ("Incentive"). It is hereby expressly clarified that in the event JVC does not complete and commission, by the end of the second (2^{nd}) year from the Effective Date, the Mandatory Capital Projects required to be completed and commissioned, the Incentive shall not be available to the JVC for purposes of calculating Aeronautical Charges for the third (3^{rd}) year after the Effective Date.

2. From the commencement of the fourth (4^{th}) year after the Effective Date and for every year thereafter for the remainder of the Term, Economic Regulatory Authority / GOI (as the case may be) will set the Aeronautical Charges in accordance with Clause 3.1.1 read with Schedule 1 appended to this Agreement, subject always to the condition that, at the least, a permitted nominal increase of ten (10) percent of the Base Airport Charges will be available to the JVC for the purposes of calculating Aeronautical Charges in any year after the commencement of the fourth year and for the remainder of the Term."

1.4.2 The Base Airport Charges hence shall be effected if the aeronautical revenues that the airport operator is eligible to recover, based on the tariff determination process as per Schedule 1 of the SSA, is lesser than the revenues the airport operator would have earned by levying Base Airport Charges plus 10%. In such a case the Base Airport Charges plus 10% shall be considered for the tariff card determination.

1.4.3 The Authority at the time of tariff determination for the Second Control Period had decided to allow the X Factor of 89.40% to DIAL and based on the same, tariff card was prepared for the Second Control Period and was supposed to be applicable from 1st January 2016. This tariff was however actually levied by DIAL only from July 7, 2017 as there was a stay in the interim period which was then lifted by the Hon'ble Supreme Court as mentioned in para 1.2.8. DIAL had approached the Authority with the contention that the aeronautical tariffs determined by the Authority have fallen below the Base Airport Charges stipulated in the SSA.

1.4.4 AERA vide order dated November 19, 2018 has allowed DIAL to charge Base Airport Charges (BAC) + 10% of BAC effective from 1st December 2018. The tariff card has been extended till December 31, 2020 or the date of issue of the Tariff Order for the Third Control Period, whichever is earlier. The order also mentioned that Authority shall consider suitable true up of all aeronautical revenues realized by DIAL in the Second Control Period at the time of determination of tariff for the Third Control Period.

1.5 Issuance of Consultation Paper and Receipt of Stakeholder Comments

1.5.1 DIAL had filed the Multi Year Tariff Proposal (MYTP) for the Third Control Period seeking revision in aeronautical tariffs. AERA had examined the points raised by DIAL in their MYTP and had published the Consultation Paper for the IGIA, New Delhi for the Third Control Period on June 9, 2020 for stakeholder comments and discussion. The Consultation Paper has proposed continuation of Base Airport Charges plus 10% for the airport operator for the Third Control Period.

Considering the onset of COVID-19 pandemic and its associated impact on the airport operations and financials, the Consultation Paper was issued and the airport operator was requested to update the traffic projections and also provide the impact of COVID-19 pandemic on various other regulatory building blocks so that the tariff determination process takes into consideration the impact of the pandemic while determining tariff for the Third Control Period. The stakeholder meeting was held on July 17, 2020 post which the comments from the stakeholders including DIAL were published on August 07, 2020.

1.5.2 The following stakeholders have provided their comments on the Consultation Paper.

- Delhi International Airport Limited (DIAL)
- Mumbai International Airport Limited (MIAL)
- Airlines Operators Committee (AOC) Delhi
- Association of Private Airport Operators (APAO)
- Associated Chambers of Commerce and Industry of India (ASSOCHAM)
- Federation of Indian Chambers of Commerce and Industry (FICCI)
- International Air Transport Association (IATA)
- PHD Chamber of Commerce and Industry (PHDCCI)
- Business Aircraft Operators Association (BAOA)
- Airports Council International (ACI)
- Airports Authority of India (AAI)

The stakeholders, apart from DIAL, who have provided their comments pertaining to the mentioned regulatory building blocks are as below;

Components impacting Tariff Determination for Third Control Period	Stakeholders who have commented (apart from DIAL)
Traffic for Third Control Period	IATA and PHDCCI
True up for First Control Period	MIAL, AAI and APAO
True up for Second Control Period	IATA, MIAL, APAO, PHDCCI, AAI and AOC
Aeronautical RAB and Depreciation for Third Control Period	APAO, MIAL, PHDCCI, FICCI, BAOA, AOC and IATA
Weighted Average Cost of Capital for Third Control Period	MIAL, APAO, IATA, FICCI, AAI and ASSOCHAM
Operating Expenses for Third Control Period	MIAL and IATA
Revenue from Revenue Share Assets for Third Control Period	APAO, IATA, ACI, BAOA, FICCI, PHDCCI, AAI and ASSOCHAM
Aeronautical Taxes for Third Control Period	IATA and AOC
Quality of Service for Third Control Period	IATA
Compensation for Fuel Throughput Charges	MIAL and BAOA
True up of BAC + 10% for Third Control Period	MIAL, APAO, ACI and FICCI

No inputs were received from Ministry of Civil Aviation (MoCA) as part of the Consultation process. The counter comments from DIAL on other stakeholder comments were received on August 21, 2020.

1.5.3 Authority had requested for some clarifications from the airport operator concerning the submissions made by the operator as part of stakeholder submission, which were submitted on September 11, 2020 and a few further clarifications from the airport operator were submitted on October 09, 2020. Based on the various observations received from the stakeholders along with revised submissions of the airport operator, Authority has examined and finalized various decisions pertaining to various regulatory building blocks based on which this Tariff Order is being issued.

1.5.4 The Authority had appointed an Independent Consultant M/s SBI Capital Markets Ltd (SBICAPS) to assess the MYTP submitted by the airport operator of Indira Gandhi International Airport, New Delhi. Accordingly, SBICAPS has assisted the Authority in examining the MYTP of the airport operator and including verifying the data from the various auditor certificates submitted by the airport operator, examining the building blocks in tariff determination and ensuring that the treatment given to it is consistent with the Authority's methodology, approach, studies, SSA, OMDA, Land Lease agreement etc.

1.6 <u>Construct of the Tariff Order</u>

1.6.1 The Tariff Order is structured under various chapters with the second chapter listing out DIAL's submissions as part of the current tariff proposal regarding various specific issues regarding true up for the First Control Period. Against each of the issues raised by DIAL, Authority's earlier analysis and decisions regarding true up for the First Control Period as per the Second Control Period Tariff Order is provided. The same is followed by Authority's examination and proposals regarding the true up for the First Control Period as part of the tariff determination for the Third Control Period as mentioned in the Consultation Paper for the Third Control Period. The same is followed by comments from various stakeholders and counter comments from the airport operator and followed by Authority's Examination and Final Decision on the subject matter.

The third chapter lists out DIAL's submissions regarding true up for the Second Control Period pertaining to various specific issues followed by a recap of the Authority's analysis and decisions regarding the various building blocks for the Second Control Period as per the Second Control Period Tariff Order pertaining to those specific issues. This is followed by Authority's examination and proposals on the specific issues regarding the true up for the Second Control Period as part of the tariff determination for the Third Control Period as already mentioned in the Consultation Paper. The same is followed by comments from various stakeholders along with counter comments from the airport operator and followed by Authority's Examination and Final decision on the subject matter.

The balance chapters bring out DIAL's submissions regarding various building blocks pertaining to the Third Control Period including additions to Aeronautical RAB along with Aeronautical Depreciation for the Third Control Period, Weighted Average Cost of Capital for the Third Control Period, Aeronautical Operating Expense projected for the Third Control Period, Revenue from Revenue Share Assets projected for the Third Control Period, Aeronautical Taxes projected for the Third Control Period, Traffic Projections for the Third Control Period, Inflation, Quality of Service along with Authority's analysis and proposals regarding the same issued at the time of Consultation Paper. The same is followed by comments from various stakeholders along with counter comments from the airport operator and followed by Authority's Examination and Final decision on the subject matter.

Post the analysis and discussion on various building blocks including true up for earlier Control Periods, the revised Target Revenue as determined by the Authority based on the various decisions of the Authority is presented along with the final decision in tariff for the Third Control Period in the

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

penultimate chapter. The final chapter summarizes Authority's decisions regarding each of the building blocks.

सत्यमेव जयते

भा.वि.आ.वि.प्रा.

AERA

CHAPTER 2. TRUE UP FOR THE FIRST CONTROL PERIOD

2.1 Issues raised by DIAL pertaining to True up for the First Control Period

2.1.1 DIAL raised the following issues concerning the First Control Period for true up as part of their MYTP.

- Regulatory Asset Base,
- Weighted Average Cost of Capital,
- Aeronautical Operating Costs,
- Aeronautical Taxes,
- Treatment of various items under Revenue from Revenue Share Assets.

2.1.2 For each of the issues raised, the Authority looked at the past decisions taken with regards to the true up of that particular building block for First Control Period as per the Tariff Order for the Second Control Period following which the Authority has examined the same and made their proposals pertaining to true up for First Control Period. Authority's proposals on true up for First Control Period are followed by comments and counter comments from various stakeholders on the same, which are then followed by Authority's examination and Final Decision on the true up for First Control Period as part of tariff determination for Third Control Period. The following paras explain these issues in detail.

2.2 True up of Regulatory Asset Base

DIAL's submissions regarding true up of Regulatory Asset Base for the First Control Period

2.2.1 DIAL submitted that the Authority vide its order no 28/2011-12 dtd. 14.11.2011 has allowed DIAL to recover the Development Fee (DF) of Rs. 3,415 Cr towards part funding of the project cost. The DF determined under the said order includes Rs. 350 Cr of cost estimated towards construction of Air Traffic Control (ATC) Tower. DIAL submitted that the assets corresponding to the ATC Tower have been capitalized only in FY 2019. AERA at the time of tariff determination for the Second Control Period had adjusted the amount of development fee (DF) from Regulatory Asset Base. Till FY'14 DIAL had drawn down the DF to the extent of Rs. 3,241.37 Cr and accordingly AERA adjusted total DF of Rs. 3,241.37 Cr. DIAL submitted that this adjustment wrongly considers Rs. 176.37 Cr of DF drawn on account of ATC and has indicated that since the asset is not capitalized there is no reason for deduction of RAB on this account. DIAL considered the ATC tower capitalization and adjustment of DF on this account in FY 2019 only and hence requests the Authority to consider DF adjustment for the First Control Period as Rs. 3,065 Cr (Rs. 3,415 Cr which is the total DF collected less Rs. 350 Cr pertaining to ATC Tower).

2.2.2 DIAL submitted that pursuant to the implementation of Second Control Period order the aeronautical tariff has fallen below the Base Airport Charges (BAC) + 10% of BAC. Hence, DIAL had approached AERA for the implementation of tariff equivalent to BAC+10%. Authority has issued the Order No. 30/2018-19 dated 19th November 2018 to implement the BAC+10% tariff. DIAL mentioned that the order had the following decision related to charging of X-Ray Baggage charges:

"DIAL is not entitled to charge X-Ray charges, since the investment on screening equipment was made from PSF and not by DIAL. The X-ray baggage charge (as stipulated in Schedule 8 of SSA +10%) shall be applicable from the date of DIAL's remittance of required amount to PSF fund. A separate order to this effect will be issued on receipt of confirmation of remittance of the required amount into PSF from Ministry of Civil Aviation"

2.2.3 DIAL in its tariff proposal has submitted that it has now added assets to the extent of Rs. 119.66 Cr to the aeronautical RAB in the relevant years of capitalization i.e. FY 2011-12 as they have remitted the amount to PSF account.

2.2.4 Accordingly, DIAL revised the RAB for the First Control Period to reflect above mentioned changes.

Table 1: Adjustment towards RAB submitted by DIAL for First Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
RAB as per AERA	2,479.85	5,208.26	8,254.13	7,458.08	7,118.46
Add: Reversal of ATC related DF adjustment				139.75	176.37
Less: Reversal of ATC related DF adjustment – Depreciation				(2.33)	(5.27)
Add: Baggage Screening Equipment	10.50	69.71	100.98	97.89	96.71
Total	**2,490.35**	**5,277.97**	**8,355.10**	**7,693.36**	**7,386.21**

Decisions taken by the Authority regarding True up of Regulatory Asset Base for First Control Period as per Tariff Order for the Second Control Period

2.2.5 The Regulatory Asset Base considered for the purpose of estimating return was based on actual date of capitalization for a year and was arrived at by incorporating addition/deletions/adjustments to the aeronautical asset base of DIAL on the opening balance of RAB in that year on a pro rata basis. The Authority had also decided not to consider any adjustment to the RAB on account of foreign exchange fluctuation.

2.2.6 The Authority had decided to apportion the DF funding collected by the airport operator towards aeronautical assets capitalized and aeronautical Capital Work in Progress (CWIP), post which the DF funding apportioned towards aeronautical assets capitalized shall be adjusted to arrive at aeronautical RAB. While the fund apportioned to the expenditure incurred on the aeronautical assets capitalized in a year would be adjusted from RAB in the given year, that amount which is apportioned to expenditure incurred on aeronautical CWIP is proposed to be carried over to the subsequent years for adjustment from RAB in those years. The Authority, by the above methodology, had decided to adjust DF of Rs. 3241.37 Cr (out of the allowed DF of Rs. 3415.35 Cr) from the capitalization made by DIAL till FY 2012-13. Proportionate adjustment in depreciation was also carried out in line with the adjustment to aeronautical RAB towards DF.

2.2.7 The Authority for its purposes of segregation of assets into aeronautical and non-aeronautical had decided to consider the segregation ratio at 89.25%:10.75% in line with the independent study commissioned by DIAL through Jacobs' report and based on independent view provided by ICWAI on the appropriate allocation ratio till March 31, 2011.

2.2.8 The Authority at the time of true up for the First Control Period had arrived at the RAB for each of the years in the First Control Period including the Hypothetical Regulatory Asset Base. The Authority had considered pro rata addition to RAB and average Hypothetical Regulatory Asset Base as the base on which the returns were provided as shown in the table below;

Table 2: Aeronautical RAB considered by the Authority towards True Up for the First Control Period as per Tariff Order for the Second Control Period

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Opening Pro Rata Aeronautical RAB (A)	1016.47	2023.30	4772.25	7838.84	7064.18
Additions during the year (B)	1398.44	4373.48	4338.89	43.95	58.49
Sale of Assets (C)	-6.73	0.00	-0.01	-0.56	0.00
Depreciation Charged (D)	-89.71	-200.79	-348.39	-307.38	-337.85
DF Apportioned (E)	-295.17	-1423.74	-923.90	-510.67	-36.62
Total Sale, Write Back, Depreciation Charged and DF apportioned (F=B+C+D +E)	1006.83	2748.95	3066.59	-774.66	-315.98
Pro Rata RAB for Return (ARAB=A+F)	**2023.3**	**4772.25**	**7838.84**	**7064.18**	**6748.22**
Opening Hypothetical Regulatory Asset Base	467.00	446.11	425.91	404.66	383.10
Closing Hypothetical Regulatory Asset Base	446.11	425.91	404.66	383.10	357.38
Average Hypothetical Regulatory Asset Base (HRAB)	**456.55**	**436.01**	**415.28**	**393.88**	**370.24**
RAB for Return (ARAB+HRAB)	**2479.85**	**5208.26**	**8254.13**	**7458.08**	**7118.46**

Authority's Examination regarding True up of Regulatory Asset Base for the First Control Period

Adjustment towards DF funding for ATC Tower

2.2.9 Authority noted the submission made by DIAL with regards to the adjustment for assets created through Development Fee with respect to the ATC Tower. The Authority noted that even though DIAL had collected the DF pertaining to the ATC tower/securitized and raised loans against the DF in the First Control Period, the ATC tower has been commissioned only in FY 2019. Authority has sought justification from DIAL enumerating the reasons for the delay in the capitalization of the ATC tower. As per the response received from DIAL, Authority is given to understand that the asset was handed over to AAI by DIAL in FY 15 and the capitalization was not done as the final settlement with L&T, the EPC contractor was pending along with the installation of equipment.

Authority proposes to follow the principle as mentioned under the Tariff Order for the Second Control Period wherein the DF funds collected shall be apportioned towards aeronautical capitalization and aeronautical CWIP, post which the DF apportioned towards aeronautical capitalization shall be adjusted to arrive at aeronautical RAB. While the fund apportioned towards the expenditure incurred on the aeronautical assets capitalized in a year would be adjusted from RAB in the given year, that amount which is apportioned to expenditure incurred on aeronautical CWIP is proposed to be carried over to the subsequent years for adjustment from RAB in those years in which the asset gets capitalized.

The Authority as per the Tariff Order for the Second Control Period had apportioned Rs. 3241.37 Cr towards aeronautical assets capitalized and balance Rs. 173.98 Cr (Rs. 3415.35 Cr less Rs. 3241.37 Cr) was proposed to be capitalized as and when the Capital Work in Progress (CWIP) pertaining to ATC tower gets capitalized.

Authority based on DIAL's submission that ATC tower (for which Rs. 350 Cr of DF funding has been utilized) had been capitalized only in FY 2019, proceeded to apportion DF portion of Rs. 3065.15 Cr (Rs. 3415.15 Cr less Rs. 350 Cr) towards aeronautical assets that had been capitalized in the First Control Period.

The balance Rs. 350 Cr shall be considered for adjustment as part of DF funding only in FY 2019, i.e. the year in which the ATC tower gets capitalized. The Authority has also proceeded to adjust aeronautical depreciation in the relevant years accordingly.

Treatment of Baggage Screening Related Assets

2.2.10 Authority had noted the submission of DIAL with regards to the treatment of Baggage Screening Related Assets and has noticed that even though the same has been commissioned in the First Control Period, the assets were created out of deposits from PSF and the amount was remitted to MoCA only in FY 2019. The Authority is of the view that the asset base can be considered only post FY 2019 as the amount collected has been remitted only in FY 2019 and hence no adjustment has been proposed to be made to RAB in this regard during the First Control Period.

The associated depreciation for this asset shall also be applicable only from FY 2019 on the balance useful life of the asset.

The reworked aeronautical RAB and Depreciation for the First Control Period is as shown in the table below;

Table 3: Reworked Aeronautical RAB and Depreciation proposed to be considered by the Authority for True up of First Control Period

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Opening Pro Rata Aeronautical RAB (A)	1016.47	2023.30	4772.25	7838.84	7064.20
Opening Pro Rata Aeronautical RAB Adjusted (A')	1016.47	2023.30	4772.25	7838.84	7201.60
Additions during the year (B)	1398.44	4466.67	4338.89	43.95	138.88
Sale of Assets (C)	6.73	-	0.01	0.56	0.03
Depreciation Charged (D)	89.71	200.79	348.39	307.38	337.85
Adjustment towards Depreciation	-	-	-	2.33	2.94
Adjusted Depreciation Charged (D')	89.71	200.79	348.39	309.71	340.79
DF Apportioned (E)	295.17	1423.74	923.90	510.67	36.62
Adjustment towards DF apportionment on account of delay in ATC capitalization	-	-	-	-139.75	-36.62
Revised DF apportioned (E')	295.17	1423.74	923.90	370.92	0
Disallowance by AERA (F)	-	93.19	-	-	80.39
Total Sale, Write Back, Depreciation Charged and DF apportioned (G=C +D' +E' +F)	391.61	1717.72	1272.30	681.19	421.21
Pro Rata RAB for Return (ARAB=A'+B-G)	**2023.30**	**4772.25**	**7838.84**	**7201.60**	**6919.27**
Opening Hypothetical Regulatory Asset Base	467.00	446.11	425.91	404.66	383.10
Depreciation pertaining to Hypothetical Regulatory Asset Base (DHRAB)	20.89	20.20	21.25	21.56	25.72
Closing Hypothetical Regulatory Asset Base	446.11	425.91	404.66	383.10	357.38
Average Hypothetical Regulatory Asset Base (HRAB)	**456.55**	**436.01**	**415.28**	**393.88**	**370.24**
RAB for Return (ARAB+HRAB)	**2,479.85**	**5,208.26**	**8,254.12**	**7,595.47**	**7,289.51**
Aeronautical Depreciation (D+DHRAB)	**110.60**	**220.99**	**369.64**	**331.27**	**366.51**

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

Stakeholder comments regarding True up of Regulatory Asset Base for the First Control Period

2.2.11 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to true up of Regulatory Asset Base for the First Control Period. The comments from stakeholders are presented below;

DIAL's comments regarding true up of Regulatory Asset Base for the First Control Period:

2.2.12 DIAL has brought into notice of the Authority that as per the earlier submissions made by DIAL, the Regulatory Base should have been determined as an average of Opening and Closing RAB for the particular year. DIAL in its submission in the earlier Control Periods has used the formula as shown below;

$$RB = Opening\ RAB\ (RB_0) - Depreciation\ (D_1) + \left[Investment\ (I_1) \times \left(\frac{Actual\ no.of\ days}{365}\right)\right]$$

As mentioned by DIAL, the above formula which has formed the basis for the calculation of RAB as per their submission and also as per the Tariff Orders issued previously has by oversight taken full year depreciation instead of the average depreciation for the year which has to be considered for the calculation of the actual average of RAB for the particular year. The correct formula that should have been used as submitted by DIAL is as below;

$$RB = Opening\ RAB\ (RB_0) - \frac{Depreciation\ (D_1)}{2} + \left[Investment\ (I_1) \times \left(\frac{Actual\ no.of\ days}{365}\right)\right]$$

Based on the above the RB has been revised for the First Control Period as submitted by DIAL as part of stakeholder comments is as below;

Table 4: Revised RAB for Return submitted by DIAL for First Control Period as per Stakeholder Consultation Process

Year ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Opening RAB (A)	**1,016.47**	**2,023.30**	**4,772.25**	**7,838.84**	**7,201.60**
Additions Prorata					
Relating to Current Year	522.02	4,429.62	362.20	33.59	98.41
Relating to previous year carried forward to Current Year	876.42	37.05	3,976.69	10.36	40.47
Total Additions (B)	**1,398.44**	**4,466.67**	**4,338.89**	**43.95**	**138.88**
Depreciation and Others					
Deletion	6.73	-	0.01	0.56	0.03
DF Adjustments	295.17	1,423.74	923.90	370.92	-
Disallowance by AERA	-	93.19	-	-	80.39
Depreciation	89.71	200.79	348.39	309.71	340.79
Total Deletion, Adjustments, Disallowance and Depreciation (C)	**391.61**	**1,717.72**	**1,272.30**	**681.19**	**421.21**
Closing RAB (D = A+B-C)	**2,023.30**	**4,772.25**	**7,838.84**	**7,201.60**	**6,919.27**
HRAB					
Opening HRAB (E)	467.00	446.11	425.91	404.66	383.10
Depreciation on HRAB (F)	20.89	20.20	21.25	21.56	25.72
Closing HRAB (G = E–F)	446.11	425.91	404.66	383.10	357.38
Average RAB (I = A+B-C/2)	**2,219.10**	**5,631.11**	**8,474.99**	**7,542.19**	**7,129.87**
Average HRAB (J = E-F/2)	**456.56**	**436.01**	**415.29**	**393.88**	**370.24**
Total RAB for Return to be considered for Tariff Determination (K = I+J)	**2,675.66**	**6,067.12**	**8,890.28**	**7,936.08**	**7,500.12**

DIAL has requested that the error committed by DIAL in the First Control Period and in its earlier submissions should be allowed to be rectified to give effect to the provisions of SSA in letter and spirit.

Other Stakeholders' comments regarding true up of Regulatory Asset Base for the First Control Period:

2.2.13 MIAL commented that Authority ought to re-compute HRAB for DIAL considering the then prevailing tariffs and the revenue where both aero and non-aero revenues entirely subsidized the entire aeronautical operations. MIAL's comments on this issue can be seen below;

"HRAB, the Initial asset base is part of regulatory asset base (RAB) on which return on WACC is allowed for determination of aeronautical tariff. SSA Schedule 1 specifies that HRAB is to be computed using inter-alia, the then prevailing tariff and the revenues pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation.

During the FY 2008-09, the year preceding the date of such computation, the then prevalent tariff were fixed by MoCA in 2001 for CSIA, Mumbai when it was under AAI. AAI in its response on the White Paper issued by the Authority on 22nd December, 2009 has acknowledged that its tariff were fixed under Single Till and the total revenue and expenditure were taken into consideration for fixation of their tariff for its airports, which included IGI Airport also.

Since this angle had escaped attention of the Authority, when computing HRAB in the 1st Control Period, it should now suo-moto reconsider its earlier stand, where instead of considering both the aeronautical revenues and the non- aeronautical revenues (which subsidized the aeronautical revenues), the Authority had considered only the already subsidized aeronautical revenue for computation of HRAB.

In light of above, MIAL requests the Authority to suo-moto re-compute HRAB for DIAL considering the "then prevailing tariffs and the revenue" where both the aeronautical revenue and the non-aeronautical revenue have in entirety subsidized the aeronautical operations."

Authority's Examination on Stakeholder Comments regarding issues on True up of Regulatory Asset Base for the First Control Period

2.2.14 Authority has noted the submission made by DIAL regarding the revised calculation of RAB for the First Control Period. Authority, in this regard, would like to point out that as per Schedule 1 of SSA, the Target Revenue is defined as follows;

$$TR_i = RB_i \times WACC_i + OM_i + D_i + T_i - S_i$$

"Where RB = regulatory base pertaining to Aeronautical Assets and any investments made for the performance of Reserved Activities etc. which are owned by the JVC, after incorporating efficient capital expenditure but does not include capital work in progress to the extent not capitalised in fixed assets. It is further clarified that working capital shall not be included as part of regulatory base. It is further clarified that penalties and Liquidated Damages, if any, levied as per the provisions of the OMDA would not be allowed for capitalisation in the regulatory base. It is further clarified that the Upfront Fee and any pre-operative expenses incurred by the Successful Bidder towards bid preparation will not be allowed to be capitalised in the regulatory base."

The Regulatory Base pertaining to aeronautical assets as per Schedule 1 of SSA is as below;

$$RB_i = RB_{i-1} - D_i + I_i$$

"Where

RB_0 for the first regulatory period would be the sum total of

(i) the Book Value of the Aeronautical Assets in the books of the JVC and

(ii) the hypothetical regulatory base computed using the then prevailing tariff and the revenues, operation and maintenance cost, corporate tax pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation.

I = investment undertaken in the period

D = depreciation calculated in the manner as prescribed in Schedule XIV of the Indian Companies Act , 1956. In the event, the depreciation rates for certain assets are not available in the aforesaid Act, then the depreciation rates as provided in the Income Tax Act for such asset as converted to straight line method from the written down value method will be considered. In the event, such rates are not available in either of the Acts then depreciation rates as per generally accepted Indian accounting standards may be considered."

Based on the above, Authority is of the view that the revised formula for calculating Regulatory Base for determining Target Revenue submitted by DIAL as part of Stakeholder Consultation Process may not be applicable in the case of DIAL as the SSA clearly spells out the same has to be on the Closing Regulatory Asset Base (RB_i). The asset addition has been adjusted for pro rata investment applicable for the year. The same is consistent with the past stand taken by Authority in the previous Tariff Orders and no specific issues were raised by DIAL during those years concerning the treatment meted out with regards to RAB calculation.

Authority has also noted that as per AERA (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011, the RAB to be considered for tariff determination is as below;

"For any Tariff Year t, RAB shall be the average of the RAB value at the end of Tariff Year t and the RAB value at the end of the preceding Tariff Year t-i, as under:"

$$RAB = \frac{RAB_t + RAB_{t-1}}{2}$$

Authority has examined the methodologies prescribed as per SSA and AERA tariff guidelines for calculating RAB for tariff determination and is of the view that SSA takes precedence over AERA tariff guidelines as the SSA specifically pertains to the agreement between DIAL and Government of India. Authority, in Consultation Paper No. 15/2020-21, had considered RB_i as defined in Schedule 1 of SSA for calculating RAB for First Control Period adjusted for pro-rata investments each year. The same has been also adhered to in its earlier decisions concerning true up in the First Control Period as part of the Tariff Order for the Second Control Period.

Authority is of the view that the revised calculation of RAB submitted by DIAL as part of stakeholder consultation process seems to be an afterthought as DIAL had not raised this issue in the earlier Control Periods. Authority would also like to point out that the RAB for true up of First Control Period in the Tariff Order for Second Control Period was calculated as per the methodology prescribed in Schedule 1 of SSA with pro rata addition of investments carried out in a year.

Authority has hence decided to not consider any changes to the RAB proposed in Consultation Paper No. 15/2020-21 towards True up for the First Control Period. Authority has decided to apportion DF to the extent of Rs 3065 Cr against aeronautical assets that are capitalized in the First Control Period based on which the aeronautical RAB and depreciation has been reworked in the Consultation Paper. Authority consistent with its proposals in the Consultation Paper has also decided to not consider Baggage Screening Related Assets as part of the RAB in the First Control Period and to consider these assets only after the remittance of Passenger Service Fee Fund to MoCA.

2.2.15 Authority has examined the comments by MIAL pertaining to computation of HRAB. Authority has noted that as per Schedule 1 of SSA, HRAB is to be computed using the then prevailing tariffs and the revenues, operation and maintenance cost, corporate tax pertaining to Aeronautical Services at the airport during financial year preceding the date of such computation. As per Hon'ble TDSAT Order for MIAL dated November 15, 2018, HRAB ought to be determined only based on revenues and costs pertaining to aeronautical services which has been the methodology adopted in the earlier Tariff Orders and is consistent with Authority's proposal for HRAB in Consultation Paper No. 15/2020-21. Thus, Authority has decided not to consider any revisions to HRAB proposed by Authority in Consultation Paper No. 15/2020-21 for First Control Period.

Based on the above, the Authority decides to consider the RAB as mentioned in Table 3 in this Tariff Order towards calculation of true up for the First Control Period.

2.3 True up of Weighted Average Cost of Capital

DIAL's submission regarding true up of Weighted Average Cost of Capital for the First Control Period

2.3.1 DIAL, as part of tariff proposal for the Third Control Period, submitted that the post-tax return on equity should be considered at 22.86% for the purpose of calculation of WACC. DIAL based the same on their interpretation that the return on equity has to be post-tax cost of equity and has hence applied a marginal tax rate of 30% on the cost of equity of 16%, resulting in the requested return of 22.86%. The relevant extract from DIAL's MYTP is as below;

"One of the regulatory block so used in the calculation of Target Revenue is WACC which has been defined as 'nominal post-tax weighted average cost of capital, calculated using the marginal rate of corporate tax'.

While in general parlance, WACC is defined as weighted average cost of capital, in the SSA the same has been defined as 'nominal post-tax weighted average cost of capital'. Further it has also been stated in the SSA that the WACC is to be calculated using the marginal rate of corporate tax. As such, the definition of WACC in the SSA is evidently different from the definition of WACC in general parlance.

The weighted average cost of capital is the calculation of a company's cost of capital in which each category of capital is proportionately weighted and therefore, to calculate the weighted average cost of capital, the cost of each component of capital is multiplied with its proportional weight and the results are summed up. Therefore, if equity and debt are the two means of finance then cost of capital is as under:

Cost of Capital = cost of debt capital + cost of equity capital

Where the cost of debt is a pre-tax cost of debt and the cost of equity is a post-tax cost of equity.

However, since the definition of WACC as provided in the SSA states that it has to be calculated post-tax using the marginal rate of corporate tax, the same has to be given meaning over and above the general parlance meaning of 'weighted average cost of capital' as there seems to be a clear intention of the parties to the SSA to define WACC as something which is different from the 'weighted average cost of capital'.

In view of the above it is submitted, that while calculating weighted average cost of capital, cost of equity is to be computed which is simply the rate of return on equity. This is so because it is the return on equity given to investors which is the cost attached to such equity. However, for calculating WACC

आर्थिक विनियामक प्राधिकरण Regulatory Authority of India सत्यमेव जयते

in terms of the SSA, the post-tax cost of equity should be considered and the same should be calculated using the marginal rate of corporate tax.

Therefore, to give effect to the said definition of WACC, the rate of return on equity has to first be calculated by using the marginal rate of corporate tax and then the same has to be employed in the calculation of WACC. As such, whatever rate of return is arrived at after employing the CAPM formula is to be grossed up using the marginal rate of corporate tax and the number then arrived at is to be used for the calculation of WACC as defined in the SSA.

For example, if we were to consider the rate of return to the investors at 16% as calculated by AERA for the first control period, as the post-tax cost of equity, then the rate of return would have to be grossed up with the marginal rate of corporate tax, i.e., 30% to arrive at the post-tax cost of equity which is subsequently to be employed for the calculation of WACC in terms of the SSA. The calculation for the same is as under:

*Post-tax cost of equity = 16 *[1/(1- 30%)]*

*= 16 *[1/(100-30/100)]*

*= 16 * [1/0.7]*

*= 16 * 1.43*

= 22.8%

Therefore, in the given example the post-tax cost of equity would come to 22.8% which would subsequently be used for calculation of WACC as defined in the SSA as opposed to 16% which would be used for calculation of weighted average cost of capital in its general parlance."

2.3.2 DIAL also indicated that the above mentioned return on equity found its place in the pre-bid clarification at the time of bidding and their points of submission as per the tariff proposal are presented below;

"The said calculation of 22.8% is also reflected from the RFP issued for the IGI Airport, New Delhi and CSI Airport, Mumbai. In the pre-bid clarifications issued by the Airports Authority of India (AAI), the significance of the same was stated as under:

"The post-tax cost of equity and debt assumed under the indicative post tax nominal WACC of 11.6% are 22.8% and 6.0 respectively. The purpose of the indicative post tax nominal WACC of 11.6% given in the RFP is to ensure consistency between Business Plans submitted by Bidders as part of their Offer."

As such, even in the RFP a 'post-tax' cost of equity was used for calculation of WACC as defined in the SSA. The said number of 22.8% was clearly a number derived through calculation and was not a number assumed at random. Thus, to arrive at the indicative rate of return of 16% to the investors, the post-tax cost of equity has been determined as 22.8% by AAI.

In view of the above, it is humbly submitted that the calculation of WACC for arriving at the Target Revenue which precedes the calculation of Aeronautical Charges to be levied and collected by DIAL, should be done in terms of the SSA. This is consistent with the regulatory mandate vide section 13(1)(a)(vi) of the AERA Act.

It is therefore, requested that WACC be calculated as per its definition in the SSA and not as per the general parlance of 'weighted average of cost of capital' as has been done in the earlier tariff orders."

2.3.3 DIAL also requested that the Upfront Fee of Rs. 150 Cr should not be deducted from the equity share capital for the purpose of calculation of WACC in line with the Hon'ble TDSAT order dated Nov 15, 2018. As per the order, the tribunal had directed that the upfront fee should not be excluded as part of equity while computing Weighted Average Cost of Capital.

2.3.4 DIAL, in their tariff proposal, submitted that AERA in their previous orders had considered the Refundable Security Deposit utilised to fund the Project as a zero-cost instrument at the time of calculation of WACC. DIAL had filed an appeal before Hon'ble TDSAT which ruled that the same cannot be treated as a zero cost debt and had to be re-determined through appropriate fiscal exercises by AERA. DIAL hence requested for a return of 16% on the Refundable Security Deposit component utilised as a means of finance for the development of the Project.

- DIAL quoted an extract from KPMG report on treatment of specific elements of capital and operating expenditure for treating regulatory asset base which had the following points in its concluding remark;
  - There is an evident opportunity cost associated with the RSD in terms of foregone lease rentals.
  - As lenders have treated the RSD funding as part of promoter's contribution, the risk inherent in this instrument can be considered similar to equity.
- DIAL also quoted an extract from the independent study prepared by Kalypto Risk Technologies Limited, a subsidiary of CARE which had stated that the amount mobilized through RSD exhibits equity like features and as such qualified for being treated as quasi equity.
- DIAL also mentioned that Lenders of the Delhi Airport project also considered RSD as Quasi Equity while calculating Debt Equity Ratio (DER).

DIAL hence considered a return on RSD equivalent to the return on equity i.e. 16%.

2.3.5 Based on the above exercise, DIAL submitted the revised calculation of WACC relevant for the First Control Period in the table below;

Table 5: WACC submitted by DIAL for First Control Period as per MYTP

Particular	Cost of Funds	Gearing	Effective rate
Equity	22.86%	27.50%	6.29%
Refundable security deposits (RSD)	16.00%	14.82%	2.37%
Debt	10.00%	57.69%	5.77%
WACC			**14.42%**

Decisions taken by the Authority regarding True up of Weighted Average Cost of Capital for First Control Period as per Tariff Order for the Second Control Period

2.3.6 In the case of WACC, the Authority as per the Tariff Order for the Second Control Period had decided to continue with the WACC rate of 10.33% determined during the issuance of Tariff Order for the First Control Period. This decision during the issuance of Tariff Order for the Second Control Period is in consonance with the decision taken as per the Tariff Order for the First Control Period not to true up WACC.

Authority's Examination regarding True up of Weighted Average Cost of Capital for the First Control Period

Cost of Equity

2.3.7 The Authority formed the view that the decision taken to consider Return on Equity as 16.00% for the First Control Period need not be relooked at and an independent study had been commissioned to determine cost of equity prospectively from the Third Control Period. The Authority had looked at DIAL's submission in its proposal that the cost of equity had to be post-tax cost of equity for which DIAL requested that the cost of equity considered at 16% needed to be grossed up leading to 22.86%.

The Authority formed the understanding that for calculating return on equity post-tax, the relevant base had to be adjusted i.e. multiplied by the factor (1-t) and not grossed up by the factor (1-t) as suggested by DIAL.

The Authority's assessment of cost of equity in the previous Tariff Orders had always been post-tax which had been taken as 16%. The Authority formed the view that there was no need to consider any grossing up or adjustment on the cost of equity considered as 16%.

The SSA was also very clear in its interpretation that the WACC had to be post-tax WACC and hence the Authority had considered post tax cost of equity in the past Control Periods. Further, the aeronautical taxes were allowed as a separate pass through in the tariff mechanism and hence the concept of grossing up of cost of equity was not applicable here.

The methodology suggested by DIAL wherein cost of equity had to be grossed up by tax rate to arrive at post tax cost of equity may not be correct as this methodology was used to calculate pre-tax cost of equity and not post-tax cost of equity as required as per Schedule 1 of the SSA.

Further the pre-bid clarifications from AAI regarding cost of equity very clearly said that the WACC calculation put forward was only to ensure consistency between Business Plans submitted by Bidders as part of their Offer and hence should not have formed the basis for tariff determination for DIAL.

The Authority hence proposed to consider post tax cost of equity as 16% for the First Control Period in consonance with its earlier decisions as per the Tariff Orders for the First and Second Control Periods.

Treatment of Upfront Fee

2.3.8 Authority formed the view that the direction from Hon'ble TDSAT (Point no 1.3.1 (x)) clearly mentioned that the Upfront Fee of Rs. 150 Cr should not be deducted from the Equity component for arriving at WACC. The Authority proposed not to deduct the upfront fee towards the equity component in the First Control Period. Authority had also taken note of the Hon'ble TDSAT Order dated March 20, 2020 wherein under Para 32 it is also clearly mentioned that this decision to consider the Upfront Fee as part of equity share capital was only towards the determination of WACC while the said amount i.e. the Upfront Fee of Rs 150 Cr would not be considered as part of RAB.

The Authority accordingly proposed to consider Rs. 2,450 Cr as the Book Value of Equity for all the five years in the First Control Period.

The Equity component and the cost of equity as proposed to be considered by the Authority for the First Control Period is shown in the table below;

Table 6: Equity Base and Cost of Equity proposed to be considered by the Authority towards True Up for the First Control Period

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Book Value of Equity	2450.00	2450.00	2450.00	2450.00	2450.00
Reserves and Surplus (if positive)	82.38	-	-	-	-
Total Equity	2532.38	2450.00	2450.00	2450.00	2450.00
Cost of Equity	16%	16%	16%	16%	16%

2.3.9 The Authority noted that as part of the decisions in the Tariff Order for the Second Control Period towards true up for the First Control Period, it had decided not to true up WACC of 10.33% p.a. determined at the time of First Control Period. However, based on Hon'ble TDSAT directions which had suggested changes in the deductions to the Equity Base with regards to the Upfront Fee, Authority proposed to true up WACC in its entirety as true up could not be done selectively considering adjustment only in equity base.

Cost of Debt

2.3.10 Authority had considered the actual cost of debt for the First Control Period which as per the submission of DIAL was 10.00% p.a. The calculation for the cost of debt is as shown in the table below;

Table 7: Cost of Debt proposed to be considered by Authority for true up of First Control Period

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Interest	364.91	513.65	571.30	580.83	541.72
Average debt	4,181.74	5,241.19	5,341.73	5,486.80	5,471.38
Effective cost of debt	10.00%				

Return on RSD

2.3.11 Authority also looked at the submission made by DIAL regarding the return on RSD component utilized to fund the Project. Authority had noted the following relevant extracts in the Hon'ble TDSAT order dated April 23, 2018 on the matter of issues raised by DIAL in the First Control Period.

Page No 114, Para no 105 "Whether voluntarily or mandatorily, there is no doubt that the RSD amount has been used as an investment in the project and the SSA allows a fair return on the investment which is to be proportionate to the cost of investment"

Page no 115, Para no 106 "At the least, the cost would be the rate of return made available by the approved funds having required ratings of CRISIL"

In light of the above order and the fact that RSD had already been invested in creating the assets by airport operators used by the stakeholders, Authority had commissioned an independent study to suggest the treatment to be given to such investments. The independent study assessed the opportunity cost of RSD under two options, Option 1 and Option 2 as listed below;

Option 1:

If DIAL had raised the amount equivalent to RSD amount to invest in aero assets, the cost of financing would be equal to cost of debt. Thus, the opportunity cost of RSD would be equal to the cost of debt at the time RSD was invested in aeronautical assets.

Option 2:

The RSD amount could have been invested in an escrow account in funds having required ratings from CRISIL, as specified in OMDA/SSA. The potential earnings from escrow account would be the loss

आर्थिक विनियामक प्राधिकरण
सत्यमेव जयते
Regulatory Authority of India

incurred by DIAL by investing RSD amount in aeronautical assets for which they ought to be compensated. Thus, the opportunity cost of RSD amount should be equivalent to returns from the escrow account, as suggested in the Hon'ble TDSAT order.

The independent study had also opined that Option 2 was more difficult to implement as the returns from a specified CRISIL rated fund would vary over time and be subject to estimation whereas Option 1 was relatively stable and the cost of debt was frequently estimated by the Authority while determining the cost of capital.

2.3.12 Authority proposed to consider return on RSD as equivalent to the cost of debt for the First Control Period based on the recommendations of the independent study. The summary of the study is in Annexure 7. The detailed report is appended as Appendix 5.

2.3.13 Further Authority was of the understanding that some stakeholders had taken the matter to courts for adjudication and any decision taken by the Authority in this regard in the Tariff Order would be subject to the final outcome of the adjudication.

Weighted Average Cost of Capital

2.3.14 Authority hence proposed to true up WACC considering the proposal regarding the return on RSD, consideration of upfront fee as part of equity as per the directions on Hon'ble TDSAT and also considering the actual cost of debt as submitted by DIAL. The WACC for First Control Period had been estimated at 11.65% as part of the tariff determination for the current Control Period against 10.33% in the Tariff Order for the Second Control Period as shown in the table below;

Table 8: WACC Proposed to be considered by Authority towards True Up for First Control Period

FY ending March 31	2010	2011	2012	2013	2014
Cost of Equity	16%	16%	16%	16%	16%
Cost of RSD	10%	10%	10%	10%	10%
Cost of Debt	10%	10%	10%	10%	10%
Equity	2,532.38	2,450.00	2,450.00	2,450.00	2,450.00
RSD	884.75	1,389.41	1,427.18	1,471.51	1,471.51
Debt	5,239.80	5,241.80	5,241.80	5,202.01	4,944.22
Equity Proportion			27.50%		
RSD Proportion			14.82%		
Debt Proportion			57.69%		
WACC for the First Control Period			**11.65%**		

Stakeholder comments regarding True up of Weighted Average Cost of Capital for the First Control Period

2.3.15 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to true up of Weighted Average Cost of Capital for the First Control Period. The comments from stakeholders are presented below;

DIAL's comments regarding true up of Weighted Average Cost of Capital for the First Control Period:

2.3.16 DIAL has requested for cost of equity to be considered at 22.8% consistent with its earlier submission as per the MYTP. The rationale for the same as reproduced verbatim is as below which was similar to the reasons mentioned in the MYTP interpreting that the post-tax cost of equity as mentioned in the SSA implies a markup rather than the discount on the cost of equity.

"In the Consultation Paper, AERA has proposed to keep the rate of equity as it is, i.e., at 16% p.a. for 1st and 2nd Control Periods as per the decision of TDSAT order dated 23.04.2018. While DIAL is not objecting to the said proposal, however, it is submitted that in terms of the express covenants of the SSA, for the purpose of calculation of WACC, the return on equity has to be grossed up by the rate of corporate marginal tax and the same should then be used to calculate the WACC. Since, the definition of WACC as provided in the SSA states that it has to be calculated using the marginal rate of corporate tax to arrive at the CoE after tax, the same has to be given meaning, failing which, the said definition will be rendered otiose and which in turn is contrary to all settled principles of interpretation of contracts

In the context we would like to refer to the section 13 (1) (a) (vi) of the AERA Act 2008 which preserves the rights of the concessionaire on the grant provided under the concession awarded by the Central Government. This position is further reinforced by the TDSAT judgment dated 28th April 2018 where the TDSAT held as follows:

> *In exercise of powers under Section 13 of the Act, AERA is required to respect rights/concessions etc.*
>
> *Contractual rights can be voided only on the basis of explicit statutory provisions or implications from statutory provisions permitting no other option*

The authority has not considered the grant under the concession relevant to the captioned subject, accorded to DIAL under schedule 1 of the SSA. In terms of the SSA the WACC has been defined as 'nominal post-tax weighted average cost of capital, calculated using the marginal rate of corporate tax' (emphasis added). The Authority has mentioned that the definition has been considered in the determination of first and second control period orders issued for DIAL. However, the Authority in the earlier orders have only considered the determination of nominal post tax WACC, which is the first part of the definition of WACC under the SSA. Subsequently the WACC so arrived has to be affected with the marginal rate of corporate tax, which the Authority has not considered in the first or the second control period determination.

Therefore, to give effect to the said definition of WACC, the Rate of Return on Equity has to first be grossed up using the marginal rate of corporate tax to ensure the same return after tax and then the same has to be employed in the calculation of WACC. Further, it is submitted that the contention of AERA that for calculating return on equity post-tax, the relevant base has to be adjusted i.e. multiplied by the factor (1-t) and not grossed up by the factor (1-t), where 't' is the marginal rate of corporate tax, is neither in consonance with the intention of the SSA nor is the same a valid interpretation of its express terms. Therefore, unless the Cost of Equity of 16% is grossed up with of return on equity is calculated to get post-tax return using the marginal rate of corporate tax to ensure 16% after tax, which means 22.86%, the definition of WACC as given in the SSA, is not given its full effect.

Further, with regard to bid clarification provided by AAI, we would like to submit that the importance of bid clarification cannot be undermined or overlooked as in such bids the clarification provided by the Concessioning authority, plays a vital role for the investor to take decisions. Every clarification provided is well accounted in the submission of bid and same need to be abided post award of concession. The WACC number provided by AAI, even if it is for the purpose of ensuring consistency in the bid, it displayed the vision of the Concessioning authority on the methodology to arrive at the

आर्थिक विनियामक प्राधिकरण
सत्यमेव जयते
Economic Regulatory Authority of India

WACC. It is relevant to notice that the figure of 22.8% as given in the RFP cannot be an assumed number since it is highly unlikely that a fractional number such as 22.8% would be 'assumed' as 16% return on equity after tax. It is therefore, evident that the said number is a result of a grossing up calculation, which must have been done to arrive at the 22.8% as stated in the RFP. Hence, when the methodology has been clarified to be used for maintaining the bid consistency, there is no reason for the regulator to deviate from the understanding represented by AAI. The given methodology as explained above should be given weightage and cannot be ignored by AERA.

In view of the above it is submitted, that while calculating weighted average cost of capital, cost of equity has to be computed in a manner which is simply the rate of return on equity. This is so because it is the return on equity given to investors which is the cost attached to such equity. However, for calculating WACC in terms of the SSA, the post-tax cost of equity should be considered and the same should be calculated using the marginal rate of corporate tax.

Therefore, to give effect to the said definition of WACC, rate of return arrived at after employing the CAPM formula is to be grossed up using the marginal rate of corporate tax and the number then arrived at is to be used for the calculation of WACC as defined in the SSA.

We therefore request the Authority to revisit it's decision regarding the calculation of CoE in terms of the concession awarded and consider the CoE for the first control period as follows:

Cost of equity arrived by the Authority = 16%

*CoE to be considered as per SSA = 16 *[1/(1- 30%]*

*= 16 *[1/(100-30/100)]*

*= 16 * [1/0.7]*

*= 16 * 1.43*

= 22.8%

It is therefore, requested that in order to ensure that a return after tax of decided as per CAPM methodology is actually granted to DIAL, the same needs to be grossed up by the marginal rate of corporate tax for the calculation of WACC as required in terms of the SSA."

2.3.17 DIAL has again reiterated that the RSD has to be treated as a quasi-equity instrument. DIAL has also requested that in the event Authority retains the decision to consider cost of RSD as equivalent to cost of debt, it has requested for the same to be considered as 12.17% which was the cost of debt considered for the Rupee Term Loan Facility as allowed in Tariff Order for the First Control Period for Rupee Term Loan, rather than the cost of debt of 10.00% which includes the weighted average of the cost towards ECB Loan. The reasoning provided by DIAL is verbatim reproduced as below;

"In accordance with TDSAT judgment dated 23rd April 2018, RSD is eligible for return, though the cost needs to be ascertained and made available to DIAL. The quantum of return has been recommended by the independent consultant appointed by AERA i.e. IIM Bangalore. IIM Bangalore recognizes that airport users benefitted to the extent of the cost of debt and hence DIAL should be compensated as per the cost of debt on RSD.

In this regard we would like to submit that RSD has equity like features such as long duration of availability of funds and also it has no restriction of usage of this fund. These features are available for equity funding accordingly a return equivalent to equity should be provided to DIAL on RSD.

DIAL had raised debt to part fund the development of IGI Airport by a consortium of 10 banks. Nine out of ten banks are nationalized banks, one being a publicly listed infrastructure investment firm. All the lenders treated RSD (to be realized at a later time) as sponsor's contribution (part of equity) while determining D/E ratio and determining the cost of debt. If RSD were not considered as part of equity, it will cause:

-Higher leverage and more risk for banks resulting in higher cost of debt; and

-Higher pass through cost in terms of higher interest cost

DIAL had submitted that RSD is in the nature of quasi-equity and a return should have been allowed in respect of the same. DIAL has submitted expert opinions from KPMG and CARE to support its submissions in this behalf. The expert opinions are as follows:

Expert Opinion by CARE

> *"In light of these facts, the amount mobilised through RSD exhibits equity like features and as such qualifies for being treated as quasi equity and thus being eligible for close to equity returns."*

Expert Opinion by KPMG

> *"The Authority has proposed to provide zero returns on capitalized airport asset funded through RSD. However, it is evident that there is an opportunity cost associated with RSD in terms of the forgone lease rentals. Also, lenders have treated the RSD funding as part of promoter's contribution (quasi-equity), therefore, RSD utilised to fund the capex is expected to have risk inherent to that associated with equity. Additionally, there are examples from other infrastructure sectors where regulator provides return on the capital employed by the Concessionaire and does not consider the cost of funds while calculating tariff."*

A copy of above opinions attached herewith as ***Annexure-4 & Annexure 5****.*

Thus, while reviewing the recommendation of IIM, Bangalore, AERA should give equal weightage to the reports of KPMG and CARE, which are also competent on the matter.

The MoCA had also initiated a study through SBI Caps which indicated that Quasi Equity be provided return between cost of debt and cost of equity depending upon the type and feature of the instrument. The same study indicated the rate of return should be 18.5% to 20.5%. This report was also sent to AERA by MoCA for consideration. However, AERA has not considered the policy direction stipulated by MoCA.

Further, even if Authority decides to provide return on RSD equivalent to cost of debt which is also the view concluded by IIM Bangalore in its report, then we would like to submit that AERA in first control period i.e. FY'09 to FY'14 has allowed cost of debt of 12.17% towards rupee term loan. The avoided cost or the opportunity cost for the RSD invested in the capital expenditure should not be less than the cost of debt considered efficient by AERA. Hence, in case of return on RSD equivalent to debt then also the rate should be considered @ 12.17% which is an efficient cost of debt considered by AERA.

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

Accordingly, we request Authority to consider the RSD as Quasi Equity and allow return equivalent to cost of equity."

Authority's Examination on Stakeholder comments regarding issues on True up of Weighted Average Cost of Capital for the First Control Period

2.3.18 Authority has carefully considered the comments made by DIAL with regards to Cost of Equity for the First Control Period. Authority is of the view that the decision taken to consider Cost of Equity, for the First Control Period, at 16% need not be relooked at.

Authority has observed that DIAL, as part of stakeholder comments, had again grossed up the cost of equity considered at 16% with the marginal rate of corporate tax to arrive at post-tax cost of equity of 22.86%. Authority reiterates its earlier stand that the post-tax cost of equity is arrived at by adjusting (multiplying) the cost of equity by the factor (1-t) rather than grossing (dividing) the cost of equity by the factor (1-t).

Authority is of the understanding that the definition of WACC has been adhered to as per the SSA by considering post-tax cost of equity of 16% while calculating the WACC towards true up for the First Control Period. The same is consistent with its stand concerning the calculation of WACC in the Tariff Orders for the earlier Control Periods. The methodology suggested by DIAL in which cost of equity has to be grossed up to arrive at post tax cost of equity lacks merit as the same is done to arrive at pre-tax cost of equity in the case of other regulated infra sectors such as power. Further in those cases, the tax is not given as a reimbursement separately and hence the return of equity gets grossed up. Given the clear definition in the SSA and the fact that aeronautical taxes are reimbursed to the airport operator separately as part of the tariff determination process, the question of grossing up return on equity doesn't arise.

With regards to DIAL's comments regarding pre-bid clarification provided by AAI, Authority would again like to indicate that the pre-bid clarifications by AAI clearly showcase that the calculation of WACC was only to ensure consistency between Business Plans submitted by Bidders as part of their bid. The pre-bid clarification by AAI cannot be considered as the basis for determination of cost of equity for tariff determination purposes as the purpose as defined in the pre-bid clarification is restricted to have uniformity in the business plan amongst the bidders. If DIAL's interpretation is to be adhered to, then the same pre-bid clarification assumes cost of debt at 6% while the tariff determination process considers the actual cost of debt which is also in variance with the pre-bid clarification. AERA reiterates that the pre-bid clarification had a standard disclaimer stating that the same is restricted to have uniformity in the business plans which means that the same need not be adhered to in the tariff determination process.

Thus, Authority after analyzing and examining the comments made by DIAL has decided to consider the Cost of Equity as 16% for the First Control Period consistent with its proposal in Consultation Paper No. 15/2020-21.

2.3.19 Authority has noted the comments made by DIAL with regards to Return on RSD for the First Control Period. DIAL, as part of stakeholder comments, had submitted that RSD is a quasi-equity instrument and requested for a return on RSD in respect of the same. Authority had commissioned an independent study and based on their recommendations had proposed in the Consultation Paper issued for the Third Control Period to consider return on RSD equivalent to Cost of Debt for the First Control Period.

The report from CARE quoted by DIAL states that RSD exhibits equity like features. However, the investor in the case of RSD is not the airport operator but the sub-concessionaire who will not be getting the return on the investment and hence it can't be construed as quasi-equity instrument from the perspective of the airport operator. The risk inherent as mentioned in the KPMG report could be argued as applicable to the sub-concessionaire, the person advancing the RSD and not the airport operator which KPMG has mentioned in the report.

Regarding the fact that lenders have considered RSD as part of equity, it is to be clarified that the context in which the lenders have considered the same as equity is different from the current context. Concerning lenders, the RSD is an instrument that doesn't create any debt servicing burden on the Borrower and hence it might be apt for the lenders to treat the RSD as a non-debt instrument. However, in the case of tariff determination context, the RSD can't be treated as an equity instrument as the investor advancing such RSD instrument is not paid any cost but only refunded the amount later.

DIAL had also commented that if Authority considers return on RSD equivalent to cost of debt, the same has to be considered at 12.17% which was the cost of debt considered for the Rupee Term Loan facility as per the Tariff Order for the First Control Period. However, DIAL has not submitted any specific reasons for considering the cost equivalent to that of the Rupee Term Loan Facility as the optimal cost equivalent to the return that has to be provided to RSD. Authority is of the firm view, based on the independent study that the return has to be equivalent to the cost of debt, as the RSD instrument is having the characteristics of a debt liability from the perspective of the airport operator. There is no clear reason for equating the return to that of the cost of rupee term loan rather than the cost of debt as considered in the Consultation Paper No. 15/2020-21. Authority is of the view that the airport users benefitted from zero cost financing that DIAL was able to raise from concessionaires who were sub-leased non-transfer assets and that DIAL would have incurred the actual cost of debt if they had raised the amount equivalent to RSD from the market.

Authority would also like to state that DIAL can consider investing the funds pertaining to RSD elsewhere and not utilize it for capex related to airport, if DIAL is of the view that it is not getting the adequate return on RSD.

Based on the above, the Authority has decided to consider the Cost of RSD equivalent to Cost of Debt at 10% for the First Control Period consistent with its proposal in Consultation Paper No. 15/2020-21.The WACC for the First Control Period has been determined as 11.65% consistent with the proposal in the Consultation Paper for the Third Control Period.

2.4 True up of Operating Expenses

DIAL's submissions regarding True up of Operating Expenses for the First Control Period

Rehabilitation of Runway 10/28

2.4.1 DIAL, in their tariff proposal, had referred to the fact that Authority had approved the Project Cost related to DIAL in the Order No. 28/2011-12. As per the order, the Authority while disallowing certain amount in the order had also disallowed Rs. 17.50 Cr expense in capex and allowed the same as part of operational expenditure. The relevant extract of Order No. 28/2011-12 is as follows;

"KPMG have suggested that the project cost of this work may be taken as Rs.72.5 crores and an amount of Rs.17.5 crores may be allowed only as operating expense in the financial year in which it has been incurred. Authority had taken a tentative view that the recommendations of the KPMG in the matter were fair and, therefore, an amount of Rs. 37.50 crores may be excluded from the project cost. DIAL have accepted the disallowance of Rs. 17.50 crores on the runway rehabilitation and have stated they shall be treating the same as opex in their tariff filing."

2.4.2 DIAL indicated that AERA while truing up for the First Control Period at the time of tariff determination for the Second Control Period as per the order for the Second Control Period had inadvertently omitted the above costs as an operating expense. DIAL mentioned that as the same was an error of omission, they had considered this cost in First Control Period true up computation as an operating expense in FY 2011 and requested the Authority to allow the same as operating expenses.

Foreign Exchange Rate Variation

2.4.3 DIAL submitted that as part of cost optimization strategies, it had taken foreign currency loans in FY 2010 and FY 2014. The same as indicated by DIAL had led to lower cost which had been passed on to the passengers in terms of lower tariff. However, DIAL informed that such cost optimization strategies had led the company exposed to foreign currency fluctuations.

2.4.4 DIAL hence submitted the actual forex losses pertaining to the First Control Period and hence requested AERA to consider the same as an expense for truing up. The submission is in the table below;

Table 9: Actual Forex Losses submitted by DIAL for First Control Period as per MYTP

Particular (Rs. Cr)	2010	2011	2012	2013	2014	Total
Forex – Aeronautical	(0.08)	1.44	9.05	31.36	79.59	121.36
Forex - Non-Aeronautical	(0.01)	0.17	1.09	3.78	9.59	14.62
Total	**(0.09)**	**1.61**	**10.14**	**35.14**	**89.18**	**135.98**

2.4.5 Based on above considerations, the Operating Expenses submitted by DIAL for First Control Period are in the table below;

Table 10: Operating Expenses submitted by DIAL for First Control Period as per MYTP

Year ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
VRS Aero	71.83	29.38	43.26	17.40	17.12
Interest on DF			350.50		
Staff Cost	90.25	123.48	124.27	106.47	104.65
Administrative and General Expenses (including forex losses and expenses associated with rehabilitation of runway)	59.96	87.68	115.24	125.24	187.73
Electricity and Water Charges	31.21	66.63	97.97	98.77	109.67
Operating Expenses	100.67	190.22	181.81	226.46	256.88
Airport Operator Fee	13.01	15.21	17.13	18.33	67.44

Year ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Property Tax	-	-	13.13	1.21	6.07
Total	366.93	512.60	943.31	593.88	749.56

Decisions taken by the Authority regarding True up of Operating Expenses for First Control Period as per Tariff Order for Second Control Period

2.4.6 The Authority had decided to consider the actual operating expenses as submitted through the auditor certificates for the First Control Period. The Authority had also decided to expense out interest on DF of Rs. 350.50 Cr incurred by DIAL in FY 2011-12. Regarding allocation of the operating expenses towards aeronautical and non-aeronautical, the allocation ratios were used as shown in the table below;

Table 11: Operating Cost allocation ratio considered by Authority towards true up of First Control Period as per Tariff Order of Second Control Period

Operating Expenses	Cost allocation %	Basis
VRS Aero	89.79%	In line with the allocation on manpower costs
Interest on DF	100%	In line with the Tariff Order for the First Control Period.
Staff Cost	89.79%	In line with the Tariff Order for the First Control Period.
Administrative and General Expenses	70.28%	In line with the Tariff Order for the First Control Period.
Electricity and Water Charges	100%	In line with the Tariff Order for the First Control Period.
Operating Expenses	91.89%	In line with the Tariff Order for the First Control Period.
Airport Operator Fee	3% of aeronautical revenues for the previous year	As Airport Operator fee is based on 3% of the gross revenue of DIAL.
Property Tax	87.54%	Weighted average of allocation ratios for the above elements.

2.4.7 The Authority had also decided to expense out the bad debts and also include expenses related to inline Baggage Screening Related Assets as part of operating expenses for the First Control Period.

2.4.8 The Authority had also decided not to consider any fluctuations related to currency fluctuation on capital or interest payments or any other charges in respect of the ECB loan for true up of the First Control Period.

2.4.9 The operating expenses considered by Authority towards true up for First Control Period as per the Tariff Order for Second Control Period are in the table below;

Table 12: Operating Expenses as considered by Authority towards true up of First Control Period as per Tariff Order of Second Control Period

Year ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
VRS Aero	71.83	29.38	43.26	17.40	17.12
Interest on DF	0.00	0.00	350.50	0.00	0.00
Staff Cost	90.25	123.49	124.27	106.47	104.65
Administrative and General Expenses	60.04	86.24	106.19	95.88	108.13
Electricity and Water Charges	31.21	61.29	86.89	98.17	106.54
Operating Expenses	100.67	177.97	193.06	227.06	260.01
Airport Operator Fee	13.01	15.21	17.13	18.33	67.44
Property Tax	0.00	0.00	13.13	1.21	6.07
Total	**367.01**	**493.59**	**934.42**	**564.53**	**669.97**

Authority's Examination regarding True up of Operating Expenses for the First Control Period

Rehabilitation of Runway 10-28

2.4.10 Authority noted DIAL's submission with regards to the consideration of Rs. 17.50 Cr as part of operating expense in FY 2011 with regards to the costs incurred towards rehabilitation of runway. The relevant extract from Order 28/2011-12 is as follows;

"Rehabilitation of Runway 10-28: DIAL has proposed an inclusion of Rs. 110 Cr in the project cost towards rehabilitation of R/W 10-28. EIL had pointed out that the rehabilitation and strengthening works of runway 10-28 are not part of the Master Plan. In their estimate, actual cost of the work should be Rs. 90 Cr. KPMG, while agreeing to the fair cost estimate of Rs. 90 Cr by EIL, pointed out that DIAL has classified entire cost as capital expenditure as per Accounting Standard 10. However, as per paragraph 12.1 of the said Accounting Standard, only expenditure that increases the future benefits from the existing assets beyond its previously assessed standard of performance is included in the gross book value. This implies that the incremental expenditure, over and above the cost of normal repairs, that leads to an increase in the runway's life or load bearing capacity beyond its original design specifications can be capitalized. It has been observed that the Pavement Classification Number (PCN) of R/W 10-28 has decreased from a design level of 106 to 99. Post rehabilitation, the PCN is estimated to increase to 135. EIL has estimated fair cost of rehabilitation for upgrading to PCN 135 as Rs. 90 Cr. Based on the same, KPMG have estimated Rs. 17.5 Cr as proportionate amount spent on rehabilitation of runway to initial PCN value (i.e., 106) and balance Rs. 72.5 Cr (Rs. 90 Cr less Rs. 17.5 Cr) be treated as fair project cost. Thus, KPMG have suggested that the project cost of this work may be taken as Rs. 72.5 Cr and an amount of Rs. 17.5 Cr may be allowed only as operating expense in the financial year in which it has been incurred. Authority had taken a tentative view that the recommendations of the KPMG in the matter were fair and, therefore, an amount of Rs. 37.50 Cr may be excluded from the project cost. DIAL has accepted the disallowance of Rs. 17.50 Cr on the runway rehabilitation and has stated they shall be treating the same as OPEX in their tariff filing."

Authority took note that DIAL, during the time of determination of tariff for the Second Control Period, had failed to claim the same as opex and had also not raised the issue during the stakeholder consultation process for the Second Control Period. Despite DIAL not claiming Rs. 17.50 Cr as part of operating expense during the tariff determination for Second Control Period, Authority formed the view that there was merit in DIAL's plea that Rs. 17.50 Cr should, at the least, be considered as an operating expense, on the basis of the above-mentioned extract in the Order No. 28/2011-12. Thus, Authority had proposed to consider Rs. 17.50 Cr as an operating expense in FY 2011 and also requested DIAL to raise specific issues within the relevant Control Period.

Foreign Exchange Losses

2.4.11 Authority looked at the submission regarding foreign exchange losses incurred by DIAL and noted that the cost of debt considered took into consideration the payment towards meeting the obligations under the hedge instruments taken by DIAL. Authority also understood that the operator had taken only Interest Rate Swap and not Foreign Currency Swap for its foreign currency liability in the First Control Period.

Authority had taken the view that the costs incurred by DIAL towards hedging had been already considered under the cost of debt and the losses incurred by DIAL would not be considered as pass-through under operating expenses. Authority formed the view that the losses incurred were on account of the hedging principles adopted by DIAL and losses on account of the same would not be passed onto the airport users. The Authority had also noticed the claim made by DIAL in its tariff proposal which is stated below;

"DIAL as a part of cost optimization, leveraging on foreign currency inflow and optimizing cash flows have taken foreign currency loan in the FY'10 & FY'14. The benefit of lower cost has been passed on to the passenger in terms of lower tariff however on the other side due to currency fluctuation DIAL had to incur forex losses."

Authority had formed the view that if such forex losses were to be passed on along with the cost of hedge, the same would nullify whatever benefit DIAL was claiming that had been passed on to the passengers. The Authority had also allowed DIAL to consider the upfront cost of the new foreign currency loans along with the pre-closure cost of the existing loans in their submissions. DIAL had also submitted that they had taken the foreign currency loans leveraging on foreign currency inflow and optimizing the cash flows. Authority was guided by the principle of the SSA which said only efficient costs were to be considered. Authority had hence proposed not to consider forex losses as a pass-through under operating expenses for the First Control Period.

2.4.12 Authority proposed not to review any other expense items under the operating expenses and had proceeded to consider the remaining operating expenses as considered by Authority at the time of true up for the First Control Period as per the Tariff Order for the Second Control Period. The net adjustments to the operating expenses considered by the Authority in its Tariff Order for the Second Control Period towards true up for the First Control Period are shown in the table below;

Table 13: Net Adjustments in Aeronautical Operating Expenses proposed to be considered by Authority for true up of First Control Period

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Operating Expenses as considered in the Tariff Order for the Second Control Period	367.01	493.59	934.42	564.53	669.97
Adjustment towards rehabilitation of runway	0.00	17.50	0.00	0.00	0.00
Operating Expenses proposed to be considered by the Authority towards true up for FCP	367.01	511.09	934.42	564.53	669.97

Stakeholder comments regarding True up of Operating Expenses for the First Control Period

2.4.13 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to true up of Operating Expenses for the First Control Period. The comments from stakeholders are presented below;

DIAL's comments regarding true up of Operating Expenses for the First Control Period:

2.4.14 DIAL has requested that since the forex losses were allowed in the Second Control Period to the extent of the cost of Rupee Term Loan, the same cost must be allowed in the First Control Period. Further it has requested that the cost of debt may not be trued up for the First Control Period and if the same were to be trued up, then the cost pertaining to the forex losses have to be allowed in the First Control Period true up exercise. The reasoning provided by DIAL is verbatim reproduced as below;

"DIAL has proven track record of maintaining lowest cost of debt in the industry. In the year, 2011 when the ECB was drawn the rupee was much stable compare to today's business scenario. DIAL had natural hedge available in terms of foreign currency inflow from duty free and UDF. Accordingly, considering the expert views, natural hedge and market scenario DIAL had taken on Interest rate swap and not the currency swap. With this DIAL could able to maintain cost of ECB at 6.96% which was

highly efficient. Further, even if we consider the forex loss of CP1 of Rs. 136 Cr still cost of debt could have been maintained at 8.82% vis a vis 12.17% allowed by AERA in CP1 order for rupee term loan. Accordingly, we are unable to understand Authority's ground of disallowance that the forex loss incurred resulted into inefficient cost or nullifying the benefits of lower burden.

Also, while allowing forex loss for second control period Authority has considered 11.38% i.e. the cost of RTL allowed by AERA. In consultation paper 15/2020-21 at Para 3.5.12 stated following:

> *"The Authority is of the view that the Airport Operator's effective cost of debt shouldn't exceed at the least the cost of the borrowing in the local currency which was determined as 11.38% as per the tariff order for the Second Control Period. The Authority hence proposes to allow only forex losses to the extent the effective cost, including the allowed forex losses, don't exceed 11.38%. Authority is of the view that only to this extent the forex losses incurred by the operator can be considered as Efficient Costs."*

From the above it is clear that the Authority in case of second control period has considered the cost of debt allowed by Authority in its order no 40/2015-16 as efficient and accordingly allowed forex loss and refinancing cost to that extent in second control period. In similar way Authority should consider allowance of forex loss for first control period to the cost of RTL allowed by AERA in order no 3/2011-12 i.e. 12.17%. Following is the effective cost of ECB in first control period:

Particular	***2010***	***2011***	***2012***	***2013***	***2014***
Interest					
ECB 350 Mn	*7.88*	*124.81*	*125.49*	*124.85*	*112.04*
ECB 100 Mn	*0.00*	*0.00*	*0.00*	*0.00*	*13.69*
Total interest	*7.88*	*124.81*	*125.49*	*124.85*	*125.73*
Forex loss	*-0.09*	*1.61*	*10.14*	*35.14*	*89.18*
Total	***7.79***	***126.42***	***135.63***	***159.99***	***214.91***
Avg. debt					
ECB 350 Mn	*795.90*	*1591.80*	*1591.80*	*1571.90*	*1482.36*
ECB 100 Mn					*275.96*
Total Average	***795.90***	***1591.80***	***1591.80***	***1571.90***	***1758.33***
Effective rate	***8.82%***				

DIAL in case of first control period requested Authority for allowance of forex as per treatment of forex loss in financials i.e. AS-11, however Authority had not allowed forex loss in first control period. Authority at decision 29.f of the order no 3/2012-13 dtd. 20th April'2012 stated that the WACC of 10.33% determined under CP1 shall not be trued up. Also, Authority at order no 40/2015-16 for the second control period at decision no 4.f clearly decided to not true-up WACC of 10.33%, which was considered by it in its Delhi Tariff Order No. 03/ 2012-13.

The TDSAT in it's judgment dtd. 20th March'2020 in the matter of DIAL appeal no 7 for DF has decided as follows with respect to the upfront fee:

> *the impugned order of AERA for excluding the upfront fee of Rs.150 crores from the Project cost is found to be not sustainable either on facts or in law. Hence, exclusion of the aforesaid amount of Rs.150 crores of upfront fee from the Project cost is set aside. However, it is clarified that this amount shall not be a part of the RAB but will be treated as equity share capital of DIAL while determining WACC.*

DIAL also filed appeal no 10/2012 against the first control period AERA order no 3/2011-12. One of the contention of the appeal was that the Authority while calculating WACC considered RSD as debt

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

@ 0%. TDSAT in its order dtd. 23rd April'2018 at para 106 for DIAL appeal 10/2012 provided that the return on RSD cannot be zero and it is eligible for some return, following is the relevant extract of the order:

> *That return cannot be less than the cost which DIAL has to bear, or it has borne by making available the amount of RSD (Rs.1471 crores) for investment in the airport project. Clearly, in our opinion, this money has wrongly been treated as debt at zero cost. The well accepted commercial practices and norms need to be respected by the Authority and therefore, return on RSD amount should be re-determined by it for the reasons indicated above. Instead of interfering with the impugned tariff determination we direct that the amount due to DIAL under this head should be worked out and made available to DIAL through appropriate fiscal exercises which should be undertaken when the exercise of redetermination of tariff for IGI Airport, Delhi is next undertaken in due course.*

Accordingly, the WACC for CP1 should be true up only to the extent of the order pronounced by the tribunal. Truing up cost of debt while determination of WACC is against Authority's own order.

The authority vide the order number 40/2015-16 for second control period at para 8.25 opined that it will allow the forex as expense in case the WACC has been trued up or considered on actual. Following is the relevant extract of para 8.25 of the order no 40/2015-16:

> *While the Authority is inclined to consider foreign exchange rate fluctuations, it is not persuaded to consider the approach of making adjustments in RAB. Normally, actual losses incurred by the operator on account of fluctuations in foreign exchange are expensed out while determining tariff for the operator. The Authority is of the view that in case it were to consider foreign exchange rate fluctuations by expensing out actual losses on this account, it would also true up the WACC (including actual interest rates on domestic term loan).*

The decision to consider forex as an expense and forego the benefit of refinancing was evaluated by DIAL and accordingly as part of true up during MYTP for third control period it had requested the Authority to true up the WACC including the cost of debt from the first control period and simultaneously allow the forex loss as expense. In the consultation paper for third control period Authority has not allowed forex loss for first control period and moreover trued up the cost of debt as well which goes against the principles decided by the Authority itself.

Accordingly, we request Authority in case it decide to true up the cost of debt then the forex loss should be allowed."

Other Stakeholders' comments regarding true up of Operating Expenses for the First Control Period:

2.4.15 MIAL commented that the forex losses should be considered as part of operating expenses for true up of First Control Period.

MIAL stated that Authority, in Tariff Order for Second Control Period, had decided to consider forex loss at the time of true up in Third Control Period. The Authority has considered true up of forex losses only for Second Control Period, but not for First Control Period which is against the consistency principle stated in the Schedule 1 of the SSA. MIAL has also added that the cost of debt is actual outflow to the lenders and in a regulatory scenario the entire cost as a principle should be allowed to the airport operator. MIAL requests Authority to consider true up of forex losses for First Control Period based on the above-mentioned points.

Authority's Examination on Stakeholder comments regarding issues on true up of Operating Expenses for the First Control Period

2.4.16 Authority has carefully considered the Stakeholder Comments with regards to forex losses for the First Control Period. The stakeholders, DIAL and MIAL, have submitted that the forex losses were considered for Second Control Period but not for First Control Period.

As pointed out in Consultation Paper No. 15/2020-21 for Third Control Period dated June 9, 2020, the losses incurred on account of hedging undertaken by DIAL could not be considered as a pass-through to airport users. DIAL had taken the foreign currency loans as part of cost-optimization with the benefits of lower cost to be passed on to the airport users. The Authority considers that allowing forex losses as pass-through would nullify the benefits passed on to the users.

Authority has hence decided to not allow forex losses as a pass-through to users under operating expenses for the First Control Period.

2.4.17 Authority also noted the comments made by DIAL pertaining to the true up of cost of debt for First Control Period. Authority acknowledges its previous stand of not to true up WACC as per Order No. 3/2012-13 dated 20.04.2012. However, based on Hon'ble TDSAT Order dated 23.04.2018 which had directed not to deduct Upfront Fee from Equity Base and to also consider a suitable rate of return on RSD, Authority had proposed to true up the WACC in entirety as selective true up on a few components of WACC cannot be undertaken. Thus, the true up of WACC is only on account of Hon'ble TDSAT order and bears no relation to forex losses.

DIAL in its submission as part of stakeholder comments also pointed out that as per Order No. 40/2015-16 for Second Control Period dated 08.12.2015, it has been mentioned that if forex losses shall be considered as an expense in which case the WACC shall also be trued up or considered on actuals. The relevant extract of the Order No. 40/2015-16 is quoted below;

"*While the Authority is inclined to consider foreign exchange rate fluctuations, it is not persuaded to consider the approach of making adjustments in RAB. Normally, actual losses incurred by the operator on account of fluctuations in foreign exchange are expensed out while determining tariff for the operator. The Authority is of the view that in case it were to consider foreign exchange rate fluctuations by expensing out actual losses on this account, it would also true up the WACC (including actual interest rates on domestic term loan). The Authority had communicated to DIAL to consider foreign exchange losses along with true-up of WACC. However, DIAL did not exercise any option. It seems that DIAL would like to be reimbursed for foreign exchange losses and also retain the savings they have made on account of lower interest rates. The Authority does not find this acceptable.*"

The Authority has taken note of DIAL's submission and in this regard points out that as per the above extract, Authority had stated that it would true up WACC if actual forex losses were to be considered and not vice-versa implying WACC has to be trued up only if forex losses were considered. From the above extract, it can be seen that Authority had also communicated to DIAL to consider foreign exchange fluctuations along with true up of WACC. DIAL had not requested for true up of WACC for First Control Period, considering the actual lower interest rates, during tariff determination for both Second Control Period and Third Control Period.

Authority is also of the view that, the airport user doesn't have to bear the foreign currency losses because of inefficient decision making by the airport operator which in the case is the absence of currency swap for the ECB loan which has led to foreign currency losses in the first place. As the

आर्थिक विनियामक प्राधिकरण
सत्यमेव जयते
Economic Regulatory Authority of India

pricing regulation should encourage economic efficiency as one of the founding principles of the tariff determination as per the SSA, the same has to be adhered to by the Authority. Clearly, as per DIAL's own submission, currency swap was not considered because of the natural hedge available and hence it was conscious decision-making by DIAL at that time. To pass on the cost of forex losses to the airport user where the airport operator had on their own foregone the hedge option based on their assessment thereby leading to forex losses in the first place would be deemed unfair on the airport users.

Authority has noted MIAL's comment concerning consistency principles as enumerated in the SSA and reiterates the fact that AERA has been consistent in its treatment of allowing only efficient costs and hence the forex costs which have been incurred due to lack of proper hedging mechanism shall not be considered as a passthrough. In this regard, Authority has decided to not consider the forex losses for true up of the First Control Period.

Hence Authority, based on the above analysis, has decided to consider the operating costs for the First Control Period as considered in Consultation Paper No. 15/2020-21 without any deviation. Authority consistent with its proposal in the Consultation Paper has decided to consider Rs. 17.50 Cr incurred in relation to rehabilitation of Runway 10/28 as an operating expense in FY 2011.

2.5 True up of Aeronautical Taxes

DIAL's submissions regarding True up of Aeronautical Taxes for First Control Period

2.5.1 DIAL considered the aeronautical tax as nil for the First Control Period as decided by the Authority in the Tariff Order of Second Control Period and considered S Factor as part of aeronautical revenue to determine tax.

Decisions taken by the Authority regarding True up of Aeronautical Taxes for First Control Period as per Tariff Order of Second Control Period

2.5.2 The Authority at the time of tariff determination for the First Control Period had forecast aeronautical taxes of Rs. 196.08 Cr and Rs. 345.54 Cr for FY 2012-13 and FY 2013-14 respectively, the last two years of the First Control Period. The Authority had also determined that they shall be truing up these aeronautical taxes based on the actual incidence of corporate tax. As DIAL had not paid any corporate taxes in these years based on the audited financial statement for FY 2012-13 and FY 2013-14, in order to prevent unjust enrichment, Authority decided that only actual tax paid that can be ascribed to aeronautical taxes shall be reckoned for the purpose of determining target revenue, and has considered aeronautical tax as nil for the First Control Period.

Authority's Examination regarding True up of Aeronautical Taxes for the First Control Period

2.5.3 Authority had looked at Hon'ble TDSAT Order towards considering S Factor as part of the revenue base towards determination of aeronautical taxes and had proposed to call for a stakeholder consultation process in this regard only from the Third Control Period towards considering the S Factor as part of aeronautical revenue for providing aeronautical taxes as a benefit for the tariff determination process. Authority hence had calculated Aeronautical Taxes for the First Control Period by excluding the S Factor as part of revenue to arrive at the aeronautical Profit Before Taxes (PBT). The aeronautical taxes were finally arrived at by considering the effective tax rate as per actuals on the aeronautical PBT for the First Control Period.

Authority had noted that the actual tax outgo from DIAL was nil in the First Control Period and hence the effective tax rate had been worked out as nil in the First Control Period. Consistent with its decision towards true up of aeronautical taxes for the First Control Period as per the Tariff Order for the Second Control Period, Authority proposed to consider the aeronautical taxes as nil for the First Control Period.

Stakeholder comments regarding True up of Aeronautical Taxes for the First Control Period

2.5.4 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to true up of Aeronautical Taxes for the First Control Period. The comments by stakeholders are presented below;

Other Stakeholders' comments (other than DIAL) regarding true up of Aeronautical Taxes for the First Control Period:

2.5.5 MIAL commented that Authority ought to consider S factor as part of aeronautical revenue while computing aeronautical tax starting from First Control Period. MIAL's comments are as shown below;

"Hon'ble TDSAT in its Order of 15th November, 2018 in MIAL Appeal no. 4 of 2013 against the AERA order no. 32 of 2012-13 for tariff determination for 1st Control Period for MIAL has remarked as: "...by the provision in the Agreement, 'S' is an element of revenue on aero side and by the same yardstick must be added while calculating the 'T'. We find some merit in these arguments."

Hon'ble TDSAT has remanded the above said issue for considering 'S' (being 30% of revenues from RSA) as part of aeronautical revenue for calculation of tax, to AERA in its order dated 15th November 2018.

While the Authority has proposed to compute Tax for the 2nd and 3rd control period on the above lines, it has not considered 'S' being 30% of revenue from RSA for the 1st Control Period as an element of revenue on aeronautical side.

The Authority is requested to take a consistent view on computation of Tax considering 'S' as a component of aeronautical revenue for all the control periods starting from the 1st control period."

2.5.6 APAO commented that Authority ought to consider S factor as part of aeronautical revenue while computing aeronautical tax for the First Control Period.

APAO states that Hon'ble TDSAT, in its order dated 15th November 2018, remanded the issue of S factor being considered as part of aero revenue while determining aeronautical tax. The Authority has subsidized the aeronautical revenue of DIAL by S factor in accordance with the SSA. But Authority has not considered S factor as part of aeronautical revenue for First Control Period. APAO requests Authority to consider S factor as part of aeronautical revenue to compute tax for First Control Period.

Authority's Examination on Stakeholder Comments regarding issues on True up of Aeronautical Taxes for the First Control Period

2.5.7 Authority has noted the comments from the stakeholders regarding consideration of S factor as part of aeronautical revenue base while calculating aeronautical taxes for First Control Period. Authority, as part of Consultation Paper No. 15/2020-21 dated 09.06.2020 for Third Control Period of IGIA, New Delhi, had submitted that the Hon'ble TDSAT order for MIAL dated 15.11.2018 had remanded the issue of S factor being considered as part of aeronautical revenue while computing aeronautical tax and directed Authority to consider the issue afresh through a consultative process in the next Control Period falling for consideration. In this regard, Authority had proposed to call for a stakeholder consultation process for consideration of S factor as part of aeronautical revenue to compute aeronautical tax only from Third Control Period.

Authority has hence decided to not consider S factor as part of aeronautical revenue base for computation of aeronautical taxes for First Control Period.

2.5.8 Authority, as part of Tariff Order No. 40/2015-16, had decided to determine corporate tax pertaining to aeronautical earnings by considering depreciation pertaining to only aeronautical services. The relevant extract is quoted verbatim below;

"Additionally, the Authority has decided to determine such corporate tax pertaining to aeronautical earnings based on the consideration of actual/projected aeronautical revenue, operating expenses pertaining to aeronautical services, depreciation pertaining to aeronautical assets and interest expense and had considered the applicable tax rate.

.....

The Authority further clarifies that the depreciation, to be considered for such tax calculation, should be the depreciation on account of aeronautical assets only. The Authority is of the view that as Hypothetical Regulatory Base, to be determined in line with SSA, is of hypothetical nature and does not correspond to physical assets in the books of accounts of DIAL, depreciation on such assets should not be considered towards calculation of tax pertaining to aeronautical services."

In this regard, Authority has decided to exclude depreciation pertaining to HRAB while considering depreciation pertaining to aeronautical services for computing aeronautical taxes for all three Control Periods. The impact of this treatment for the First Control Period is neutral as the aeronautical taxes determined continue to be nil for the First Control Period.

भा.वि.आ.वि.प्रा.
AERA

2.6 True up of Revenue from Revenue Share Assets

DIAL's submissions regarding True up of Revenue from Revenue Share Assets for the First Control Period

2.6.1 As per the OMDA, the definition of Revenue Share Assets is seen below;

"Revenue Share Assets" shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of aeronautical related services arising at the Airport and not considered in revenues from Non-Aeronautical Assets (e.g. Public admission fee, etc.)"

DIAL as per their submission had considered revenue from Fuel Throughput Charges as part of the Revenue from Revenue Share Assets and had excluded revenues pertaining to Existing Assets and revenue from Disallowed Area from the consideration under Revenue from Revenue Share Assets. Further, the revenue-share payable to AAI pertaining to the S Factor had also been excluded from the Revenue from Revenue Share Assets. The detailed justifications as submitted by DIAL as part of the tariff proposal can be seen in the below mentioned sections.

Fuel Throughput Charges

2.6.2 DIAL represented that the revenue from the levy of Fuel Throughput Charge was the consideration for the concession awarded to fuel supply companies for supplying their product to air carriers out of their respective airports and hence was eligible to be classified as revenue from Revenue Share Assets. The relevant extract from the petition is reproduced below;

"Delhi International Airport Limited ("DIAL") has been levying a Fuel Throughput Charge at the IGI Airport in consideration for the concession awarded to the fuel supply companies to supply their product to air carriers operating out of the respective airports like any other concession. The said Fuel Throughput Charge which is charged by DIAL to the oil companies is akin to royalty, for permitting oil companies to supply fuel at the IGI Airport. However, the said charge is not directly relatable to supply of fuel to the aircrafts at the IGI Airport.

While Fuel Throughput Charge is the consideration for the concession awarded to the oil companies to supply their product to air carriers operating out of the respective airports, Fuel Infrastructure Fee is the levy charged by the owner of the facility (who may not necessarily be the airport operator) which generally comprises of the necessary infrastructure viz. Common Hydrant System, Pipeline, Storage Tank etc. required for the performance of the fuelling services. As such, Fuel Infrastructure Fee is the charge levied on the oil companies by the owner of the fuel infrastructure, which is Delhi Aviation Fuel Facility Private Limited (DAFFPL) in the case of IGI Airport, for the supply of fuel to aircrafts whereas Fuel Throughput Charge is a charge levied by DIAL for grant of the right to oil companies to provide their services at the IGI Airport.

There is a clear distinction between the levy of Throughput Fee and the Fuel Infrastructure Fee. In case of the former, the fee is the consideration for the concession awarded to the fuel supply companies to supply their product to air carriers operating out of the respective airports. The latter is a levy charged by the owner of the facility (may not necessarily be airport operator) which generally comprises of the necessary Infrastructure viz. Common Hydrant System, Pipeline, Storage Tank etc. required for the performance of the fuelling services. Therefore, throughput fee is not covered under Schedule 5 of OMDA and is consequentially not a charge for an Aeronautical Service.

In compliance with the provisions of the Act and adherence to the provision of OMDA, we submit that the throughput fee is a concession fee charged generally on per unit of ATF off take.

It is also relevant to note that not only DIAL but AAI has also been charging Fuel Throughput Charges at various other airports and the same was charged by AAI after negotiating the charges with the oil companies. As for the IGI Airport, AAI had been charging Fuel Throughput Charges in addition to the existing airport charges specified in Schedule 8 of the SSA, even before handing over the IGI Airport to DIAL which indicates that Fuel Throughput Charges is not in the nature of an aeronautical charge. Further, at the time of the bidding process for the IGI Airport, AAI issued a response to the queries of the bidders wherein it clearly stated that the airport operator would have the freedom to negotiate the quantum of Fuel Throughput Charges with the oil companies, thereby make it clear that the same would not be within the ambit of an aeronautical charge. The answer of AAI to pre-bid queries is as under:

*"**Pre-bid queries raised by the bidders at the bidding stage for CSIA and response to same by AAI***

428	*The heads of Aeronautical Services mentioned in Schedule 5 of OMDA are not separately captured in the format provided for business plan in RFP. Under which head do each of the Aero Services get clubbed?*	*In respect of Aeronautical Services the only charges levied are Landing Fees, Parking Fees, Housing Fees and the facilitation component of the Passenger Service Fee.*
690	*Oil Companies* *What is the present arrangement with companies supplying ATF and AAI. What are the charges received by AAI. Please provide copies of formal arrangements.* *· Is there any proposal for allowing private oil companies to supply ATF* *· What is the current arrangement for use of hydrant system and any new proposal for future?* *· Who is responsible for insurance of the Oil supply system*	*Presently AAI is charging lease rental from oil companies for allotted land. However, oil companies (IOC, BPCL, & HPCL) have agreed to pay throughput charges with retrospective effect w.e.f. 1-4-2001. **Quantum of throughput charge is to be agreed between AAI and oil companies.*** *2. Yes.* *3. Currently hydrant at Tr-2 IGIA is owned by BPCL and all 3 companies IOC, HPCL, and BPCL share' this facility on a common usage basis.* *4. Oil Company is responsible for oil supply system.*
978	*Refer your reply no 95 to Query (IGIA), raised by one of the bidders wherein you have informed that "oil companies (IOC, BPCL, HPCL) have agreed to pay throughput charges with retrospective effect w.e.f. 1-4-2001."*	*The Oil Companies have recently agreed in principle to pay the throughput charges but exact quantum is not yet decided.*

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

	Kindly inform us 1) The throughput charge rate and the absolute amount - year wise that is due I expected to be due from each of the oil companies.2) The throughput of each oil company	
1092	*Would the JVC be permitted to share the revenue from the fuel suppliers at the Airport apart from charging lease rentals?*	*Yes. JVC will have freedom to negotiate with the fuel companies.*

Pertinently, the right to mutually agree and sign agreements with the oil companies has also been granted to DIAL in Clause 5.2 of the OMDA, which states as under:

*"**5.2 Transition Phase***

*(a) The period commencing from Effective Date and terminating three (3) months thereafter shall constitute the **Transition Phase**. Provided however that in the event the activities proposed to be undertaken during the Transition Phase have not been completed within the abovementioned period of three (3) months, then the Transition Phase shall be extended by an additional period of three (3) months, and in such event, the period commencing from Effective Date and terminating six (6) months thereafter shall constitute the **Transition Phase**.*

(b) During the Transition Phase, the following activities shall take place:

*(i) **Existing Contracts**: The JVC shall take best efforts, and AAI shall render all reasonable assistance, to transfer / novate AAI under all existing contracts and agreements between AAI and any third party, as relatable to the Airport, with the JVC, on the principle that such transfer / novation would release AAI of all liabilities and obligations under such contracts or agreements as arising from and after the Effective Date (except those pertaining to Legacy Matters). The Parties, along with relevant third parties shall execute necessary documentation or put in place necessary arrangements for the aforesaid transfer / novation. The Parties expressly agree that in respect of existing arrangements of Indian Airlines Ltd. and Air India Ltd. for usage of land and/or building at the Airport and Public Sector oil companies in respect of common hydrant infrastructure for aircraft fuelling at the Airport, for which no express written contract has been executed or presently exists, such existing arrangements shall continue for a period of six (6) months from the Effective Date and the JVC shall during such period mutually agree with Indian Airlines Ltd., Air India Ltd. and Public Sector Oil companies in respect of such arrangements going forward. Provided however that any third party contract that cannot be specifically novated to the JVC for any reason whatsoever shall be performed by the JVC (at its own risk and cost) for and on behalf of AAI (as if the JVC was an original party to the said contracts, in place of AAI). Provided further that JVC shall indemnify and keep indemnified the AAI against any liability or costs arising under such contracts (including, for the avoidance of doubt, contracts relating to capital works-in-progress included in the list of Mandatory Capital Projects), including specifically, payments due to the counter-parties of such contracts or to any other Entities pursuant to such contracts. Any benefits arising from such contracts shall also vest with JVC. Nothing contained in this Article 5.2 (b) (i) shall prejudice the payment obligation of the JVC in respect of payments due from August 30, 2005 under contracts for capital works-in-progress as contained in Article 5.2 (b) (ii) hereof."*

As such, Clause 5.2 of the OMDA expressly allows DIAL to enter into contracts with oil companies.

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

As per Schedule 5, "Common hydrant infrastructure for aircraft fuelling services by authorized providers" is an Aeronautical Service. However, as explained above, Fuel Throughput Charge is not covered by the foregoing. Further, Aeronautical Services have also been defined in Section 2 of the AERA Act. The same states that "aeronautical service" means any service "for supplying fuel to the aircraft at an airport". However, it is to be borne in mind that the charge against supply of fuel to aircrafts is Fuel Infrastructure Charge, as detailed above, and not Fuel Throughput Charge. As such, Fuel Throughput Charge cannot be considered a charge against service of supply of fuel to aircrafts as Fuel Infrastructure Charge and Fuel Throughput Charge are different charges, levied by different entities for different purposes. Hence, Fuel Throughput Charge is not an Aeronautical Charge even in terms of the AERA Act.

A bare perusal of Schedule 6 of the OMDA shows that Fuel Throughput Charge is not even a charge against a Non-Aeronautical Service under the OMDA. In view of the same, the question which therefore, arises is that what is the nature of Fuel Throughput Charge and under what type of charge can the same be categorized. A further question which arises is as to how the revenue from Fuel Throughput Charge is to be treated for the purpose of determination of Aeronautical Tariff.

The answer to the said query lies in the definition of clause (b) of Revenue Share Assets under the formula provided in schedule 1 of SSA which reads as under:

""Revenue Share Assets" shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of aeronautical related services arising at the Airport and not considered in revenues arising from Non-Aeronautical Assets (eg. Public Admission Fee)"

Therefore, since Fuel Throughput Charge is not considered as revenue arising from Non-Aeronautical Assets and is as such, related to aeronautical services, the same would be considered as gross revenue from Revenue Share Assets. The only example of revenue from aero-related services which is given in the SSA, is of public admission fee. Public admission fee is charged by DIAL for admission to the passenger terminal building. While the passenger terminal building is an Aeronautical Asset, public admission fee which is charged on account of the existence of the same but is not relatable to any Aeronautical Service being provided at the passenger terminal building, is categorised as revenue from an aero-related service. Similarly, Fuel Throughput Charges, which is charged on account of existence of the fuel infrastructure, but is not related to provision of any aeronautical service therefrom, can be categorised as revenue from aero-related services.

As far as the treatment of revenue from Fuel Throughput Charge is concerned, the definition of S-factor (which is a regulatory block for the calculation of Target Revenue) states that 30% of the gross revenue from Revenue Share Assets shall be used for cross-subsidization of the Aeronautical Revenue. In terms of the said definition, since revenue from Fuel is to be considered as gross revenue from Revenue Share Assets, 30% of the same would be a part of the S factor and be used for cross-subsidization of the Target Revenue for Aeronautical Services.

In view of the above, in current tariff filing we have considered Fuel Throughput Charges as a part of the revenue from Revenue Share Assets, 30% of which is in turn used for cross-subsidization of the Target Revenue for calculation of the aeronautical tariff."

आर्थिक विनियामक प्राधिकरण
सत्यमेव जयते
Economic Regulatory Authority of India

Revenue from Existing Assets

2.6.3 DIAL indicated that in order to provide the services under OMDA, DIAL utilised aeronautical assets, non-aeronautical assets, Non Transfer Assets and Existing Assets whose definitions have been reproduced verbatim as below;

"Aeronautical Assets" shall mean those assets, which are necessary or required for the performance of Aeronautical Services at the Airport and such other assets as JVC procures in accordance with the provisions of the Project Agreements (or otherwise on the written directions of the GOI/AAI) for or in relation to, provision of any Reserved Activities and shall specifically include all land (including Excluded Premises), property and structures thereon acquired or leased during the Term in relation to such Aeronautical Assets."

"Existing Assets" means the physical, tangible, intangible and other assets of whatsoever nature existing at the Airport Site as on the date hereof except working capital assets other than inventory, stores and spares."

"Non-Aeronautical Assets" shall mean:

1. All assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part I of Schedule 6 and any other services mutually agreed to be added to the Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity)

2. All assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part II of Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity), to the extent such assets (a) are located within or form part of any terminal building; (b) are conjoined to any other Aeronautical Assets, assets included in paragraph (i) above and such assets are incapable of independent access and independent existence; or (c) are predominantly servicing/ catering any terminal complex/ cargo complex.

And shall specifically include all additional land (other than the Demised Premises), property and structures thereon acquired or leased during the Term, in relation to such Non-Aeronautical Assets."

"Non-Transfer Assets" shall mean all assets required or necessary for the performance of Non-Aeronautical Services as listed in Part II of Schedule 6 hereof as located at the Airport Site (irrespective of whether they are owned by the JVC or any third Entity), provided the same are not Non-Aeronautical Assets.

2.6.4 DIAL submitted that based on their interpretation of the above mentioned clauses, non-aeronautical revenue accruing from Existing Assets could not be considered as part of revenue from Revenue Share Assets as these assets were owned by AAI and not by JVC or any third entity and hence consequently should be exempted while considering revenue from Revenue Share Assets.

The relevant extract from the DIAL tariff proposal is quoted below;

"As per Order No. 40/2015-16 dated 08.12.2015 passed by AERA for determination of Aeronautical Charges for IGI Airport, New Delhi (DIAL) for the Second Control Period (01.04.2014-31.03.2019), AERA had decided that for the time being, the revenue realized by DIAL from Commercial Property Development (CPD) shall not be considered for determination of Aeronautical Tariff in respect of IGI Airport, New Delhi. It was also decided by AERA that AERA would take the considered opinion of Airports Authority of India (AAI) and Ministry of Civil Aviation (MoCA) in this regard and thereafter,

reconsider the treatment of revenue from CPD towards determination of Aeronautical Charges. The relevant part of the Order dated 08.12.2015 is as under:

"14.20.3 AAI/MoCA being the agencies of the sovereign to have leased the land to DIAL are best placed to prescribe the mechanism for land monetization by DIAL in future and the formulation for treatment of revenue generated from monetization of land towards determination of aeronautical tariff in respect of IGI Airport, Delhi. The Authority proposed to request to AAI/MoCA for their considered view in this regard.

14.20.4 Finally, the Authority proposed not to consider the amount of Rs. 390.05 crore for the First Control Period (revenues realized by DIAL from Commercial Property Development) and Rs. 549.24 crore for the Second Control Period (revenues projected to be realized by DIAL from Commercial Property Development) towards determination of aeronautical tariff in respect of IGI Airport, Delhi, pending the receipt of views of AAI/MoCA."

Accordingly, DIAL has also analyzed the contractual provisions contained in the Operation, Management and Development Agreement (OMDA) dated 04.04.2006 executed between AAI and DIAL and the State Support Agreement (SSA) dated 26.04.2006 executed between The Government of India (GOI) and DIAL which are relevant to the treatment of revenue from CPD for determination of Aeronautical Charges. Further, a detailed analysis of the calculation of S-factor under SSA has also been carried out by DIAL. The same is being presented hereunder for AERA's consideration:

(I). Under the OMDA, DIAL has been granted the functions of operating, maintaining, developing, designing, constructing, upgrading, modernizing, financing and managing the IGI Airport, New Delhi ("Airport"). In order to perform its functions, DIAL has to perform services and activities constituting Aeronautical Services and Non-Aeronautical Services (but excluding Reserved Activities) at the Airport as envisaged in Clause 2.1.1 and 2.1.2 of the OMDA which reads as under:

"2.1 Grant of Function

*2.1.1 AAI hereby grants to the JVC, the exclusive right and authority during the Term to undertake some of the functions of the AAI being the functions of operation, maintenance, development, design, construction, upgradation, modernization, finance and management of the Airport and to perform services and activities constituting Aeronautical Services, and Non-Aeronautical Services (but excluding Reserved Activities) at the Airport and the JVC hereby agrees to undertake the functions of operation, maintenance, development, design, construction, upgradation, modernization, finance and management of the Airport and at all times keep in good repair and operating condition the Airport and to perform services and activities constituting Aeronautical Services and Non-Aeronautical Services (but excluding Reserved Activities) at the Airport, in accordance with the terms and conditions of this Agreement (the "**Grant**")."*

2.1.2 Without prejudice to the aforesaid, AAI recognizes the exclusive right of the JVC during the Term, in accordance with the terms and conditions of this Agreement, to:

(i) develop, finance, design, construct, modernize, operate, maintain, use and regulate the use by third parties of the Airport;

(ii) <u>enjoy complete and uninterrupted possession and control of the Airport Site and the Existing Assets for the purpose of providing Aeronautical Services and Non-Aeronautical Services;</u>

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

(iii) determine, demand, collect, retain and appropriate charges from the users of the Airport in accordance with Article 12 hereto; and

(iv) Contract and/or sub contract with third parties to undertake functions on behalf of the JVC, and sub-lease and/or license the Demised Premises in accordance with Article 8.5.7.

Further, Clause 2.2.3 and 2.2.4 of the OMDA state as under:

"2.2.3 ***Aeronautical Services, Non-Aeronautical Services and Essential Services***

Subject to the foregoing and to Applicable Law, JVC shall undertake/ provide Aeronautical Services and Essential Services at the Airport Site. JVC may seek to undertake/provide Non-Aeronautical Services at the Airport Site by including them in the proposed (draft) Master Plan, provided however, if the same form a part of the (final) Master Plan then the same shall be undertaken as provided in this Agreement. JVC and AAI shall upon mutual agreement between the Parties update the list of Non-Aeronautical Services to include such other activities, as requested by AAI or JVC.

Notwithstanding anything contained in this Agreement, the JVC shall not undertake any activities at the Airport Site other than the Aeronautical Services, Non-Aeronautical Services and Essential Services.

2.2.4 It is expressly understood by the Parties that JVC shall provide Non-Aeronautical Services at the Airport as above, provided however that the land area utilized for provision of Non-Transfer Assets shall not exceed five percent (or such different percentage as set forth in the master plan norms of the competent local authority of Delhi, as the same may change from time to time) of the total land area constituting the Demised Premises. Provided however that the Non-Transfer Assets, if any, that form part of the Carved-Out Assets and/or situated upon the Existing Leases shall be taken into account while calculating the percentage of total land area utilized for provision of Non-Transfer Assets."

The aforementioned services are defined in the OMDA as under:

" "Aeronautical Services" shall have the meaning assigned hereto in Schedule 5 hereto."

"Essential Services" shall mean those Aeronautical Services and Non-Aeronautical Services that are listed in Schedule 16 hereof and such other services that are mutually agreed to be added to the schedule from time to time.

"Non-Aeronautical Services" shall mean such services as are listed in Part I and Part II of Schedule 6 hereof."

In order to provide the aforementioned services, DIAL uses Aeronautical Assets, Non-Aeronautical Assets, Non-Transfer Assets, Existing Assets which are defined in the OMDA as follows:

*"**Aeronautical Assets**" shall mean those assets, which are necessary or required for the performance of Aeronautical Services at the Airport and such other assets as JVC procures in accordance with the provisions of the Project Agreements (or otherwise on the written directions of the GOI/AAI) for or in relation to, provision of any Reserved Activities and shall specifically include all land (including Excluded Premises), property and structures thereon acquired or leased during the Term in relation to such Aeronautical Assets."*

*"**Existing Assets**" means the physical, tangible, intangible and other assets of whatsoever nature existing at the Airport Site as on the date hereof except working capital assets other than inventory, stores and spares."*

*"**Non-Aeronautical Assets**" shall mean:*

1. *All assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part I of Schedule 6 and any other services mutually agreed to be added to the Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity)*
2. *All assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part II of Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity), to the extent such assets (a) are located within or form part of any terminal building; (b) are conjoined to any other Aeronautical Assets, assets included in paragraph 1 above and such assets are incapable of independent access and independent existence; or (c) are predominantly servicing/ catering any terminal complex/ cargo complex*

And shall specifically include all additional land (other than the Demised Premises), property and structures thereon acquired or leased during the Term, in relation to such Non-Aeronautical Assets."

*"**Non-Transfer Assets**" shall mean all assets required or necessary for the performance of Non-Aeronautical Services as listed in Part II of Schedule 6 hereof as located at the Airport Site (irrespective of whether they are owned by the JVC or any third Entity), provided the same are not Non-Aeronautical Assets."*

It is also important in this context to refer to the definitions of Transfer Date and Revenue contained in OMDA as under:

*"**Transfer Date**" shall mean the date on which JVC transfers possession (and in respect of such assets that are not owned by AAI, ownership and possession) of the Transfer Assets and/ or Non-Transfer Assets, as the case may be, to AAI or its nominee in accordance with the terms hereof, which shall be the date of termination as per the relevant notice of termination issued by JVC or AAI, as the case may be, or the date of expiry of this Agreement.*

*"**Revenue**" means all pre-tax gross revenue of JVC, excluding the following: (a) payments made by JVC, if any, for the activities undertaken by Relevant Authorities or payments received by JVC for provision of electricity, water, sewerage, or analogous utilities to the extent of amounts paid for such utilities to third party service providers; (b) insurance proceeds except insurance indemnification for loss of revenue; (c) any amount that accrues to JVC from sale of any capital assets or items; (d) payments and/or monies collected by JVC for and on behalf of any governmental authorities under Applicable Law (e) any bad debts written off provided these pertain to past revenues on which annual fee has been paid to AAI. It is clarified that annual fee payable to AAI pursuant to Article 11 and Operational Support Cost payable to AAI shall not be deducted from Revenue.*

As you are aware, in so far as assets owned or belonging to AAI OMDA refers to the same specifically in unambiguous terms. This is clear from the following Article 20.1.1 of OMDA extracted below:

***20.1.1** The JVC hereby agrees and undertakes that from the Effective Date and during the Term and thereafter, it shall indemnify and keep indemnified and otherwise save harmless, AAI, its agents and employees, from and against all claims, demands made against and/ or loss caused and/ or damages*

आर्थिक विनियामक प्राधिकरण Airports Economic Regulatory Authority of India सत्यमेव जयते

suffered and/ or cost, charges/ expenses incurred or put to and/ or penalty levied and/ or any claim due to injury to or death of any person and/ or loss or damage caused or suffered to property owned or belonging to AAI, its agents and employees or third party as a result of any acts, deeds or thing done or omitted to be done by JVC or as a result of failure on the part of JVC to perform any of its obligations under this Agreement or on the JVC committing breach of any of the terms and conditions of this Agreement or on the failure of the JVC to perform any of its statutory duty and/ or obligations or failure or negligence on the part of JVC to comply with any statutory provisions or as a consequence of any notice, show cause notice, action, suit or proceedings, given, initiated, filed or commenced by any third party or Government Authority or as a result of any failure or negligence or default of JVC or its contractor(s) and/ or sub-contractors and/ or invitees as the case may be, in connection with or arising out of this Agreement and/ or arising out of or in connection with JVC's use and occupation of Airport Site and/ or Airport and/ or the provision of Airport Services.

To enable DIAL to carry out the functions of operating, maintaining, developing, designing, constructing, upgrading, modernizing, financing and managing the Airport, the AAI agreed to demise in favour of DIAL, Demised Premises in terms of the Lease Deed dated 25.04.2006. It is pertinent to refer to the Article 2.1 (Demised Premises), Article 5.1 (Term), and Article 5.2 (Reversion) of the Lease Deed which are reproduced below:

"2.1 ***Demised Premises***

2.1.1 In consideration of the Lease Rental, OMDA and the covenants and warranties on the part of the Lessee therein and herein, the Lessor, in accordance with the AAI Act and the terms and conditions set forth herein, hereby, demise to the Lessee, commencing from the Effective Date, all the land (along with any buildings, constructions or immovable assets, if any, thereon) which is described, delineated and shown in the Schedule 1 hereto, other than (i) any lands (along with any buildings, constructions or immovable assets, if any, thereon) granted to any third party under any Existing Lease(s) constituting the Airport on the date hereof; and (ii) any and all of the Carved Out Assets and the underlying land together with any buildings, constructions or immovable assets thereon, on an "as is where is basis" together with all Encumbrances thereto, (hereinafter " Demised Premises") to hold the said Demised Premises, together with all and singular rights, liberties, privileges, easements and appurtenances whatsoever to the said Demised Premises, hereditaments or premises or any part thereof belonging to or in anyway appurtenant thereto or enjoyed therewith, for the duration of the Term for the sole purpose of the Project, and for such other purposes as are permitted under this Lease Deed."

"5.1 ***Term***

The lease granted in pursuance of this Lease Deed shall be for a period of 30 years from the Effective Date and shall, in the event the lessee renews the term of the OMDA in accordance with Article 18.1(b) therein, be renewed for an additional period of thirty (30) years ("Term"). Notwithstanding anything contained in this Lease Deed, the Term shall be co-terminus with the term of the OMDA, and this Lease Deed shall terminate automatically with the expiry or early termination of the OMDA. The Parties hereby expressly agree that in the event of a Substitution (as defined in the Substitution Agreement) under the provisions of the Substitution Agreement, this Lease Deed shall forthwith terminate.

5.2 ***Reversion***

5.2.1 On expiry of the Term or early termination of this Lease Deed, for any reason whatsoever:

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

i. the Lessee shall, subject to sub-part (ii) and (iii) of this Article 5.2.1, surrender to the Lessor, the Demised Premises together with all assets, buildings, fixtures, runways, all or any singular rights, liberties, privileges, easements and appurtenances whatsoever to the Demised Premises, hereditaments or premises or any part thereof belonging to or in anyway appurtenant thereto or enjoyed therewith, as constituting the Airport (as such time), without any Encumbrances (except encroachments that have not been removed and are existing on the date hereof. For the purposes hereof, Parties expressly agree that "encroachments existing on the date hereof" and words of similar import shall imply those portions of the Demised Premises that are encroached on the date hereof, as identified in Schedule 2 hereof).

ii. The Lessee shall, in accordance with the OMDA, transfer to the Lessor, all the Transfer Assets together with all or any singular rights, liberties, privileges, easements and appurtenances whatsoever to the said Transfer Assets, hereditaments or premises or any part thereof belonging to or in any way appurtenant thereto or enjoyed therewith without any Encumbrances and the Lessor hereby acknowledges and agrees to purchase/accept, in accordance with the terms set out in the OMDA, the aforesaid transfer of all Transfer Assets together with all or any singular rights, liberties, privileges, easements and appurtenances whatsoever to the said Transfer Assets, hereditaments or premises or any part thereof belonging to or in any way appurtenant thereto or enjoyed therewith without any Encumbrances.

iii. The Lessor shall have the right, but not the obligation, to purchase from the Lessee, in accordance with the terms and conditions set forth in the OMDA, any and all Non-Transfer Assets (in part or in whole) free and clear of all Encumbrances, and the Lessee hereby undertakes and agrees to transfer to the Lessor, in accordance with the terms and conditions set forth in the OMDA, such Non-Transfer Assets (whether in whole or in part) that the Lessor may elect to purchase, free and clear of all Encumbrances.

Provided however, in the event the Lessor elects not to purchase from the Lessee any and / or all Non-Transfer Assets, then the Parties shall enter into a revised lease deed ("Revised Lease Deed") in relation to such Non-Transfer Assets and the underlying land together with all assets, buildings, fixtures, all or any singular rights, liberties, privileges, easements and appurtenances whatsoever to the such Non-Transfer Assets on such commercial terms and conditions as may be mutually agreeable. Provided however, the terms and conditions of the Revised Lease Deed shall not be inferior to terms and conditions for leases entered into for comparable immovable property. Any stamp duty, registration charges or other fees, taxes or charges of any kind whatsoever pertaining to the Revised Lease Deed and execution thereof shall be borne by the Lessee. Provided further, in the event the Parties do not, for whatsoever reason, agree on the terms and conditions of such Revised Lease Deed within six(6) months of the expiry or early termination of this Lease Deed, the Lessee hereby undertakes to provide Lessor vacant possession of such land.

iv. Parties hereby expressly recognize that the Lessor shall (without prejudice to its rights of access under the OMDA, and subject to the Revised Lease Deed) have the right to re-enter and take vacant possession of the Demised Premises upon the expiry or early termination of this Lease Deed."

While under the OMDA, DIAL is free to fix the charges for Non-Aeronautical Services, the charges for Aeronautical Services referred to as Aeronautical Charges, levied by DIAL at the Airport have to be determined as per the provisions of the SSA. In this behalf, it is relevant to refer to Article 12.1 and 12.2 of the OMDA which state as under:

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

"12.1 Tariff

*12.1.1 For the purpose of this Agreement, the charges to be levied at the Airport by the JVC for the provision of Aeronautical Services and consequent recovery of costs relating to Aeronautical Assets shall be referred to as **Aeronautical Charges**.*

12.1.2 The JVC shall at all times ensure that the Aeronautical Charges levied at the Airport shall be as determined as per the provisions of the State Support Agreement. It is hereby expressly clarified that any penalties or damages payable by the JVC under any of the Project Agreements shall not form a part of the Aeronautical Charges and not be passed on to the users of the Airport.

12.2 Charges for Non-Aeronautical Services

Subject to Applicable Law, the JVC shall be free to fix the charges for Non-Aeronautical Services, subject to the provisions of the existing contracts and other agreements."

We also draw your kind attention to the following provisions of the OMDA and SSA which are relevant:

OMDA:

Schedule 11. Insurance. 1.1 Subject to Applicable Law, JVC must at its own cost and expense ensure that the insurances specified in this paragraph are effected from the Effective Date and are maintained in full force for the remainder of the Term.

*(a) Insurances in respect of "**all risks**" as customarily covered by such insurance policies for physical loss or damage to the Airport (including all assets thereon, including but not limited to Aeronautical Assets, Non-Aeronautical Assets and Existing Assets) and all or any structures (including temporary structures), plant (including hired in plant) and equipment including computer equipment and vehicles on the Airport, to their full rebuilding or replacement cost (including allowance for professional fees and removal of debris costs), increased from time to time as necessary to maintain such full rebuilding or replacement cost.*

***Schedule 21 Duties of Independent Engineer,** (c) to review development reports submitted by the JVC to assess compliance of works undertaken in relation to the Development Standards and Requirements as detailed in Schedule 1 and with the approved Major Development Plan. In this regard, the Independent Engineer shall ensure that*

(i) owners requirements, Master Plan requirements, specifications and design parameters in any agreement or agreed through OMDA mechanism have been fully addressed/ complied with.

***Substitution Agreement, Article 1, definitions 1.1 Substitution,** (v) transfer by the JVC of all assets owned by the JVC to the Selectee;*

***8.5.7, (i) Sub-contracting, sub-licensing and licensing,** (d) Without prejudice to the foregoing, every contract entered into by the JVC shall be on an arms-length basis (and comply with contracting procedures set forth in Schedule 12), and shall contain an express provision allowing the transfer of the rights and obligations of the JVC under such contract to the AAI in the event of termination or expiry hereof. Every contract (including any sublease or license arrangement) entered into by the JVC shall contain an express provision recognising the right of the AAI to acquire the Transfer Assets and the Non-Transfer Assets (including reversion of underlying land) in the manner provided herein, and contain an undertaking by the counter-party (ies), licensee/ sub-lessees, or owners of the relevant asset, as the case may be to transfer the relevant Transfer Asset and/ or the Non-Transfer Asset (including the reversion of the underlying land), as the case may be, upon the exercise of such right by AAI. JVC* *shall further procure that any contracts entered into by any counter-party (ies), licensees/ sublessees, as the case may be and relatable to any Transfer Asset and/ or the Non-Transfer Asset shall also recognise the right of the AAI to acquire the Transfer Assets and the Non-Transfer Assets in the manner provided herein, and contain an undertaking by the counter-party (ies), sub-licensee, sub-sub-lessees, as the case may be to transfer the relevant Transfer Asset and/ or the Non-Transfer Asset, as the case may be, upon the exercise of such right by AAI.*

***19.3.2** In order to procure the foregoing, in addition to complying with the provisions of Article 8.5.7 hereof, JVC shall procure that in the event any third Entity has any proprietary interest in any Transfer Asset and/ or Non-Transfer Asset (the "Owner Entity"), the arrangements/ agreements entered into by the JVC or another third Entity with such Owner Entity explicitly recognise the right of AAI to acquire the said Transfer Asset and/or Non-Transfer Asset as the case may be, in accordance with the terms hereof, and contain an undertaking from such Owner Entity to transfer the relevant Transfer Asset and/or Non-Transfer Asset as the case may be, to AAI in accordance with the terms hereof.*

SSA

*""3.1 **Airport Economic Regulatory Authority***

3.1.1 GOI's intention is to establish an independent airport economic regulatory authority (the "Economic Regulatory Authority") which will be responsible for certain aspects of regulation (including regulation of Aeronautical Charges) of certain airports in India. GOI agrees to use reasonable efforts to have the Economic Regulatory Authority established and operating within two (2) years from the Effective Date. GOI further confirms that, subject to Applicable Law, it shall make reasonable endeavours to procure that the Economic Regulatory Authority shall regulate and set/ re-set Aeronautical Charges, in accordance with the broad principles set out in Schedule 1 appended hereto. Provided however, the Upfront Fee and the Annual Fee paid/ payable by the JVC to AAI under the OMDA shall not be included as a part of costs for provision of Aeronautical Services and no pass through would be available in relation to the same.

...

3.1.3 GOI confirms that till such time as the Economic Regulatory Authority commences regulating Aeronautical Charges, the same shall be approved by GOI in accordance with the broad principles set out in Schedule 1 appended hereto."

We also draw your attention to Clause 12 (c) of National Civil Aviation Policy (NCAP), which is also relevant and the same states as under:

12. Airports developed by State Governments, Private sector or in PPP mode

MoCA will continue to encourage development of airports by the State Governments or the private sector or in PPP mode. MoCA will also encourage the State Governments to develop new airports in their State by forming SPV with Airport Authority of India or with other interested Public Sector Undertakings/ Industry in order to create stake and ownership. Wherever so required, MoCA will endeavour to provide regulatory certainty with the following framework:

a) MoCA will coordinate with AERA, AAI, airlines, airport operators and stakeholders like cargo, MRO, ground handling, etc to identify ways to bring down airport charges, while abiding by the provisions of existing concession agreements and contracts.

b) MoCA will endeavour that the future airport projects in India, both greenfield and brownfield, have cost efficient functionality with no compromise on safety, security and efficiency.

c) To ensure uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a 'hybrid till' basis, unless otherwise specified for any project being bid out in future. 30% of non-aeronautical revenue will be used to cross-subsidise aeronautical charges. In case the tariff in one particular year or contractual period turns out to be excessive, the airport operator and regulator will explore ways to keep the tariff reasonable, and spread the excess amount over the future.

...

In terms of Clause 12 of the OMDA read with Clause 3.1 of the SSA, the Aeronautical Charges are to be determined in line with the principles enumerated in Schedule 1 of the SSA which state that the determination of Aeronautical Charges is to be as per shared till inflation -X price cap model. The determination of Aeronautical Charges is preceded by the calculation of Target Revenue and the same is calculated as under:

"Calculating the aeronautical charges in the shared till inflation – X price cap model

The revenue target is defined as:

$TR_i = RB_i \times WACC_i + OM_i + D_i + T_i - S_i$

Where *TR = Target Revenue*

RB = regulatory base pertaining to Aeronautical Assets and any investments made for the performance of Reserved Activities etc. which are owned by the JVC, after incorporating efficient capital expenditure but does not include capital work in progress to the extent not capitalised in fixed assets. It is further clarified that penalties and Liquidated Damages, if any, levied as per the provisions of the OMDA would not be allowed for capitalization in the regulatory base. It is further clarified that the Upfront Fee and any pre-operative expenses incurred by the Successful Bidder towards bid preparation will not be allowed to be capitalised in the regulatory base

WACC = nominal post-tax weighted average cost of capital, calculated using the marginal rate of corporate tax.

OM= efficient operation and maintenance cost pertaining to Aeronautical Services. It is clarified that penalties and Liquidated Damages, if any, levied as per the provisions of the OMDA would not be allowed as part of the operation and maintenance cost.

D = depreciation calculated in the manner as prescribed in Schedule XIV of the Indian Companies Act, 1956. In the event, the depreciation rates for certain assets are not available in the aforesaid Act, then the depreciation rates as provided in the Income Tax Act for such asset as converted to straight line method from the written down value method will be considered. In the event, such rates are not available in either of the Acts then depreciation rates as per generally accepted Indian accounting standards may be considered.

T = corporate taxes on earnings pertaining to Aeronautical Services.

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

*S = 30% of the gross revenue generated by the JVC from Revenue Share Assets. **The costs in relation to such revenue shall not be included while calculating Aeronautical Charges**. (emphasis added)*

"Revenue Share Assets" shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of aeronautical related services arising at the Airport and not considered in revenues from Non-Aeronautical Assets (eg: Public Admission Fee)

i = time period (year) i "

It is therefore clear that as per the calculation of Target Revenue in terms of Schedule 1 of the SSA, S-factor is 30% of the gross revenue generated by DIAL from Revenue Share Assets. The Revenue Share Assets mainly consist of Non-Aeronautical Assets. Hence, in order to accurately calculate the gross revenue from Revenue Share Assets, the definition of 'Non-Aeronautical Assets' as provided in the OMDA has to be considered and applied.

From the definition of Non-Aeronautical Assets, it clearly transpires that Existing Assets (also known as Demised premises or AAI Assets) lie outside the purview of Non-Aeronautical Assets. As per the said definition, the Non-Aeronautical Assets would include:

(i) All assets required for the performance of Non-Aeronautical Services listed in Part I of Schedule 6.

(ii) All assets required for the performance of Non-Aeronautical Services listed in Part II of Schedule 6, if they are (a) located within terminal building, (b) conjoined to other aeronautical assets and without direct access, or (c) are predominantly servicing/ catering any terminal complex/ cargo complex, and

(iii) all additional land (other than the Demised Premises), property and structures thereon acquired or leased during the Term, in relation to such Non-Aeronautical Assets.

It is important to note the words "irrespective of whether they are owned by the JVC or any third Entity" appearing in the definition of Non-Aeronautical Assets under OMDA. The term Entity has been defined in OMDA as "any person, body corporate, trust, partnership firm or other association of persons/ individuals whether registered or not". The Third Entity obviously means and refers to an entity which is not a party to OMDA. In fact the Lease Deed defines the term Third Party as "any Entity other than the Parties to this Lease Deed". As such, the meaning and import of Third Entity is very clear and means an Entity other than JVC and AAI who are parties to OMDA. In other words AAI is not a Third Entity referred to in the definition of Non-Aeronautical Assets. Also it is worth noting that wherever a reference to AAI has been made, the same is clearly referred to as AAI. Therefore the Non-Aeronautical Assets referred only to 'assets owned' by either JVC or any Third Entity, and not to any assets owned by AAI. The Existing Assets are neither owned by JVC nor owned by any Third Entity and they are owned by AAI only. The AAI assets/Demised Premises/Existing Assets have been clearly left out in the definition of Non-Aeronautical Assets. There is no doubt that Existing Assets are owned by AAI only.

Incidentally, it is also relevant to note the use of the word 'irrespective' and 'owned' appearing in the definition of Non-Aeronautical Assets under OMDA. These words have been used in relation to JVC or a third Entity and not in relation to AAI. The word 'owned' means any asset that goes into the balance sheet of the JVC or any third Entity. The Existing Assets are owned by AAI and they are in the

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

balance sheet of AAI. It therefore, clear that any asset which is not owned by the JVC or any third Entity is not part of Non-Aeronautical Assets as defined in the OMDA.

The above position is also clear and demonstrated from the following:

The method of reversion given under Article 5.2 of the Lease Deed specifies a different mechanism of reversion for Demised Premises (which includes Airport Site as well as Existing Assets) as these are owned by AAI and not by DIAL or by any third Entity and the Lease Deed correctly provides that such Demised Premises shall be surrendered at the end of the Term and not transferred.

The definition of Transfer Date under OMDA also, makes a differentiation between methods of transfer of assets which are owned by the DIAL and the ones which are owned by AAI but are leased to DIAL as a part of the Demised Premises. In the case of the former both possession as well as ownership is to be transferred by DIAL to AAI on the Transfer Date, where as in the case of the latter, only possession is to be transferred since the ownership of such assets lies with the AAI only.

Schedule 11 of the OMDA which pertains to obtaining insurance for "Aeronautical Assets, Non-Aeronautical Assets and Existing Assets" also provides that Existing Assets are not included in Non-Aeronautical Assets. Schedule 11 envisages three categories of assets, each separate and distinct from the other, i.e., Aeronautical Assets, Non-Aeronautical Assets and Existing Assets. It is therefore clear that Existing Assets are in their own category distinct from Non-Aeronautical Assets.

In view of the above, Existing Assets are not Non-Aeronautical Assets and therefore, the same are outside the purview of Revenue Share Assets under SSA.

It is also pertinent to point out that as per the scheme of the SSA, since Non-Aeronautical Assets are a part of Revenue Share Assets, revenue from the same is included in the calculation of S-factor. However, revenue from Non-Aeronautical Assets is a subset of "non-aeronautical revenue" and therefore, in terms of the SSA, it is revenue from Non-Aeronautical Assets only that is to be considered for calculation of S-factor and not the non-aeronautical revenue as a whole. In this regard, it is also pertinent to point out that the National Civil Aviation Policy, in Clause 12(c) lays down that for future airports, 30% of the non-aeronautical revenue shall be used for cross-subsidization which is distinct from the mandate of the SSA. Therefore as far IGI Airport, Delhi is concerned; the mandate contained in SSA i.e. 30% of gross revenue from Non-Aeronautical Assets shall be followed and not 30% of non-aeronautical revenue."

Revenue from Disallowed Area

2.6.5 As per the definition mentioned in OMDA, the definition of Revenue Share Assets is quoted below;

"Revenue Share Assets" shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of aeronautical related services arising at the Airport and not considered in revenues from Non-Aeronautical Assets (e.g. Public admission fee, etc.)"

""Non-Aeronautical Assets" shall mean:

1. All assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part I of Schedule 6 and any other services mutually agreed to be added to the Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity)

2. All assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part II od Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity), to the extent such assets (a) are located within or form part of any *terminal building; (b) are conjoined to any other Aeronautical Assets, assets included in paragraph (i) above and such assets are incapable of independent access and independent existence; or (c) are predominantly servicing/ catering any terminal complex/ cargo complex*

2.6.6 DIAL raised the issue of the Disallowed Area of 8,652 sq. m., which the technical auditor EIL indicated that it need not have been built as there was sufficient F&B area available already. DIAL mentioned that the Authority, based on the technical auditor's report, had disallowed the cost pertaining to Disallowed Area while approving the project cost. Thus, DIAL in their submission had excluded the revenue from this Disallowed Area while determining the revenue from Revenue Share Assets as it considered that the Authority had ascertained that the area was not required for performance of non-aeronautical services.

Deduction of Annual Fee pertaining to the Revenue Share Assets

2.6.7 DIAL requested for exclusion of Annual Fee pertaining to revenue from Revenue Share Assets while arriving at the S Factor i.e. the revenue considered for 30% cross subsidization would be post deduction of the Annual Fee pertaining to the revenue from Revenue Share Assets. The relevant extract from the tariff proposal is as follows;

"From the method of calculation of S-factor for the purpose of calculating the Target Revenue, it clearly transpires that the Annual Fee payable by DIAL to the AAI should be deducted from the gross revenue from Revenue Share Assets. The following contractual position clearly establishes the same:

Clause 3.1.1 of the SSA provides that 'the Upfront Fee and the Annual Fee paid/ payable by the JVC to AAI under the OMDA shall not be included as a part of costs for provision of Aeronautical Services and no pass through would be available in relation to the same'.

On the same basis it follows that Annual Fee, which is not a cost for provision of aeronautical services as per Clause 3.1.1, is also not a cost for provision of Non-Aeronautical Services and in turn it is not a cost in relation to revenue from Revenue from Revenue Share Assets.

The aforesaid position is also buttressed by the proposition that a cost in relation to a particular revenue is the cost incurred to earn the said revenue. Conversely, cost in relation to a particular revenue is such cost, without incurring which the said revenue cannot be earned. As such, any cost in relation to revenue would have to be incurred before any such revenue can be earned. However, Annual Fee is not a cost in relation to revenue from Revenue Share Assets since, the same accrues only after the said revenue has been earned and is not a pre-requisite for earning such revenue.

On the other hand, as per OMDA, the definition of "Revenue meaning all pre-tax gross revenue of JVC (subject to deductions mentioned in OMDA) specifically provides that "annual fee payable to AAI pursuant to Article 11 and Operational Support Cost payable to AAI shall not be deducted from Revenue. However, there is no such prescription for not deducting the Annual Fee paid/payable to AAI while calculating "S" factor.

Indisputably, payment of Annual Fee is not a cost in relation to the gross revenue generated by the JVC from the Revenue Share Assets.

It may not be out of place to bring out here the difference in wordings in SSA at two places; Clause 3.1.1 of SSA provides that;

....GOI further confirms that, subject to Applicable Law, it shall make reasonable endeavours to procure that the Economic Regulatory Authority shall regulate and set/ re-set Aeronautical Charges,

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

in accordance with the broad principles set out in Schedule 1 appended hereto. Provided however, the Upfront Fee and the Annual Fee paid / payable by the JVC to AAI under the OMDA shall not be included as part of costs for provision of Aeronautical Services and no pass-through would be available in relation to the same. However, Schedule 1 of the same SSA states that .. "S = 30% of the gross revenue generated by the JVC from Revenue Share Assets. The costs in relation to such revenue shall not be included while calculating Aeronautical Charges."

Clearly while drafting the SSA, when some stipulation was to be made with reference to Annual Fee, it was clearly mentioned as such (3.1.1.of SSA).

At any rate, AF is not a cost to earn such revenue because evidently, even if Revenue is Nil there can still be costs associated with and incurred to earn Revenue (that happens to be nil) but in such a case Annual Fee also is Nil. Further, the costs in relation to such revenue shall not be included while calculating Aeronautical Charges shall mean the costs in relation to such revenue shall not be deducted from the gross revenue generated from Revenue Share Assets.

From the foregoing it is clear that Annual Fee is not a cost in relation to Revenue Share Assets. As such, the Annual Fee can be deducted from gross revenue generated from Revenue Share Assets.

Hence, Annual Fee shall be reduced from gross revenue generated from Revenue Share Assets and 30% of the resultant gross revenue generated from Revenue Share Assets only shall be considered for calculation of Aeronautical Charges in terms of the SSA."

2.6.8 Based on the above submissions, DIAL hence considered revenue from Revenue Share Assets for cross subsidization taking into consideration the following;

- Inclusion of revenue from Fuel Farm Throughput Charges
- Exclusion of revenue from Existing Assets
- Exclusion of revenue from Area disallowed by the Authority at the time of approval of Project Cost
- Reduction of Annual Fee payable to AAI pertaining to revenue from Revenue Share Assets.

2.6.9 Based on the above considerations, the Revenue from Revenue Share Assets submitted by DIAL for First Control Period is shown in the table below;

Table 14: Revenue from Revenue Share Assets submitted by DIAL as per MYTP

Year Ending March 31 (Rs. Cr)	**2010**	**2011**	**2012**	**2013**	**2014**
Air Traffic Related Revenues *(including Fuel Throughput Charge)*	122.73	150.53	181.14	183.82	202.81
Passenger Related Revenues	224.15	193.57	319.88	379.59	470.35
Contract Linked Revenues	160.13	215.78	296.77	332.34	344.23
Cargo	177.74	139.41	128.46	129.38	140.73
Other Income	18.56	18.52	38.32	80.85	81.74
Total Non-Aero Revenue (A)	**703.31**	**717.81**	**964.57**	**1,105.98**	**1,239.86**
Exclusions					
Portions of Other Income Excluded by DIAL such as Investment Income, Dividend Income (B)	*10.10*	*12.54*	*37.43*	*79.98*	*54.52*
Revenue from Existing Assets ©	*524.49*	*293.55*	*232.37*	*221.43*	*223.45*
Revenue from Disallowed Area (D)	-	*4.00*	*11.91*	*12.81*	*13.16*
Non-Aero Revenue post exclusions as mentioned above (E=A-B-C-D)	168.72	407.71	682.85	791.76	948.73
Revenue share of 45.99% on the above(F=0.4599 X E)	*77.60*	*187.51*	*314.04*	*364.13*	*436.32*

Year Ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Non aero Revenues for Cross Subsidization (G=E-F)	91.13	220.21	368.81	427.63	512.41
S Factor to be considered for Cross Subsidization (S=0.30 X G)	**27.34**	**66.06**	**110.64**	**128.29**	**153.72**

Decisions taken by the Authority regarding True up of Revenue from Revenue Share Assets for First Control Period as per Tariff Order for Second Control Period

2.6.10 The Authority at the time of true up for the First Control Period as per tariff determination for the Second Control Period had mentioned that true up of non-aeronautical revenues was not explicitly provided in the First Control Period based on the premise that setting up of JVCs by DIAL shall increase the non-aeronautical revenues accruing to DIAL, which would have allowed them to retain the upside. Authority had hence at the time of issuance of Consultation Paper for the Second Control Period proposed not to true up the non-aeronautical revenue realised by DIAL for the First Control Period apart from adjustments towards Other Income and Fuel Into Plane Services. However based on submissions by various stakeholders and considering the fact that non-aeronautical revenue realized by DIAL in the First Control Period is less than those projected at the time of determining tariffs for the First Control Period, the Authority had decided to true up non-aeronautical revenues.

2.6.11 The Authority under the revenue items submitted as part of Other Income had decided to consider the revenues arising out of sale of Other materials/Scrap- Others, Profit on sale of depreciable assets, management fees, miscellaneous income, Others and Tender Cost recovery as part of revenue for cross subsidization. The interest income received by DIAL (on bank deposits, other deposits and on account of delayed payments) and profit on sale of investments have not been considered as part of revenue for cross subsidization on account of these being considered as part of cash flow management of DIAL. Dividend income realized by DIAL from investments in JVs had also not been considered for cross subsidization.

2.6.12 The Authority had considered revenue from Fuel Into Plane services as aeronautical in addition to Fuel Throughput Charges. The reasoning was based on reference to Schedule 5 of the OMDA according to which "Common Hydrant Infrastructure for aircraft fuelling services by authorized providers" clearly refers to the Fuel Into Plane (ITP) services. The Authority's view was that any fee consequent to the supply of fuel to the aircraft (which is an aeronautical service) called by any name whatsoever (Fuel Throughput/License Fee etc.) would be aeronautical revenue as per the provisions of both AERA Act 2008 and OMDA.

2.6.13 The Authority had also decided that revenue from cargo and ground handling services shall be treated as non-aeronautical revenue in line with the directive from MoCA vide its letter No.AV.24032/4/2012-AD, dated 09.03.2012.

2.6.14 The Revenue from Revenue Share Assets considered by the Authority for true up of First Control Period as per Tariff Order for Second Control Period are in the table below;

Table 15: Revenue from Revenue Share Assets considered by Authority towards true up of First Control Period as per Tariff Order for Second Control Period

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Non-Aeronautical Revenues	424.65	454.65	669.64	774.71	882.58
Cargo Revenues	34.27	122.31	109.21	110.51	118.82
Cargo Handling Revenues	135.59	-	-	-	-
Other Income	8.46	5.48	0.89	0.87	27.22

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Revenue from Revenue Share Assets to be considered for cross subsidization	608.23	598.70	799.00	904.97	1050.53
30% of the Revenue from Revenue Share Assets	182.47	179.61	239.70	271.49	315.16

Authority's Examination regarding True up of Revenue from Revenue Share Assets for the First Control Period

Revenue from Fuel Farm Throughput Charges

2.6.15 The Authority had looked at DIAL's submission regarding revenue from Fuel Throughput Charge and had noted the following contentions of DIAL based on which they had requested for classification of the same as revenue from Revenue Share Assets instead of aeronautical revenues;

1. Fuel Throughput Charge which was charged by DIAL to the oil companies was akin to royalty for permitting oil companies to supply fuel at the IGI Airport and was not directly relatable to supply of fuel to the aircrafts at the IGI Airport.
2. Fuel Throughput Charge was the consideration for the concession awarded to oil companies to supply their product to air carriers which had to be contrasted with the Fuel Infrastructure Charge levied by DAFFPL which owns the fuel infrastructure. Fuel Throughput Charge was hence not covered under Schedule 5 of the OMDA which lists out the Aeronautical Services.
3. AAI had been charging such Fuel Throughput Charges in the past after negotiating such charges with the oil companies and as per the pre-bid reply to queries raised by bidders at the time of bidding, it had been mentioned that JVC will have freedom to negotiate with the fuel companies.
4. Fuel Throughput Charge was not an aeronautical charge even under AERA Act and would not be covered under even Non-Aeronautical services but would be covered under the definition of Revenue from Revenue Share Assets defined as
   i. *""Revenue Share Assets" shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of aeronautical related services arising at the Airport and not considered in revenues arising from Non-Aeronautical Assets (eg. Public Admission Fee)"*

The Authority, at the time of tariff determination for the Second Control Period, had looked into this matter and considered Fuel Throughput Charges as aeronautical charges based on the sound reasoning that any fee collected by the airport operator consequent to the supply of fuel to the aircraft (which was an aeronautical service) called by any name whatsoever (Fuel Throughput/License Fee etc.) would be an aeronautical revenue as per the provisions of both AERA Act 2008 and OMDA.

The activities and the revenues associated with Fuel Throughput charges and Fuel Farm Infrastructure Charges /Fuel Into Plane services were by nature associated with aeronautical services which had been further affirmed under Schedule 5 of the OMDA which mentioned

"Common Hydrant infrastructure for aircraft fueling services by authorized providers"

under Aeronautical Services.

Clearly any revenue earned by the airport operator from the above-mentioned activity, even though the same was carried out by authorized providers, should form part of revenues from aeronautical services.

Further the Authority formed the view that the fact that AAI had been charging such revenues in the past post negotiation with fuel farm companies and the fact that airport operators had also been given the freedom to charge the same post negotiation at the time of bidding for the airport, doesn't imply that such Fuel Throughput Charges had to be re-classified as revenue from Revenue Share Assets. Authority brought to notice the fact that it had determined the Fuel Throughput Charge as Rs. 500/KL as part of the order allowing DIAL to charge Base Airport Charges plus 10% from December 1, 2018 under aeronautical charges and the same was implemented by DIAL.

Considering the fact that Fuel Farm Throughput Charges can be conclusively considered under aeronautical revenues, the need for classifying such revenue stream under the definition of Revenue from Revenue Share Assets which was the contention of DIAL as per Point 4 above, does not arise and was not warranted.

Hence, the Authority consistent with its decision taken in the Tariff Order for the Second Control Period proposed that revenue from Fuel Farm Throughput Charges would be considered as aeronautical revenue across all Control Periods as part of its tariff determination exercise for the current Control Period.

Revenue from Disallowed Area

2.6.16 The Authority had looked at DIAL's submission with regards to Revenue from Disallowed Area. The Authority formed the view that as long as the Concessionaire realised non-aeronautical revenue from the Disallowed Area, such revenues would form part of the revenue from the Revenue Share Assets. The view was based on the fact that even though the Disallowed Area was excluded as investment for the purpose of determination of aeronautical tariff, DIAL was able to realise revenues from such Disallowed Area. In fact the Non-Aeronautical Asset definition specifically includes the assets which were located within or formed part of any terminal building and was incapable of independent access and independent existence as highlighted in the previous sections. Based on this definition, the revenue generated from the Disallowed Area formed part of the revenue from Revenue Share Assets.

Authority had noted that this point had already been discussed and decision had been taken by the Authority not to exclude such revenue from Disallowed Area from the Revenue from Revenue Share Assets at the time of tariff determination for the Second Control Period. Authority did not see any merit in reversing its decision with regards to the treatment of revenue from Disallowed Area and hence proposed not to exclude revenue from Disallowed Area as part of revenue from Revenue Share Assets.

Revenue from Existing Assets

2.6.17 The Authority had looked at the submission of DIAL with regards to the revenue from Existing Assets requesting for excluding the same from Revenue from Revenue Share Assets. The Authority had requested for details of these revenues and the details as submitted by DIAL are in the table below;

Table 16: Details of Revenues from Existing Assets for First Control Period submitted by DIAL as per MYTP

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Revenues from Existing Assets					
Land License Fee	125.34	107.13	114.55	108.06	116.25
Hangar				13.34	17.67
Inflight Kitchen Fee	3.22	9.65	16.54	24.53	16.41
Retail- Duty Free	120.05	8.85			
Ground Handling Related Revenue		9.54			

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

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Car Parking	21.66	6.42			
Radio Taxi	2.82	3.34	4.59	4.66	5.91
Advertisement	31.24	11.42			
Bank ATM		1.00	0.36	0.41	0.77
Food and Beverages	19.42	7.57	2.31	2.11	2.66
Forex			0.03		
Other Travel Services		0.04	0.65	0.95	1.14
Retail Duty Paid	2.89	1.59	0.12	0.70	4.50
Telecom	14.16	5.53	0.38	0.18	1.70
Misc Others	9.49	3.01			
Total (A)	**350.29**	**175.09**	**139.53**	**154.94**	**167.01**
Cargo Revenue (Self Handled) (B)	**141.04**	**16.70**			
Cargo Revenue (as demised premises) (C)	**33.16**	**101.76**	**92.85**	**66.49**	**56.44**
Reduction on T2 Assets deployed by DIAL (D)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Total revenue from demised premises (A+B+C+D)	**524.49**	**293.55**	**232.38**	**221.43**	**223.45**

The total revenues accrued from such Existing Assets over the First Control Period based on the DIAL submission was Rs. 1,495.29 Cr. Authority had also noticed that such revenue from Existing Assets as claimed by DIAL constitutes roughly 30% of its total non-aero revenues for the First Control Period.

The Authority had looked at the terms of the OMDA and the definition of Existing Assets was presented below;

""Existing Assets" means the physical, tangible, intangible and other assets of whatsoever nature existing at the Airport Site as on the date hereof except working capital assets other than inventory, stores and spares."

The Authority formed the view that Existing Assets don't share a mutually exclusive relation with aeronautical or non-aeronautical assets and the term Existing Assets had been defined as such to demarcate and identify those assets already existing prior to the execution of OMDA.

The definition of non-aeronautical assets doesn't exclude Existing Assets. In fact the definition of Non-Aeronautical Assets specifically states

"all assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part II of Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity), to the extent such assets

(a) are located within or form part of any terminal building;

(b) are conjoined to any other Aeronautical Assets, assets included in paragraph (i) above and such assets are incapable of independent access and independent existence; or

(c) are predominantly servicing/ catering any terminal complex/ cargo complex".

As these Existing Assets form part of the terminal building, are conjoined to other aeronautical assets, are incapable of independent access and independent existence, and are predominantly servicing/catering terminal complex/cargo complex, exclusion of the revenue from Existing Assets was not justified. Authority formed the view that as long as the non-aeronautical revenues accrue to the Concessionaire from Existing Assets, the same had to be considered for cross subsidization.

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

Authority's view was that if such revenues from Existing Assets were supposed to be excluded from Revenue from Revenue Share Assets, the definition of such Revenue Share Assets would specifically mention the same in no uncertain terms. The part of the definition of Revenue Share Assets which the operator had highlighted "irrespective of whether they are owned by the JVC or any third entity" cannot be interpreted as "Existing Assets owned by AAI" have to be excluded from such Revenue Share Assets.

Authority had taken a strong view that ownership of the Assets by the JVC or any other entity would not be the criteria for exclusion of revenues as long as the revenues accrue to the JVC.

Authority based on the review of the above-mentioned clauses and examinations of the same formed the view that DIAL's submission to exclude Revenue from Existing Assets did not have any logical reasoning. The submission itself seemed to be an afterthought as no such issues were raised at the time of tariff determination for the last two Control Periods and this submission referred to the interpretation of the unwritten words in the SSA rather than present definitions and clauses concerning tariff determination which were very clear.

The Authority hence proposed to consider Revenue from Revenue Share Assets as was done for determination of tariff for the First Control Period without any deduction to exclude the Revenue from 'Existing Assets'.

Treatment of Annual Fee pertaining to Revenue Share Assets

2.6.18 The Authority looked at DIAL's submission regarding exclusion of Annual Fee pertaining to revenue from Revenue Share Assets, while arriving at the S Factor i.e. the revenue considered for 30% cross subsidization and had noted the following points under DIAL's submission;

1. DIAL based this submission on the Clause 3.1.1 of the SSA which provides that the "Upfront Fee and the Annual Fee paid/payable by JVC to AAI under the OMDA will not be included as a part of costs for provision of Aeronautical Services and no pass through would be available in relation to the same." and inferred that Annual Fee which is not a cost for provision of aeronautical service as per Clause 3.1.1 of the SSA was also not a cost for provision of Non-Aeronautical services and hence not a cost in relation to revenue from Revenue Share Assets. DIAL also mentioned that definition of Cost in relation to a particular revenue is the cost incurred to earn such revenue and based on the definition, Annual Fee was not a cost in relation to Revenue from Revenue Share Assets as the same accrues only after the said revenue had been earned and was not a prerequisite for earning such revenues.
2. DIAL indicated that while the definition of Revenue under the OMDA specifically provided that Annual Fee payable to AAI pursuant to Article 11 and operational Support Cost payable to AAI would not be deducted from Revenue, there was no such prescription for not deducting the Annual Fee paid/payable to AAI while calculating the S Factor.
3. DIAL also mentioned that under the definition of S Factor which was defined as 30% of the Gross Revenue generated by the JVC from the Revenue Share Assets, it was mentioned that costs in relation to such revenue shall not be included while calculating Aeronautical Charges meaning the costs associated with revenue from Revenue Share Assets would not be included. DIAL concluded that since Annual Fee was not a cost it had to be excluded i.e. deducted from the Revenue from Revenue Share Assets while arriving at the S Factor.

The Authority noted that this submission along with the justifications were being raised by DIAL for the first time and had not been raised in the earlier tariff proposals for the first two Control Periods or before the relevant Courts and seemed only an afterthought. The Authority had examined the provisions referred to by DIAL in the OMDA and SSA. Definition of Revenue as per OMDA follows with emphasis on relevant portion;

*"**Revenue**" means all pre-tax gross revenue of JVC, excluding the following: (a) payments made by JVC, if any, for the activities undertaken by Relevant Authorities or payments received by JVC for provision of electricity, water, sewerage, or analogous utilities to the extent of amounts paid for such utilities to third party service providers; (b) insurance proceeds except insurance indemnification for loss of revenue; (c) any amount that accrues to JVC from sale of any capital assets or items; (d) payments and/or monies collected by JVC for and on behalf of any governmental authorities under Applicable Law (e) any bad debts written off provided these pertain to past revenues on which annual fee has been paid to AAI. **It is clarified that annual fee payable to AAI pursuant to Article 11 and Operational Support Cost payable to AAI shall not be deducted from Revenue.***

The Authority had also looked into the Clause 3.1.1 of the SSA, reproduced below with emphasis applied to the relevant portion.

*"GOI further confirms that, subject to Applicable Law, it shall make reasonable endeavours to procure that the Economic Regulatory Authority shall regulate and set/ re-set Aeronautical Charges, in accordance with the broad principles set out in Schedule 1 appended hereto. **Provided however, the Upfront Fee and the Annual Fee paid/payable by the JVC to AAI under the OMDA shall not be included as part of costs for provision of Aeronautical Services and no pass-through would be available in relation to the same.**"*

The Annual Fee under Article 11 in the OMDA referred to the 45.99% of the Projected Revenue for the year in 12 equal monthly installments which would be adjusted in the event Projected Revenue was higher or lower than the actual Revenue such that the Annual Fee paid in a year doesn't exceed 45.99% of the actual Revenue earned by the JVC.

Clause 3.1.1 of the SSA made it very clear that no pass-through would be available in relation to the Annual Fee. The same had been built in the past Tariff Orders and orders had been issued ensuring that the operator doesn't recover the Annual Fee through any tariff determination principle. The Annual Fee definition as per Article 11 of the OMDA very clearly brought out that it was 45.99% of the total revenue of the company, i.e. both aeronautical as well as non-aeronautical revenue and clause 3.1.1 stated specifically that no pass through was permitted.

The same was logical as the Annual Fee was the percentage quoted to win the airport project and hence shouldn't form part of pass-through costs and had to be incurred by the airport operator on their own from the concession awarded to them to earn revenues.

The Authority had also looked at the Schedule 1 of the SSA which defined S Factor as below;

*"S = 30% of the gross revenue generated by the JVC from Revenue Share Assets. **The costs in relation to such revenue shall not be included while calculating Aeronautical Charges**"*

The context in which costs were mentioned here in the SSA refers to the costs associated with generating gross Revenue from Revenue Share Assets and same would not be allowed as pass-through while calculating aeronautical revenues. The inference by DIAL that Annual Fee pertaining to revenue from Revenue Share Assets should not be considered as a cost and should be deducted from the revenue from Revenue Share Assets doesn't have any relevance to the context the definition was meant for.

Further if SSA/OMDA's intent was to deduct the Annual Fee while arriving at revenue from Revenue Share Assets in the calculation of S Factor the same would be spelt out clearly. The fact that OMDA/SSA doesn't say that some revenue/cost stream should not be deducted while arriving at S Factor doesn't mean that Authority should carry out the deduction.

SSA defines S factor as 30% of the revenue generated from Revenue Share Assets and the definition of Revenue as per OMDA mentioned no deduction of Annual Fee. The only clear interpretation, if at all obtained from reading the provisions in the SSA and the OMDA, was that since Revenue should not carry any deduction with regards to Annual Fee, 30% of the Revenue from Revenue Share Assets, defined as the S Factor should also not carry any deduction with respect to Annual Fee.

Clearly the proposal of DIAL to exclude revenue share of 45.99% pertaining to the Revenue from Revenue Share Assets was tantamount to allowing the pass-through of the Annual Fee paid with regards to Revenue Share Assets which was against the tariff setting principles as given in SSA.

Therefore, Authority proposes not to exclude the Annual Fee on the Revenue from Revenue Share Assets while arriving at the S Factor.

2.6.19 Based on its proposals as mentioned above, the Authority proposed nil adjustments to the Revenue from Revenue Share Assets considered towards true up of the First Control Period as per the Tariff Order for the Second Control Period.

Table 17: Adjustments towards Revenue from Revenue Share Assets proposed to be considered by the Authority for the True up of First Control Period

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
30% of Revenue from Revenue Share Assets considered for cross subsidization as per the tariff order for the Second Control Period towards First Control Period True up	182.47	179.61	239.70	271.49	315.16
Revenue from Revenue Share Assets considered by Authority in the Second Control Period Tariff order towards True up of First Control Period	608.23	598.70	799.00	904.97	1050.53
Adjustment proposed by the Authority towards Revenue from Revenue Share Assets	-	-	-	-	-
Revised Revenue from Revenue Share Assets	608.23	598.70	799.00	904.97	1050.53
30% of Revenue from Revenue Share Assets considered for cross subsidization	**182.47**	**179.61**	**239.70**	**271.49**	**315.16**

Stakeholder comments regarding True up of Revenue from Revenue Share Assets for the First Control Period

2.6.20 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to true up of Revenue from Revenue Share Assets for the First Control Period. The comments by stakeholders are presented below;

DIAL's comments regarding true up of Revenue from Revenue Share Assets for the First Control Period:

2.6.21 DIAL has requested that the Fuel Throughput Charges should be considered as part of revenue from Revenue Share Assets consistent with their submission made as per MYTP. The reasoning provided by DIAL is verbatim reproduced as below;

"The submission made by DIAL has been disallowed by AERA primarily on the ground that activities and the revenues associated with Fuel Throughput charges and Fuel Farm Infrastructure Charges and Fuel Into Plane services are by nature the aeronautical services listed under Item 17 of Schedule 5 of the OMDA, i.e., under 'Common hydrant infrastructure for aircraft fuelling services by authorized providers' and therefore such charges have to be determined by AERA.. It is submitted that while determining the nature of Fuel Throughput Charges, AERA has failed to consider the true nature and purpose of levy of the said charges and has therefore, wrongly considered the FTC to be of the same nature as Fuel Infrastructure Fee.

It is submitted that the common hydrant infrastructure at the IGI Airport is owned, maintained and operated by Delhi Aviation Fuel Facility Pvt. Ltd. (DAFFPL) and therefore the fee which is levied for the facilities and services provided by usage of such infrastructure as defined under Item 17 of Schedule 5 of the OMDA is charged by DAFFPL to the oil companies. On the other hand, the Fuel Throughput Charge, which is charged by DIAL, is akin to royalty paid by the oil companies for getting the right to enter and supply oil at the IGI Airport and the same is independent of the services provided by DAFFPL by use of the common hydrant infrastructure. As such, Fuel Throughput Charges are in no way relatable to Item 17 of Schedule 5 of the OMDA as has been sought to be done by AERA in its proposal. It is submitted that it has been wrongly assumed by AERA that Fuel Throughput Charges, Fuel Infrastructure Fee and Into Plane Charges are all of same class and similar and therefore, attributable to Schedule 5 of the OMDA. On the contrary, Fuel Throughput Charges and Fuel Infrastructure Charges are not only different by nature but are also charged by different agencies for the specific reason that the purpose of levying these charges is completely distinct and separate. While Fuel Infrastructure Fee is clearly listed in Item 17 Schedule 5 of the OMDA, Fuel Throughput Charges are not at all listed in Schedule 5 of OMDA

Further, the revenue on account of FTC is not being generated on the usage of Common Hydrant Infrastructure for the provision of aircraft fueling services at IGI Airport. DIAL has explained this aspect to AERA since beginning but AERA has not given due consideration thereto. No cogent reason has been given by AERA in any of its orders to not accept this position, other than maintaining its stand.

For the same reason, the reliance on Section 2 (a) (vi) of the AERA Act, which defines the "service of supplying of fuel to the aircraft at an airport" as an aeronautical service, to treat the FTC as aeronautical revenue is incorrect. Explained in the submission of the MYTP, levy of FTC is not a charge in relation to the supply of fuel to the aircraft. Service for supply of fuel is distinct from the license granted to the service provider to sell the fuel.

Thus the nature of FTC, as described above, is not the service by DIAL "for supply of fuel to the aircraft" in terms of clause 2(a) of the AERA Act, 2008 nor is it the service of "common hydrant *infrastructure for aircraft fueling" as referred to at Item No. 17 of Schedule 5 to OMDA. The FTC levied is distinct from the charges for services for supply of fuel.*

Thus the nature of FTC, as described above, is not the service by DIAL "for supply of fuel to the aircraft" in terms of clause 2(a) of the AERA Act, 2008 nor is it the service of "common hydrant infrastructure for aircraft fueling" as referred to at Item No. 17 of Schedule 5 to OMDA. The FTC levied is distinct from the charges for services for supply of fuel.

It is actual services performed by DIAL or the third parties at the airport, of which the nature and kind is relevant for categorization of nature of services under OMDA. Hence, to call FTC as a fee collected consequent to the supply of fuel is not the correct determination of nature of FTC.
It is also relevant to mention that since Fuel Throughput Charges are not the facility or service as listed at Item 17 of Schedule 5 of the OMDA, the same cannot be attributed to Aeronautical Services as defined in the OMDA. In this regard the definition of 'Aeronautical Services' as given in the OMDA is relevant and the same is as under:

*""**Aeronautical Services**" shall have the meaning assigned hereto in Schedule 5 hereof."*
Further, Schedule 5 of the OMDA, which is mentioned in the definition of Aeronautical Services, is as under:

"SCHEDULE 5
Aeronautical Services
***"Aeronautical Services"** means the provision of the following facilities and services:*

1. *provision of flight operation assistance and crew support systems;*
2. *ensuring the safe and secure operation of the Airport, excluding national security interest;*
3. *the movement and parking of aircraft and control facilities;*
4. *general maintenance and upkeep of the Airport;*
5. *the maintenance facilities and the control of them and hangarage of aircraft;*
6. *flight information display screens;*
7. *rescue and fire fighting services;*
8. *management and administration of personnel employed at the Airport;*
9. *the movement of staff and passengers and their inter-change between all modes of transport at the Airport;*
10. *operation and maintenance of passenger boarding and disembarking systems, including vehicles to perform remote boarding; and*
11. *any other services deemed to be necessary for the safe and efficient operation of the Airport.*

A more detailed list of the above facilities and services would include the following:

12. *Aerodrome control services*
13. *Airfield*
14. *Airfield lighting*
15. *Air Taxi Services*
16. *Airside and landside access roads and forecourts including writing, traffic signals, signage and monitoring*

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

17. *Common hydrant infrastructure for aircraft fuelling services by authorized providers*
18. *Apron and aircraft parking area*
19. *Apron control and allocation of aircraft stands*
20. *Arrivals concourses and meeting areas*
21. *Baggage systems including outbound and reclaim*
22. *Bird scaring*
23. *Check-in concourses*
24. *Cleaning, heating, lighting and air conditioning public areas*
25. *Customs and immigration halls*
26. *Emergency services*
27. *Facilities for the disabled and other special needs people*
28. *Fire service*
29. *Flight information and public-address systems*
30. *Foul and surface water drainage*
31. *Guidance systems and marshalling*
32. *Information desks*
33. *Inter-terminal transit systems*
34. *Lifts, escalators and passenger conveyors*
35. *Loading bridges*
36. *Lost property*
37. *Passenger and hand baggage search*
38. *Piers and gate rooms*
39. *Policing and general security*
40. *Prayer Rooms*
41. *Infrastructure/ Facilities for Post Offices*
42. *Infrastructure/ Facilities for Public telephones*
43. *Infrastructure/ Facilities for Banks*
44. *Infrastructure/ Facilities for Bureaux de Change*
45. *Runways*
46. *Signage*
47. *Staff search*
48. *Taxiways*
49. *Toilets and nursing mothers rooms*
50. *Waste and refuse treatment and disposal*
51. *X-Ray service for carry on and checked-in luggage*
52. *VIP / special lounges"*

From the language of the definition of Aeronautical Services as well as that of Schedule 5 it is clear that Aeronautical Services are limited to the services which are listed out in Schedule 5 of the OMDA and therefore, the ambit of what entails an Aeronautical Service as per the OMDA cannot be expanded by assumption or implication beyond the limits thereof. The Hon'ble Supreme Court while passing its judgment in matter titled , 'Union of India v. Assn. of Unified Telecom Service Providers of India' (2011) 10 SCC 543, wherein the import of the definitions of 'license' and 'licensor' as provided under the TRAI Act was under challenge and it was held as follows:

> *"46. A reading of Section 14(a)(i) of the TRAI Act would show that the Tribunal has the power to adjudicate any dispute between a licensor and licensee. A licensor, as we have seen, has been defined under Section 2(es) of the TRAI Act to mean the Central Government or the Telegraph Authority who grants a license under Section 4 of the Telegraph Act and a licensee*

has been defined in Section 2(e) of the TRAI Act to mean any person licensed under sub-section (1) of Section 4 of the Telegraph Act providing specified telecommunication services. ***The word "means" in Section 2(e) and 2(ea) of the TRAI Act indicates that the definitions of license and licensor are exhaustive and therefore would not have any other meaning. As Justice G.P. Singh puts it in his book Principles of Statutory Interpretation, 12th Edn. At pp. 179-80:***

" When a word is defined to 'mean' such and such, the definition is prima facie restrictive and exhaustive;"

(emphasis supplied)

Further, as per Clause 2.2.3 of the OMDA, the list of Non-Aeronautical Services, as given in Schedule 6 of the OMDA, can be updated by a mutual decision of DIAL and AAI, however, no similar right has been granted by the OMDA with respect to Schedule 5 which enlists the Aeronautical Services. As such, the power to expand the list of Aeronautical Services given in Schedule 5 is conspicuous by its absence and the same leads to the inevitable conclusion that the list of Aeronautical Services is limited to the items mentioned in Schedule 5 and therefore, the power of regulation of charges by AERA has to be exercised solely with respect to the items mentioned in the said list.

DIAL has been allowed to continue AAI's existing contracts as on the date of OMDA, which included the levy of Fuel Throughput Charges in terms of its obligation under Article 5 of the OMDA which states as under:

"5.1 ***Upon satisfaction or waiver, as the case may be, of the Conditions Precedent, on and from the Effective Date, the rights and obligations associated with the operation and management of the Airport would stand transferred to the JVC, who shall be solely responsible and liable for the performance of all Aeronautical Services, Essential Services and all other activities and services as presently undertaken at the Airport (other than Reserved Activities).*** *JVC shall perform under all existing contracts and agreements between AAI or any Relevant Authority and any third party as relatable to the Airport from the Effective Date, as if JVC was an original party to such contracts and agreements instead of AAI and towards this end shall perform all responsibilities, liabilities and obligations of AAI at JVC's risk and cost (including payment obligations to counter parties). Provided however that in order to ensure smooth transfer of the Airport from the AAI to the JVC, AAI shall during the Transition Phase provide assistance to the JVC (on a best endeavour basis) in the manner provided hereinbelow.*

5.2 ***Transition Phase***

.....

(b) During the Transition Phase, the following activities shall take place:

(i) ***Existing Contracts****: The JVC shall take best efforts, and AAI shall render all reasonable assistance, to transfer / novate AAI under all existing contracts and agreements between AAI and any third party, as relatable to the Airport, with the JVC, on the principle that such transfer / novation would release AAI of all liabilities and obligations under such contracts or agreements as arising from and after the Effective Date (except those pertaining to Legacy*

> *Matters). The Parties, along with relevant third parties shall execute necessary documentation or put in place necessary arrangements for the aforesaid transfer / novation. The Parties expressly agree that in respect of existing arrangements of Indian Airlines Ltd. and Air India Ltd. for usage of land and/or building at the Airport and Public Sector oil companies in respect of common hydrant infrastructure for aircraft fuelling at the Airport, for which no express written contract has been executed or presently exists, such existing arrangements shall continue for a period of six (6) months from the Effective Date and the JVC shall during such period mutually agree with Indian Airlines Ltd., Air India Ltd. and Public Sector Oil companies in respect of such arrangements going forward. Provided however that any third party contract that cannot be specifically novated to the JVC for any reason* ***whatsoever*** *shall be performed by the JVC (at its own risk and cost) for and on behalf of AAI (as if the JVC was an original party to the said contracts, in place of AAI). Provided further that JVC shall indemnify and keep indemnified the AAI against any liability or costs arising under such contracts (including, for the avoidance of doubt, contracts relating to capital works-in-progress included in the list of Mandatory Capital Projects), including specifically, payments due to the counter-parties of such contracts or to any other Entities pursuant to such contracts. Any benefits arising from such contracts shall also vest with JVC. Nothing contained in this Article 5.2 (b) (i) shall prejudice the payment obligation of the JVC in respect of payments due from August 30, 2005 under contracts for capital works-in-progress as contained in Article 5.2 (b) (ii) hereof.*
>
> *(emphasis supplied)*

Therefore, in terms of Article 5.1 of the OMDA, on the Effective Date, DIAL became obligated to carry out not only Aeronautical Services as listed in the OMDA but to also provide all such activities and services which were being carried out at the IGI Airport by AAI before the Effective Date. Further, in terms of Clause 5.2, DIAL was also under an obligation to novate all existing contracts which had been entered into by AAI with third parties and to get the same transferred to the name of DIAL. It is as a part of the said obligation on DIAL, that it has continued to levy Fuel Throughput Charges and as such, the same has been done not as an obligation to continue with the activities and services which were earlier being carried out by AAI.

The aforementioned position becomes further clear from the response issued by AAI to the pre-bid queries of the bidders whereby AAI clarified that an agreement for payment of the Fuel Throughput Charges had been reached between AAI and the oil companies and that the airport operator would be free to negotiate the Fuel Throughput Charges with the oil companies. The said response given by AAI is completely in consonance with the contractual scheme as given in Article 5 of the OMDA and the same is represented by AAI to not to be the Aeronautical Charge under Article 12.1 of OMDA. It also represents the understanding between the parties with respect to levy of Fuel Throughput Charges as being not the Aeronautical Charge. Further if the Fuel Throughput Charges were to be regulated and/or covered by Schedule 5 of OMDA then AAI would have never given clarification stating JVC is free to charge based on negotiation with Oil Companies. The stand of AAI also shows that the intent of the parties was to ensure that the airport operator would have the freedom to negotiate the quantum of Fuel Throughput Charges with the oil companies and that the same would not be within the ambit of regulation as proposed to be done by AERA.

In its proposal AERA has also stated that Fuel Throughput Charges are an Aeronautical Service as per the terms of the OMDA as well as on the basis of the provisions of the AERA Act, 2008. While it has been amply demonstrated hereinabove that Fuel Throughput Charges do not form a part of Schedule 5 of the OMDA and can therefore, not be considered an Aeronautical Service in terms of the OMDA, as far as the provisions of the AERA Act are concerned, the said provisions are not applicable to determination of the nature of Fuel Throughput Charges. It is submitted that the TDSAT while determining the principles of tariff fixation has clearly enunciated that while determining the Aeronautical Charges for IGI Airport, New Delhi, AERA has to give precedence to the provisions of OMDA and SSA and that the statute would only be applicable in case there is an explicit contradiction between the contracts and the AERA Act. However, in the case of DIAL, a bare reading of the OMDA and SSA makes it clear that Aeronautical Services have been exhaustively defined in Schedule 5 of the OMDA and there is no conflict or contradiction in this regard between the OMDA and the provisions of the AERA Act. It is also submitted that since it has been agreed in the OMDA that the ambit of Aeronautical Services is limited to the facilities and services as listed in Schedule 5 thereof, the same can not be done through the provisions of the AERA Act. As such, the reliance of AERA on the provisions of the AERA Act are wholly misplaced and the same cannot be adverted to for the purposes of determining the nature of Fuel Throughput Charges. Without prejudice to the foregoing, it is also submitted that even as per the provisions of the AERA Act, Fuel Throughput Charges are not covered under any of the Aeronautical Services enlisted therein and can should therefore not be considered as an Aeronautical Charge by AERA as sought to be done in its proposal.

In addition to the foregoing, in its proposal AERA has also stated that the fact that AAI was also levying Fuel Throughput Charges and that the airport operators were given the freedom to negotiate and charge the same does not mean that Fuel Throughput Charges has to be reclassified to revenue from Revenue Share Assets. However, the foregoing is a misinterpretation of the submission made by DIAL whereby DIAL had stated that since AAI has explicitly stated that Fuel Throughput Charges were being charged by it and that the airport operator has the right to negotiate the Fuel Throughput Charges with the oil companies, it evidently means that Fuel Throughput Charges are outside the ambit of Aeronautical Charges.

It is also relevant to take into consideration the fact that while AERA has accepted the fact that DIAL was given the right to negotiate and charge Fuel Throughput Charges from the oil companies, it has failed to take into consideration the fact that if Fuel Throughput Charges are to be regulated by AERA, then the same would amount to rewriting by AERA of the contract between AAI and DIAL and thus becomes the case of abrogation of the said right which has admittedly been granted to DIAL. Therefore, the treatment of Fuel Throughput Charges as sought to be proposed by AERA as an Aeronautical Service is in complete derogation of DIAL's rights under OMDA . Therefore it is requested that the proposal of DIAL be modified and Fuel Throughput Charges be considered as revenue from Revenue Share Assets for 30% cross-subsidization of the Aeronautical Charges.

Further, in the Consultation Paper, AERA while disregarding DIAL's submission has also stated that it would continue to rely on the decision taken by it in the Second Control Period. However, AERA has failed to appreciate the fact that the submissions made by DIAL in respect of the nature and treatment of Fuel Throughput Charges have not been made before.

In this regard it is also submitted that such submission is without prejudice to DIAL's contentions on the matter pending sub-judice before Hon'ble Supreme Court of India. The additional submission is in fact an alternate submission made to AERA, under AERA's persistent but incorrect stand to treat FTC as aeronautical revenue despite repeated assertions and logical reasoning given by DIAL, in its MYTP for third control period and has suggested to AERA that if it considers that FTC has correlation with the aeronautical services it may be treated as revenue from Revenue Share Assets, but in no case the FTC can be directly categorized as aeronautical service

In the definition of Revenue Share Assets, the example of "public admission fee" considered as revenue from Revenue Share Assets, is a fee for the right given to a person to enter into the airport. This fee is not the revenue from aeronautical service but is considered to have a correlation with the usage of aeronautical assets by virtue of gaining access to the airport building. While the passenger terminal building is an Aeronautical Asset, public admission fee which is charged on account of the existence/ use of the same but is not considered to be the Aeronautical Service being provided at the passenger terminal building. It is rather categorized as revenue from revenue share asset. Though if the same person uses such assets as a passenger then the charges paid by such person as UDF, etc. become the charges towards aeronautical services which fall within the purview of AERA.

Same way the fee in the form of FTC is levied to enable the oil companies to gain access to the airport. This is not the aeronautical service provided by DIAL. However the same oil company when availing the services of aeronautical infrastructure of the airport, i.e., fuel hydrant, to supply fuel, the charges paid for such services and facilities become the charges towards aeronautical services which fall within the purview of AERA. Such services acquires the nature of aeronautical services and thus to be regulated by AERA.

The aforementioned submissions are being made by DIAL for the correct and proper interpretation of the terms of the Project Agreements. AERA's proposal that since neither DIAL made the aforementioned submissions in the First or Second Control Period nor did AERA consider the said contention in the earlier control periods, and hence it relies on the tariff order passed for the Second Control Period, is unwarranted and misplaced. The issue requires consideration keeping the express terms of the OMDA and SSA in mind. It is therefore requested that AERA may consider the said submissions and accordingly, reconsider its proposals to reflect the true intent and spirit of the Project Agreements.

Hence, DIAL requests the Authority to revisit it's decision of considering the FTC charges as aeronautical and consider the same in terms of the concession awarded to DIAL."

2.6.22 DIAL has requested that the revenue from Disallowed Area to be excluded from the consideration of revenue from Revenue Share Assets consistent with its submission as part of MYTP. The comments verbatim as submitted by DIAL are as below;

"As per Schedule 1 of the SSA, the revenue which is liable for 30% cross-subsidy of Target Revenue is the revenue from Revenue Share Assets as defined in the SSA. It is therefore relevant to see whether the revenue from disallowed assets can be considered as revenue from Revenue Share Assets or not.

That by a perusal of the definition of Revenue Share Assets it can be seen that the same mainly consist of Non-Aeronautical Assets and therefore, it is only revenue which is being generated through Non-

Aeronautical Assets, which can be considered as revenue from Revenue Share Assets and can in turn be used for 30% cross-subsidy. It is therefore relevant to ascertain the assets which would come under Non-Aeronautical Assets as per the definition given in the OMDA.

The definition of Non-Aeronautical Assets starts with the term 'Non-Aeronautical Assets shall mean:' and the same therefore implies that the definition of Non-Aeronautical Assets is exhaustive and that no other assets, except for the ones which fall within the express ambit of the said definition, can be classified as Non-Aeronautical Assets. The aforementioned contention is also supported by the judgement passed by the Hon'ble Supreme Court in matter titled 'Union of India v. Assn. of Unified Telecom Service Providers of India' (2011) 10 SCC 543, referred above.

Further, the definition of Non-Aeronautical Assets as given in the OMDA, is qualified by the words 'All assets required and necessary for the performance of Non-Aeronautical Services'. As such, only an asset which is 'required and necessary' for the performance of Non-Aeronautical Services can be considered as a Non- Aeronautical Asset in terms of the OMDA. The corollary of the foregoing is that any asset which is not required or not necessary for the performance of Non-Aeronautical Services, cannot be termed as a Non-Aeronautical Asset in terms of the OMDA.

Since, the area which has been disallowed by AERA has been disallowed by virtue of the same being not required for the provision of services, it is evident, that the same can neither be considered to be required nor can it be considered to be necessary for the provision of Non-Aeronautical Services. The aforementioned stance taken by AERA in its Order No. 28/2011-12 dated 08.11.2011 has also recently been affirmed by the Appellate Tribunal, TDSAT vide order dated 23.04.2018, has agreed with the decision of AERA to disallow this area on the basis of the same not being required to be built.

From a plain reading of the definition of Non-Aeronautical Assets, it is evident that the disallowed area and the assets built thereon cannot be considered a part thereof as the same were neither required nor necessary for provision of Non- Aeronautical Services. In the Consultation Paper, AERA has stated that 'Non-Aeronautical Asset definition specifically includes the assets which are located within or forms part of any terminal building and are incapable of independent access and independent existence' and has therefore proceeded to state that the disallowed area also forms a part of the Non-Aeronautical Assets. However, it is submitted that AERA while relying on a part of the definition of Non-Aeronautical Assets, has not considered the definition in its totality.

Sub-Clause (2) of the definition of Non-Aeronautical Assets states that all assets which are 'required and necessary' for the performance of Non-Aeronautical Services at the Airport as listed in Part II of Schedule 6 of the OMDA (irrespective of whether they are owned by DIAL or any third Entity) come within the ambit of Non-Aeronautical Assets, if the same, (a) are located within or form part of any terminal building; or (b) are conjoined to any other Aeronautical Assets, and are incapable of independent access and independent existence; or (c) are predominantly servicing/ catering any terminal complex/cargo complex.

Therefore, even in terms of the said sub-clause, all assets which are 'required and necessary' for the performance of Non-Aeronautical Services at the Airport as listed in Part II of Schedule 6 of the OMDA would also form a part of Non-Aeronautical Assets if the same were to fulfil any one of the following conditions:

(a) are located within or form part of any terminal building; or

(b) are conjoined to any other Aeronautical Assets, and are incapable of independent access and independent existence; or

(c) are predominantly servicing/ catering any terminal complex/cargo complex.

As such, the pre-requirement of an asset being 'required and necessary' for provision of Non-Aeronautical Services shall remain even in the case of assets which fall in the subsequent three categories and the same is a sine qua non for being categorised as a Non-Aeronautical Asset. Therefore, the reliance of AERA on a part of the definition of Non-Aeronautical Assets is misplaced and the same cannot be relied upon to state that the disallowed assets form a part of the Non-Aeronautical Assets as defined in the OMDA. Further, since the disallowed area does not form a part of the Non-Aeronautical Assets, the same also does not form a part of the Revenue Share Assets, the definition of which is also reproduced hereinabove.

Since it is evident that the disallowed area does not form a part of the Non-Aeronautical Assets, the question that remains is whether the revenue from the disallowed area can still be considered for 30% cross-subsidy or not. AERA in its Consultation Paper has stated that as long as DIAL realises 'non-aeronautical revenue' from the disallowed area, such revenues should form part of the revenue from the Revenue Share Assets and would therefore, be liable to be considered for 30% cross subsidy of Target Revenue.

As such, in the Consultation Paper AERA has relied on the concept of non-aeronautical revenue to state that the same should form a part of Revenue Share Assets. However, It is submitted that the said contention of AERA is wholly contrary to the scheme of the OMDA and the SSA which clearly lay down that it is 'revenue from Non-Aeronautical Assets' and not 'non-aeronautical revenue' which has to be used for cross-subsidization of target revenue. Further the said contention is also contrary to AERA's own stand as per the Order no.14/2016-17 wherein it is clearly stated that in case of Delhi and Mumbai airports, tariff will continue to be determined as per SSA and not Hybrid till wherein 30% of non-aeronautical revenues will be cross-subsidize.

As per the scheme of the OMDA and the SSA, the revenue earned by DIAL has to be ascertained on the basis of the source, i.e., Aeronautical Assets and Non-Aeronautical Assets, from which it has been earned and it is therefore, revenue from Non-Aeronautical Assets and not non-aeronautical revenue which is to be considered for the purpose of determination of tariff. Therefore, any revenue which has not come from Non-Aeronautical Assets, would lie outside the purview of AERA and the same cannot be considered either as revenue from Revenue Share Assets or for 30% cross-subsidy.

The foregoing can also be seen in juxtaposition with the National Civil Aviation Policy, 2016 wherein it has been specifically stated that "To ensure uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a 'hybrid till' basis, unless otherwise specified for any project being bid out in future". Therefore, a due weightage has been given to any project being bid out and it should be as per bidding document instead of cross subsidy at 30% of non-aeronautical revenue. Further as far as the OMDA and SSA are concerned, the language used is clear and unambiguous and the same merely states that '30% of the gross revenue generated by the JVC (DIAL) from the Revenue Share Assets' shall be used for cross-subsidy. Therefore, if the intent of the SSA was to use 'non-aeronautical revenue' and not 'revenue from Non-Aeronautical Assets' for cross-subsidy, then the same would have been expressly mentioned as has been done in the National Civil Aviation Policy, 2016. Hence, it is crystal clear that no revenue can be considered for 30% cross-

subsidy by simpliciter adjusting the same under 'non-aeronautical revenue' which is not even defined in the OMDA or the SSA.

In view of the above, it is submitted that since neither is the disallowed area covered under Non-Aeronautical Assets as defined in the OMDA, nor is the revenue from the disallowed assets covered under revenue from Revenue Share Assets, the said revenue cannot be included for the purpose of 30% cross-subsidy. It is submitted that such treatment of the revenue goes against the basic tenets of the OMDA and the SSA and the same is therefore, not only contrary to the said agreements but is also in contravention of the Judgment dated 23.04.2018 passed by the TDSAT wherein it has held that the OMDA and the SSA are sacrosanct and therefore, the terms of the same are necessarily required to be taken into consideration for the purpose of determination of tariff by AERA.

Also, since neither DIAL raised this issue in the earlier control periods nor did AERA consider the said contention in the earlier control periods, AERA's proposal to rely on the tariff order passed for the earlier control periods is unwarranted and misplaced and the said issue therefore requires fresh consideration keeping the express terms of the OMDA and SSA in mind. It is therefore requested that AERA may consider the said submissions and accordingly, reconsider its proposals to reflect the true intent and spirit of the Project Agreements.

Even in case of the airport guideline provided by Authority in case of the airport other than Delhi and Mumbai the revenue and expenditure should also be excluded along with the exclusion of the asset from RAB. Following is the relevant extract from para 5.2.1 (g) of AERA (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 dtd. 28th Feb'2011:

> *"Consequent to the exclusion of identified assets from RAB, the Authority shall not consider the value of such assets (including its corresponding revenues and expenditures) for the purpose of determination of Aggregate Revenue Requirement."*

Accordingly, we request authority to kindly consider DIAL's submission positively and do not considered revenue from disallowed area as part of revenue share assets for cross subsidy."

2.6.23 Consistent with DIAL's submission as per the MYTP, DIAL has requested the revenue from Existing Assets to be excluded from the consideration of the revenue from Revenue Share Assets. The reasoning provided by DIAL is as below;

"The submission made by DIAL has been disallowed by AERA primarily on the ground that

a) Existing Assets and Non-Aeronautical Assets are not mutually exclusive.

b) It has further been stated by AERA that as long as 'non-aeronautical revenues' accrue to DIAL from Existing Assets, the same has to be considered for cross subsidization;.

c) It has also been stated by AERA that if the intent of SSA was to exclude revenue from Existing Assets from the purview of revenue from Revenue Share Assets then the definition in the SSA would have specifically stated so;.

d) The expression "irrespective of whether they (Non Aeronautical Assets) are owned by the JVC or any third entity" cannot be interpreted as "Existing Assets owned by AAI" have to be excluded from such Revenue Share Assets;

e) It is also the stand of AERA that ownership of the Assets by the JVC or any other entity shall not be criteria for exclusion of revenues as long as the revenues accrue to the JVC;

f) AERA has also taken a stand that the submission itself seems to be an afterthought as no such issues were raised at the time of tariff determination for the last two Control Periods and the current submission refers to the interpretation of the unwritten words in the SSA;

As such, AERA while disregarding the 'ownership test', to determine whether an asset falls under the ambit of 'Non-Aeronautical Asset' or not, has stated that as long as the revenue accrues to DIAL, the same would not be excluded.

It is submitted that all the above views and stands taken by AERA lack merit. These just seem to be the stands taken for the reason that DIAL inadvertently missed to bring the contractual position to the attention of AERA on the earlier two occasions and now AERA is unwilling to have proper and deeper review of the provisions of OMDA. AERA, instead of taking the submissions of DIAL in the right earnest has attempted to brush them aside on the grounds which lack sound basis. The proposal made by AERA in its Consultation Paper fails to take into consideration the express terms of the OMDA whereby the definition of Aeronautical Assets, Non-Aeronautical Assets and Existing Assets makes it crystal clear that the two are completely and absolutely mutually exclusive. As per the definition of Non-Aeronautical Assets given in the OMDA, the same would include:

i. All assets required for the performance of Non-Aeronautical Services listed in Part I of Schedule 6.

ii. All assets required for the performance of Non-Aeronautical Services listed in Part II of Schedule 6, if they are (a) located within terminal building, (b) conjoined to other aeronautical assets and without direct access, or (c) are predominantly servicing/ catering any terminal complex/ cargo complex.

iii. And shall include all additional land (other than the Demised Premises), property and structures thereon acquired or leased during the Term, in relation to such Non-Aeronautical Assets.

The definition of Non-Aeronautical Assets starts with the term 'Non-Aeronautical Assets shall mean:" and the same therefore implies that the definition of Non-Aeronautical Assets is exhaustive and that no other assets, except for the ones which fall within the express ambit of the said definition, can be classified as Non-Aeronautical Assets. The aforementioned contention is also supported by the judgement passed by the Hon'ble Supreme Court in matter titled 'Union of India v. Assn. of Unified Telecom Service Providers of India' (2011) 10 SCC 543, wherein it was held as follows:

"46. A reading of Section 14(a)(i) of the TRAI Act would show that the Tribunal has the power to adjudicate any dispute between a licensor and licensee. A licensor, as we have seen, has been defined under Section 2(es) of the TRAI Act to mean the Central Government or the Telegraph Authority who grants a license under Section 4 of the Telegraph Act and a licensee has been defined in Section 2(e) of the TRAI Act to mean any person licensed under sub-section (1) of Section 4 of the Telegraph Act providing specified telecommunication services. ***The word "means" in Section 2(e) and 2(ea) of the TRAI Act indicates that the definitions of license and licensor are exhaustive and therefore would not have any other meaning. As Justice G.P. Singh puts it in his book Principles of Statutory Interpretation, 12th Edn. At pp. 179-80:***

" When a word is defined to 'mean' such and such, the definition is prima facie restrictive and exhaustive;"

(emphasis supplied)

Therefore, it is only the assets which fall within the aforementioned 3 categories of assets which can be considered as Non-Aeronautical Assets.

Further, a plain reading of the definition of Non-Aeronautical Assets makes it clear that the said definition is qualified by the statement "whether owned by the JVC or any third Entity". In terms of the definition of 'Entity' as given in OMDA and the definition of 'third party' as defined in the Lease Deed, it is evident that third Entity as mentioned in the definition of Non-Aeronautical Assets, cannot include AAI. As such, the express words, "whether owned by the JVC or any third Entity", which are there in the definition of Non-Aeronautical Assets, makes it clear that the same are meant to ensure that only the assets which are owned by DIAL or a third party, which then further fall into any one of the three categories listed above, are amenable to be included as a Non-Aeronautical Asset. Therefore, any asset which is under the ownership of AAI and is merely being leased to DIAL for the Term and to the extent same is not categorized as the Aeronautical Asset, is outside the purview of the same and cannot be called as Non-Aeronautical Asset under OMDA. The expression "irrespective of whether owned by JVC or third party" in fact provides clarity to interpret the definition of Non Aeronautical Assets. It is stated that if the aforesaid meaning is not ascribed to the express words of the definition of Non-Aeronautical Assets, then the said words would be rendered otiose and nugatory.

It is submitted that if the intention of the OMDA was to include assets owned by AAI in Non-Aeronautical Assets, then the same would have been expressly mentioned such that qualifying sentence the qualification would have either been stated read as 'whether owned by the JVC or the AAI or any third Entity' or the said qualification with respect to ownership of the assets would have been completely omitted from the definition. However, since the qualification is expressly present in the definition of Non-Aeronautical Assets and the words 'owned by AAI' are conspicuous by their absence in the same, it clearly shows that the assets owned by AAI and leased to DIAL, i.e., Existing Assets/ Demised Premises, have been left out of the purview of Non-Aeronautical Assets. Further it a settled legal position that in the express words no new words can be added to give a meaning different from what is stated in a contract. When the word "AAI" is specifically omitted from the sentence, it means it is specifically and intentionally excluded and therefore the Existing Assets owned by AAI are not the part of Non-Aeronautical Assets.

As such, the proposal of AERA to disregard the 'ownership test' to determine whether an asset falls within the purview of Non-Aeronautical Assets or not is not only contrary to the well-known principles of interpretation of contracts but is also in contravention of the judgment dated 23.04.2018 passed by TDSAT vide which it has been held that the OMDA and the SSA are sacrosanct and the same have to be given due consideration and precedence while determining tariff under Section 13 of the AERA Act, 2008. Therefore, it is submitted that AERA's proposal whereby the words 'whether owned by the JVC or any third Entity' have been given a complete go-by without even a cursory consideration is required to be reconsidered and reassessed.

Further, even while further analysing the definition of Non-Aeronautical Assets it can be seen that while the first two categories of Non-Aeronautical Assets are qualified by the term 'whether owned by the JVC or any third Entity', the third category of Non-Aeronautical Assets are qualified by the term 'other than Demised Premises', which also goes to show the intention of the OMDA to leave the Existing Assets/Demised Premises outside the purview of Non-Aeronautical Assets. As such, if the intention of the OMDA was to keep Existing Assets/Demised Premises as a part of Non-Aeronautical Assets, then there would have been no need to qualify even the third category with the term 'other than Demised Premises'. However, the said qualification has been made for the express purpose of ensuring that not only do Existing Assets/Demised Premises remain outside the purview of Non-Aeronautical Assets as of the date of execution of the OMDA, but even if any additional land/asset is acquired by DIAL during the Term which is to form a part of Non-Aeronautical Assets, then Existing Assets/Demised Premises should also remain outside the purview of the same. As such, the qualification given in the third category of Non-Aeronautical Assets is in line with the intention of the OMDA to keep Existing Assets/ Demised Premises outside the ambit of Non-Aeronautical Assets.

It has been further stated by AERA that if the intent of the SSA was to exclude revenue from Existing Assets from the revenue from Revenue Share Assets then it would have been stated so in no uncertain terms. It is submitted that it has been clearly and unequivocally stated in the SSA that it is only 30% of revenue from Revenue Share Assets which would be considered for cross-subsidy and that Revenue Share Assets majorly consist of Non-Aeronautical Assets (as evident from its definition) which as per the definition provided under OMDA mean the assets are owned by JVC or any third entity and excluding demised premises. Therefore, it is only 30% of revenue from Non-Aeronautical Assets which can be considered for cross-subsidy. Hence the provisions of SSA and OMDA are succinctly clear and only attempt to be made is to read and apply them in unison. When they are so read, the application will only in the manner as submitted by DIAL. As such, instead of expressly mentioning that revenue from Existing Assets is outside the purview of revenue from Revenue Share Assets, it has been positively reinforced that it is only the revenue from Revenue Share Assets (which by definition mostly entail Non-Aeronautical Assets) which is to be considered for 30% cross-subsidy. The foregoing automatically translates into the contractual position that 'no other revenue apart from revenue from Non-Aeronautical Assets is to be considered for cross-subsidy'. While the meaning conveyed by the scheme of OMDA and SSA is explicit and clear, AERA's proposal seems to overlook the same.

AERA has further also stated that as long as 'non-aeronautical revenue' accrues to DIAL from Existing Assets, the same has to be used for cross-subsidization. It is submitted that the said contention of AERA is wholly contrary to the scheme of the OMDA and the SSA which clearly lay down that it is 'revenue from Non-Aeronautical Assets' and not 'non-aeronautical revenue' which has to be used for cross-subsidization of target revenue. Further the said contention is also contrary to AERA's own stand as per the Order no.14/2016-17 wherein it is clearly stated that in case of Delhi and Mumbai airports, tariff will continue to be determined as per SSA and not Hybrid till wherein 30% of non-aeronautical revenues will be cross-subsidize. Below is the extract of the same:

> *"The Authority, in exercise of powers conferred by Section 13(i)(a) of the Airports Economic Regulatory Authority of India Act, 2008 and after careful consideration of the comments of the stakeholders on the subject issue, decides and orders that :*
>
> *(i) The Authority will in future determine the tariffs of major airports under "Hybrid Till" wherein 30% of non-aeronautical revenues will be used to cross-subsidize aeronautical charges. Accordingly, to that extent the airport operator guidelines of the Authority shall be amended. The provisions of the Guidelines issued by the Authority, other than regulatory till, shall remain the same.*
>
> *(ii) In case of Delhi and Mumbai airports, tariff will continue to be determined as per the SSA entered into between Government of India and the respective airport operators at Delhi and Mumbai.*

Therefore, for using revenue for cross-subsidization it is not merely enough to ascertain that the same is revenue in the hands of DIAL or not but it also has to be seen whether the source from which such revenue is being generated is Revenue Share Non-Aeronautical Assets or not. It is submitted that the foregoing exercise is necessarily required to be done by AERA at the time of determination of Aeronautical Charges in order to ensure that the express terms of the OMDA and the SSA are being followed in letter and spirit as also mandated by the TDSAT vide its judgment dated 23.04.2018. For that matter, the reliance of AERA on 'non-aeronautical revenue' is also misplaced for the fact that the term 'non-aeronautical revenue' is neither defined nor finds a mention in the OMDA or the SSA and therefore no reliance can be placed thereon to interpret the clear and express terms of the contracts. Therefore, any revenue which has not come from Non-Aeronautical Assets, would lie outside the purview of AERA and the same cannot be considered either as revenue from Revenue Share Assets or for 30% cross-subsidy.

The foregoing can also be seen in juxtaposition with the National Civil Aviation Policy, 2016 wherein it has been specifically stated that "To ensure uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a 'hybrid till' basis, unless otherwise specified for any project being bid out in future". Therefore, a due weightage has been given to any project being bid out and it should be as per bidding document instead cross subsidy at 30% of non-aeronautical revenue. Further as far as the OMDA and SSA are concerned, the language used is clear and unambiguous and the same merely states that '30% of the gross revenue generated by the JVC (DIAL) from the Revenue Share Assets' shall be used for cross-subsidy. Therefore, if the intent of the SSA was to use 'non-aeronautical revenue' and not 'revenue from Non-Aeronautical Assets' for cross-subsidy, then the same would have been expressly mentioned as has been done in the National Civil Aviation Policy, 2016.

Further, in the Consultation Paper AERA has also stated that the submissions made by DIAL in respect of revenue from Existing Assets is an afterthought and that the same have not been made in the first two control periods. In this regard it is submitted that the AERA has failed to take into consideration the mere bringing the attention of AERA to the express provision at this time is not a ground for rejection of the submission, particularly when the same bears its genesis under the contract. Inadvertent error in making such claim earlier cannot and should not be called as an afterthought. This only reflects that the submission has been just ignored without looking into the merit of the same. AERA should in fact appreciate fact that OMDA and SSA are extremely complex agreements which are the first of their kind to be entered into between any parties in the aviation sector. As such, arriving at the correct and proper interpretation of the scheme of the said agreements is an ongoing intensive process which is being undertaken by DIAL in order to properly assist AERA in its function of determination of tariff. As such, it is only for assisting AERA in its statutory function of determination of tariff that the submissions are being made by DIAL for the correct and proper interpretation and application of the terms of the Project Agreements. Also, since neither DIAL raised this issue in the First Control Period nor did AERA consider the said contention in the earlier control periods, AERA's proposal to rely on the tariff order passed for the First Control Period is unwarranted and misplaced and the said issue therefore requires fresh consideration keeping the express terms of the OMDA and SSA in mind, as brought up by DIAL.

It is therefore requested that AERA may consider the said submissions and accordingly, reconsider its proposals to reflect the true intent and spirit of the Project Agreements."

2.6.24 DIAL in consonance with its proposal as per the MYTP has requested for deduction of Annual Fee pertaining to the revenue from Revenue Share Assets while arriving at such revenue for cross-subsidization. The extract from DIAL's comments submitted verbatim is as below;

"The submission made by DIAL has been disallowed by AERA primarily on the ground that deduction of Annual Fee while calculating revenue from Revenue Share Assets would tantamount to allowing the pass-through of the Annual Fee paid with regards to Revenue Share Assets and that the same would be against the tariff setting principles as given in SSA. It is submitted that the aforementioned contention of AERA, is not only contrary to the interpretation of the terms of the OMDA and SSA but is also based on a wrong understanding of what 'passing-through' of cost means in terms of the said Agreements.

It is submitted that passing through of a cost means that the said cost is recovered from the users as a part of the Aeronautical Tariff. In this regard it is submitted that in accordance with SSA, the Annual Fee is not a pass through in tariff and AERA has already followed the said principal while allowing aeronautical operating expense for the calculation of Aeronautical Charges. AERA has not considered Annual Fee while allowing aeronautical expense. DIAL has never claimed for inclusion of Annual Fee *as a part of costs (opex) nor claimed pass through of Annual Fee. Similarly, Annual Fee payable on revenue from Revenue Share Assets is also not included as part of Opex in any of the building blocks.*

Further, while relying on the definition of Revenue as found in the OMDA, AERA has stated that it has been mentioned in the said definition that Annual Fee cannot be deducted from Revenue. But such definition is only for the purpose of calculation of AF and DIAL does not deduct it from its revenues. By seeking the deduction of AF on revenue share assets DIAL is not reducing the quantum of entitlement of AAI. Further, while making the said observation AERA has failed to take into consideration that the Revenue as defined in the OMDA is different from the 'revenue' mentioned in the definition of S factor. Therefore, the definition of 'Revenue,' which is a defined term and allows for deduction of 5 items, cannot be inserted in place of 'revenue,' which restricts non-deduction of the costs in relation to such revenue, to interpret the definition of S Factor. The consideration given by AERA in this regard has led to an obvious misinterpretation of the terms of the OMDA and the SSA as well as of the submission made by DIAL in respect of deduction of Annual Fee.

It has been further stated by AERA that if the intent of SSA and OMDA was to deduct the Annual Fee while arriving at revenue from Revenue Share Assets in the calculation of S Factor then the same would have been spelt out clearly. However, DIAL submits that it being a specific provision wherever Annual Fee is not allowed it is clearly mentioned in SSA/OMDA. Thus, if the intention was not to allow the Annual Fee relating to Revenue Share Assets then it would have been clearly mentioned in clause 3.1.1. However, the specific words mentioned are the cost in relation to such revenue shall not be included (deducted). The foregoing, automatically translates into the contractual position that Annual Fee with respect to Revenue Share Assets, which is not a cost in relation to revenue from Revenue Share Assets is not prohibited to be deducted while calculating the S factor. While the meaning conveyed by the scheme of OMDA and SSA is explicit and clear, AERA's proposal seems to overlook the same.

Further, in the Consultation Paper AERA has also stated that the submissions made by DIAL in respect of deduction of Annual Fee is an afterthought and that the same have not been made in the first two control periods. However, such statement does not bear any sound legal justification. If any provisions has not been correctly interpreted law does not debar the application of correct interpretation at the time when it comes to the knowledge of the party. DIAL, is in fact assisting AERA in its statutory function of determination of tariff by respecting the terms of concession granting to it.

It is therefore requested that AERA should consider the said submissions and accordingly, reconsider its proposals to reflect the true intent and spirit of the Project Agreements."

Other Stakeholders' comments regarding true up of Revenue from Revenue Share Assets for the First Control Period:

2.6.25 MIAL commented that Authority ought to consider Fuel Throughput Charges as part of non-aeronautical revenue.

MIAL stated that Section 2 (a) (vi) of the AERA Act limits the scope of "Aeronautical Services" to services provided "for supplying fuel to the aircraft at an airport" and not to the access provided to the fuel supplier to the airport. The charge for such grant of concession/ privileges does not fall under revenue from aeronautical services. Fuel Throughput Charge is levied by airport operator on the oil companies towards access provided to oil companies for fuel supply at airport premises. Thus, MIAL requests Authority to consider Fuel Throughput Charge as a part of non-aero revenue.

2.6.26 APAO commented that the Authority should consider Fuel Throughput Charges as non-aeronautical revenue.

As per APAO, Fuel Throughput Charges is being charged by airport operator as a royalty from oil companies doing business at airport and not for providing any aeronautical service. Section 2 (a) (vi)

आर्थिक विनियामक प्राधिकरण
सत्यमेव जयते
Airports Economic Regulatory Authority of India

of the AERA Act limits the scope of "Aeronautical Services" to services provided "for supplying fuel to the aircraft at an airport" and not to the access provided to the fuel supplier to the airport. The charge for such grant of concession/ privileges does not fall under revenue from aeronautical services. Thus, APAO requests Authority to consider Fuel Throughput Charge as part of non-aeronautical revenue.

2.6.27 AAI commented that revenue from Existing Assets should be included as part of revenue from Revenue Share Assets.

AAI states that as per Schedule 1 of SSA, Revenue Share Assets shall mean Non-Aeronautical Assets and assets required for provision of aeronautical related services arising from the airport and not considered in revenues from Non-Aeronautical Assets. The definition does not mention that revenue from Existing Assets have to be excluded. As per OMDA, Existing Assets have been defined to distinguish AAI's assets at the time of handover of assets to DIAL from the assets created by DIAL. AAI pointed out that the Existing Assets are conjoined to other assets, are incapable of independent existence and are servicing /catering terminal complex/cargo complex satisfying the definition of non-aeronautical assets as per OMDA. Thus, AAI states that Existing Assets are part of non-aeronautical assets.

2.6.28 AAI also commented that Annual Fee payable to AAI should not be a pass-through cost and has to be incurred by DIAL.

As per Clause 3.1.1 of the SSA,

"the Upfront Fee and the Annual Fee paid/ payable by the JVC to AAI under the OMDA shall not be included as a part of costs for provision of Aeronautical Services and no pass through would be available in relation to the same".

AAI points out that as per Clause 3.1.1, no pass-through shall be available to DIAL in relation to Annual Fee payable. Considering Annual Fee was the bidding criteria to win the bid for the airport, it should not be considered as pass-through under any head and thus has to be incurred by DIAL.

2.6.29 Further, AAI commented that Fuel Throughput Charges are to be considered as aeronautical charges.

As per AAI, Common Hydrant Infrastructure for aircraft fueling services by authorized providers is an aeronautical service listed in Schedule 5 of the OMDA. Hence, Fuel Throughput Charge and all associated charges have to be classified as aeronautical in nature. Also, as per the Hon'ble TDSAT order, *"the colour of revenue from aeronautical service cannot be changed to that of revenue from non-aeronautical service by an act of delegation or leasing out by the concessionaire"*. Thus, AERA should classify Fuel Throughput Charges as aeronautical charges.

Authority's Examination on Stakeholder Comments regarding issues on True up of Revenue from Revenue Share Assets for the First Control Period

Treatment of Fuel Throughput Charges

2.6.30 Authority has noted the comments made by stakeholders DIAL, MIAL, and APAO regarding consideration of Fuel Throughput Charges as part of non-aeronautical revenue. The stakeholders have pointed out that Fuel Throughput Charge is akin to royalty from oil companies doing business at airport and Section 2 (a) (vi) of AERA Act does not include *the access provided to the fuel supplier at the airport* under the scope of "Aeronautical Services". Authority, in this regard, would like to state that any fee collected by the airport operator towards the supply of fuel to the aircraft even if it is called by any name whatsoever would be considered as aeronautical in nature as the supply of fuel to the aircraft is an aeronautical service. Fuel Throughput Charge is the fee charged towards the right of oil companies to conduct their business at airports and it ought to be considered as part of aeronautical revenue.

Authority has also looked at DIAL's submission that the common hydrant infrastructure is owned and operated by a third party and thus the fee levied to supply fuel is charged by the third party to oil companies and Fuel Throughput Charges are independent of the services provided by the third party. Authority has examined DIAL's submission and reiterates that the activities and revenues associated with Fuel Throughput Charges and Fuel Infrastructure Charges are by nature associated with supply of fuel to aircrafts and thus are part of aeronautical services, given the fact that they are classified under the activities defined as aeronautical under Schedule 5 of the OMDA.

Authority has looked at DIAL's submission that the service mentioned under Schedule 5 refers to Common Hydrant Infrastructure for aircraft fuelling services by authorized providers and the same doesn't refer to Fuel Throughput Charges earned by the airport operator. Authority would like to reiterate that by including the fuel farm infrastructure as part of aeronautical services, the intent and the meaning of the OMDA is very clear that any revenue earned from this aeronautical service should form part of aeronautical revenue. The same is consistent with AERA's stand in the past Tariff Orders. Authority would like to point out that AAI, as part of their stakeholder comments, have mentioned that Common Hydrant Infrastructure for aircraft fuelling services by authorized providers is an aeronautical service listed in Schedule 5 of the OMDA which lists out aeronautical services. Hence Fuel Throughput Charges and other associated charges have to be classified under aeronautical charges. Since AAI, the Concessioning Authority under the OMDA for Delhi Airport, is of the view that Fuel Throughput Charges are to be treated as aeronautical, the various interpretations given by DIAL quoting the OMDA to which AAI is also a party, lack merit.

Authority, concerning DIAL's submission that the airport operator is free to enter into an agreement with oil companies and hence the same should not form part of any regulated charges, would like to again point out the fact that AAI having an agreement with oil companies to charge Fuel Throughput Charges based on the negotiations between airport operator and oil companies does not imply that Fuel Throughput Charge is non-aeronautical in nature.

Authority would also like to highlight that DIAL was allowed to charge BAC + 10% as aeronautical charges from December 01, 2018 as part of Order No. 30/2018-19 dated 19.11.2018, and the Fuel Throughput Charges of Rs. 500/KL were also being charged as aeronautical tariff as determined by the Authority and then implemented by DIAL.

Authority would also like to point out that to a large extent, the stakeholder comments by DIAL regarding treatment of Fuel Throughput Charges are re-iterations of DIAL's submissions regarding the same as per MYTP. Authority had looked at DIAL's submissions as part of Consultation Paper No. 15/2020-21 and had taken a stand not to consider the same as part of revenue from Revenue Share Assets with detailed reasoning as could be already seen and referred under earlier sections in this Tariff Order and does not see any merit in revisiting their stance on the same.

Authority would also like to mention that para 26 of the Hon'ble TDSAT order dated 15.11.2018 for MIAL has mentioned that AERA's decision on treatment of Fuel Throughput Charges for the purpose of determination of Target Revenue shall not be interfered with.

Authority, hence consistent with its earlier decisions and the proposals in Consultation Paper, has decided to consider Fuel Throughput Charges as part of aeronautical revenue across all Control Periods.

Treatment of Revenue from Disallowed Area

2.6.31 Authority has examined the comments submitted by DIAL regarding the exclusion of Revenue from Disallowed Area from revenue from Revenue Share Assets. Authority has looked at DIAL's submission that the area disallowed by the Authority has been disallowed by virtue of not being required for provision of services, and the definition of non-aeronautical assets as given in OMDA is qualified by the words "*All assets required and necessary for the performance of Non-Aeronautical services*".

Authority would like to again reiterate that even though Authority has disallowed that area considering the same may not be required, DIAL has been able to generate revenue from Disallowed Area which is non-aeronautical in nature. This implies that the Disallowed Area has been used for the performance of Non-Aeronautical Services at the airport. As can be seen from the definition of Non-Aeronautical Assets, which is again reiterated below,

"all assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part II of Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity), to the extent such assets

(a) are located within or form part of any terminal building;

(b) are conjoined to any other Aeronautical Assets, assets included in paragraph (i) above and such assets are incapable of independent access and independent existence; or

(c) are predominantly servicing/ catering any terminal complex/ cargo complex".

The Disallowed Area should be considered a part of Non-Aeronautical Assets as long as Non-Aeronautical Services are being provided using the same. Hence the revenue from such Disallowed Area should be considered as part of Revenue from Revenue Share Assets.

Authority would also like to point out that to a large extent, the stakeholder comments by DIAL regarding treatment of revenue from Disallowed Area are re-iterations of DIAL's submissions regarding the same as per MYTP. Regarding the following comment from DIAL,

"Even in case of the airport guideline provided by Authority in case of the airport other than Delhi and Mumbai the revenue and expenditure should also be excluded along with the exclusion of the asset from RAB. Following is the relevant extract from para 5.2.1 (g) of AERA (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 dtd. 28th Feb'2011:

> *"Consequent to the exclusion of identified assets from RAB, the Authority shall not consider the value of such assets (including its corresponding revenues and expenditures) for the purpose of determination of Aggregate Revenue Requirement." "*

Authority would like to submit that the tariff is determined as per the principles laid out by the SSA and as per the same, the revenue from the Disallowed Area qualifies as Revenue from Revenue Share Assets and hence should form part of cross subsidization. The terms in the SSA are very clear in this regard.

Authority has hence decided that revenue from Disallowed Area would not be excluded from revenue from Revenue Share Assets for all Control Periods for the purpose of tariff determination, consistent with its earlier decisions in this regard and the proposal mentioned in the Consultation Paper for the Third Control Period.

Treatment of Revenue from Existing Assets

2.6.32 Authority has examined the comments submitted by DIAL regarding the exclusion of Revenue from Existing Assets from revenue from Revenue Share Assets. Authority noted that DIAL has stated Existing Assets do not fall under the purview of Non-Aeronautical assets by virtue of the fact that they are still owned by AAI.

As per the definition in OMDA, the Existing Assets are defined as;

""Existing Assets" means the physical, tangible, intangible and other assets of whatsoever nature existing at the Airport Site as on the date hereof except working capital assets other than inventory, stores and spares."

Also, the JVC has the right to provide aeronautical and non-aeronautical services on the Existing Assets as seen in the extract from OMDA below;

"AAI recognizes the exclusive right of JVC during the Term, in accordance with the terms and conditions of this Agreement, to...

enjoy complete and uninterrupted possession and control of the Airport Site and the Existing Assets for the purpose of providing Aeronautical Services and Non-Aeronautical Services;"

Based on the above extracts, Authority is clear in its view that Existing Assets do not have a mutually exclusive relation with Aeronautical or Non-Aeronautical Assets and the term Existing Assets, as already mentioned in the Consultation Paper No. 15/2020-21, has been defined as such to demarcate and identify those assets already existing prior to the execution of OMDA. As per the terms of the OMDA it is clearly understood that the airport operator is given control of the Existing Assets also to provide Aeronautical and Non-Aeronautical Services.

Authority would also like to point out that Existing Assets are not excluded from non-aeronautical assets as the definition of non-aeronautical assets specifically states;

"all assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part II of Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity), to the extent such assets

(a) are located within or form part of any terminal building;

(b) are conjoined to any other Aeronautical Assets, assets included in paragraph (i) above and such assets are incapable of independent access and independent existence; or

(c) are predominantly servicing/ catering any terminal complex/ cargo complex".

Authority would like to reiterate that as the Existing Assets are part of the terminal building, are conjoined to other aeronautical assets and are incapable of independent access and existence, the exclusion of revenue from Existing Assets from revenue from Revenue Share Assets is not justified.

Regarding DIAL's comment that by virtue of these assets being owned by AAI (who as per DIAL's interpretation doesn't qualify as either JVC or any third entity), they have to be kept outside the definition of Non-Aeronautical assets, Authority would also like to point out the definition of any Third Entity in the absence of clear evidence to the contrary cannot be selectively used for excluding AAI alone to suit the requirement of the operator. The definition itself if properly read would only mean that the ownership test as claimed by DIAL is inconsequential to the definition of Revenue from

Revenue Share Assets as it signifies that whosoever owns the asset is inconsequential to the classification of the same as Non-Aeronautical Assets.

Further the word "third entity" in the above-mentioned definition of Non-Aeronautical Assets is not a defined word as per the OMDA and in the absence of the same would only mean any party. As already stated, if the intent of the definition is to exclude Existing Assets then the same would have been brought out very clearly in this definition. In the absence of the same, 'any third entity' would only mean any party and specific inclusions and exclusions can't be attributed or interpreted by the airport operator on its own.

AAI, as part of stakeholder consultation process, has also commented that revenue from Existing Assets is to be considered as part of revenue from Revenue Share Assets as Existing Assets are conjoined to other assets and are incapable of independent existence and are servicing /catering terminal complex/cargo complex satisfying the definition of non-aeronautical assets as per OMDA thereby concurring with Authority's views. As AAI, being the Concession Authority under OMDA for Delhi Airport, agrees with Authority's stand on revenue from Existing Assets, DIAL's reasoning that revenue from Existing Assets are to be excluded from revenue from Revenue Share Assets does not hold any merit.

Based on the above, Authority, consistent with the proposal in Consultation Paper No. 15/2020-21 with well laid out reasons as mentioned already, has decided to not exclude revenue from Existing Assets from revenue from Revenue Share Assets for all Control Periods as part of tariff determination process.

Determination of S Factor for cross subsidization

2.6.33 Authority has examined the comments submitted by DIAL regarding the deduction of Annual Fee while arriving at revenue from Revenue Share Assets to be used for cross-subsidization. Authority has noted that DIAL in its submission has proceeded to explain that the Annual Fee is agreed to not be a pass-through and hence DIAL doesn't ask for the reimbursement of Annual Fee paid with regards to aeronautical revenues and Revenue from Revenue Share Assets.

However, Authority notes that DIAL has requested for deduction of Annual Fee from the Revenue from Revenue Share Assets while determining the S Factor, claiming the same doesn't impact the quantum of entitlement to AAI. AERA would like to submit that while the same doesn't impact AAI's entitlement, the same could lead to gross burden on the airport user and is also contravention of the terms and conditions of the SSA and the OMDA which clearly doesn't provide for any deduction of revenue share payable to AAI while determining S Factor.

Authority noted that DIAL in its submissions has submitted that the revenue defined in Section 1.1 of OMDA to be different than the revenue considered in the definition of S factor in SSA. Authority has analyzed the above statement by DIAL and considers that revenue considered in the definition of S factor in SSA is a part of the revenue defined in Section 1.1 of OMDA.

The definition of Revenue in Section 1.1 of OMDA clearly states that it means all pre-tax gross revenue of DIAL from which the Annual Fee payable to AAI would not be deducted. The revenue from Revenue Share Assets is a subset of the Revenues earned by the airport operator and hence the treatment must be consistent. The relevant extract from OMDA is quoted below;

*""**Revenue**" means all pre-tax gross revenue of JVC, excluding the following: (a) payments made by JVC, if any, for the activities undertaken by Relevant Authorities or payments received by JVC for provision of electricity, water, sewerage, or analogous utilities to the extent of amounts paid for such*

utilities to third party service providers; (b) insurance proceeds except insurance indemnification for loss of revenue; (c) any amount that accrues to JVC from sale of any capital assets or items; (d) payments and/or monies collected by JVC for and on behalf of any governmental authorities under Applicable Law (e) any bad debts written off provided these pertain to past revenues on which annual fee has been paid to AAI. It is clarified that annual fee payable to AAI pursuant to Article 11 and Operational Support Cost payable to AAI shall not be deducted from Revenue"

As already clarified in its examination as part of the Consultation Paper, deduction of Annual Fee from revenue from Revenue Share Assets to be used for cross-subsidization for tariff determination cannot be considered as the same would be in violation of the agreements as per the SSA. The context in which costs were mentioned here in the SSA refers to the costs associated with generating Gross Revenue from Revenue Share Assets and same would not be allowed as pass-through while calculating aeronautical revenues. The inference by DIAL that Annual Fee pertaining to revenue from Revenue Share Assets should not be considered as a cost and hence should be deducted from the revenue from Revenue Share Assets doesn't have any relevance to the context the definition was meant for.

SSA defines S factor as 30% of the revenue generated from Revenue Share Assets and the definition of Revenue as per OMDA mentioned no deduction of Annual Fee. The only clear interpretation, if at all obtained from reading the provisions in the SSA and the OMDA, was that since Revenue should not carry any deduction with regards to Annual Fee, 30% of the Revenue from Revenue Share Assets, defined as the S Factor should also not carry any deduction with respect to Annual Fee.

Further AAI, as part of their stakeholder comments, has agreed with Authority's view that Annual Fee payable to AAI should not be considered as a pass-through cost and has to be incurred by DIAL. As AAI, being the Concession Authority as per the OMDA for Delhi Airport, is clearly in agreement with Authority on the treatment of Annual Fee, DIAL's reasoning on exclusion of Annual Fee from revenue from Revenue Share Assets does not hold any merit.

Authority, consistent with its proposal in Consultation Paper No.15/2020-21 for Third Control Period with well laid out reasons as mentioned earlier, has decided to not exclude Annual Fee payable to AAI from revenue from Revenue Share Assets while arriving at S factor.

Based on the above, Authority has decided not to consider any revisions to the revenue from Revenue Share Assets as proposed in Consultation Paper No. 15/2020-21 for true up of First Control Period.

2.7 Revised True up for the First Control Period

DIAL's submissions regarding True up for First Control Period

2.7.1 The revised true up for the First Control Period submitted by DIAL is shown in the table below;

Table 18: Revised True up submitted by DIAL for First Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Return on RAB (A)	359.23	761.34	1,205.21	1,109.75	1,065.45
Expense (E)	366.93	512.60	943.31	593.88	749.56
Depreciation (D)	111.90	224.81	374.96	337.28	372.63
Taxes (T)	-	-	-	-	-
Target Revenue prior to cross-subsidy from Revenue Share Assets (GTR=A+E+D+T)	**838.05**	**1,498.75**	**2,523.48**	**2,040.91**	**2,187.64**
Less: Cross Subsidy from Revenue Share Assets (NAR)	27.34	66.06	110.64	128.29	153.72
Target Revenue (TR=GTR-NAR)	**810.71**	**1,432.69**	**2,412.83**	**1,912.62**	**2,033.92**
Actual Revenue (AR)	**422.14**	**464.81**	**482.92**	**2,126.95**	**2,671.54**
Difference (TR-AR)	388.57	967.88	1,929.91	(214.33)	(637.62)
WACC	14.42%				
PV Factor (PV)	1.71	1.50	1.31	1.14	1.00
Total True up for CP1	**3,760.15**				

Authority's estimate of True up for the First Control Period as per Tariff Order for Second Control Period

2.7.2 The Authority had estimated the True up for the First Control Period as per the Tariff Order for the Second Control Period as shown in the table below;

Table 19: True up Considered by the Authority for First Control Period as per the Tariff order for Second Control Period

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014
Regulatory Asset Base (RAB)	2479.85	5208.26	8254.13	7458.08	7118.46
WACC	10.33%	10.33%	10.33%	10.33%	10.33%
Return on RAB (A= RAB X WACC)	256.17	538.01	852.65	770.42	735.34
Expense (E)	367.01	493.59	934.42	564.53	669.97
Depreciation (D)	110.60	220.99	369.63	328.94	363.57
Taxes (T)	0.00	0.00	0.00	0.00	0.00
Target Revenue prior to cross-subsidy from Revenue Share Assets (GTR=A+E+D+T)	733.77	1252.59	2156.70	1663.89	1768.88
Less: Cross Subsidy from Revenue Share Assets (NAR)	182.47	179.61	239.70	271.49	315.16
Target Revenue (TR=GTR-NAR)	551.30	1072.98	1917.00	1392.40	1453.72
Actual Aero Revenue Realised (AR)	507.13	570.88	611.07	2247.93	2806.35
Difference (NTR - AR)	**44.17**	**502.1**	**1305.93**	**(855.53)**	**(1352.63)**
NPV of the difference as on April 1, 2014	72.22	743.98	1753.89	(1041.41)	(1492.36)
Total true up for CP1	**36.33**				

The total true up for the First Control Period was arrived at as Rs. 36.33 Cr by the Authority at the time of tariff determination for the Second Control Period.

Authority's Examination regarding True up for the First Control Period as part of the Consultation Paper

2.7.3 Authority, based on the examination of various building blocks, had determined the revised true up for the First Control Period as shown in the table below;

Table 20: True Up proposed to be considered by Authority for First Control Period

FY ending March 31 (Rs. Cr)	2010	2011	2012	2013	2014	Total
Regulatory Asset Base (RAB)	2,479.85	5,208.26	8,254.12	7,595.47	7,289.51	30,827.21
WACC	11.65%	11.65%	11.65%	11.65%	11.65%	
Return on RAB (A= RAB X WACC)	288.91	606.78	961.63	884.90	849.25	3,591.46
Expense (E)	367.01	511.09	934.42	564.53	669.97	3,047.02
Depreciation (D)	110.60	220.99	369.63	331.27	366.51	1,399.01
Taxes (T)	-	-	-	-	-	
Target Revenue prior to Cross subsidy from Revenue Share Assets (GTR = A+E+D+T)	766.52	1,338.86	2,265.68	1,780.70	1,885.73	8,037.49
Less: Cross Subsidy from Revenue Share Assets (NAR)	182.47	179.61	239.70	271.49	315.16	1,188.43
Target Revenue (NTR = GTR- NAR)	584.05	1,159.25	2,025.98	1,509.21	1,570.57	6,849.06
Actual Aero Revenue Realised (AR)	507.13	570.88	611.07	2,247.93	2,806.35	6,743.35
True Up Amount (NTR - AR)	76.92	588.38	1,414.91	(738.72)	(1,235.78)	105.71
PV Factor (based on WACC)	1.55	1.39	1.25	1.12	1.00	
True up Amount on an PV basis as on April 1, 2014	119.54	818.91	1,763.80	(824.78)	(1,235.78)	
Total true up for CP1						**641.68**

The amount of Rs 641.68 Cr shall be trued up and provided to the airport operator in the subsequent years as per the Target Revenue calculation as mentioned in the Consultation Paper for the Third Control Period.

The adjustments that has been carried out over and above the true up considered at the time of issuance of Tariff Order for the Second Control Period is as below;

- ✓ Adjustment in the RAB on account of the delayed capitalization of ATC Tower which has been funded out of DF and the associated adjustment in depreciation (Table 3).
- ✓ Revised Weighted Average Cost of Capital taking into account Hon'ble TDSAT Order regarding return to be provided on Refundable Security Deposits and consideration of upfront fee as part of equity and also consideration of the cost of debt at actuals (Table 8).
- ✓ Consideration of cost associated with rehabilitation of Runway 10-28 as part of operating cost (Table 13).

Authority's Examination post analysis of Stakeholder Comments regarding True up for the First Control Period

2.7.4 Authority, after careful analysis and examination of the stakeholder comments across various building blocks pertaining to true up for First Control Period, has decided to not consider any revisions to its proposals in Consultation Paper No. 15/2020-21. Thus, Authority has decided to consider the true up for First Control Period as equivalent to the proposed true up for the same in Consultation Paper No. 15/2020-21.

2.7.5 The true up for First Control Period determined by Authority, as seen in the Table 20, amounting to Rs. 641.68 Cr along with the true up for the Second Control Period would be considered for tariff determination for the Third Control Period.

Airports Economic Regulatory Authority of India

2.8 Authority's Decisions regarding True up for the First Control Period

Based on the material before it and based on its analysis, the Authority has decided the following with regards to True up for the First Control Period;

2.8.1 Authority decides to consider the upfront fee of Rs. 150 Cr as part of equity base and true up WACC based on the cost of equity of 16%, cost of debt at actuals i.e. 10% and cost of RSD at the cost of debt i.e. 10% based on the recommendation of the independent study. The recalculated WACC for the First Control Period is 11.65% (Table 8).

2.8.2 Authority decides to apportion DF to the extent of Rs. 3065 Cr against aeronautical assets that are capitalized in the First Control Period and rework the aeronautical RAB and associated depreciation.

2.8.3 Authority decides to not consider Baggage Screening Related Assets as part of the RAB in the First Control Period and to consider these assets only after the remittance of the Passenger Service Fee Fund amount to MoCA.

2.8.4 Authority decides to consider RAB, calculated as per Schedule 1 of SSA for the First Control Period with pro rata additions based on actual date of capitalization (Table 3).

2.8.5 Authority decides to consider average HRAB as part of RAB for First Control Period with the opening HRAB for FY 2010 determined by considering only aeronautical revenues and costs (Table 3).

2.8.6 Authority decides to consider costs incurred in relation to rehabilitation of Runway 10/28 to the extent of Rs. 17.50 Cr as part of the operating expenses for FY 2011.

2.8.7 Authority decides to not consider forex losses as part of efficient O&M Costs for the First Control Period (Para 2.4.16).

2.8.8 Authority decides to not consider S factor as part of aeronautical revenue base while determining aeronautical taxes for First Control Period (Para 2.5.7). Authority also decides to exclude depreciation pertaining to Hypothetical Regulatory Asset Base and consider depreciation pertaining to only aeronautical assets while computing Aeronautical Taxes for tariff determination (Para 2.5.8).

2.8.9 Authority decides to consider revenues from Fuel Throughput Charges earned in the First Control Period as part of aeronautical revenue (Para 2.6.30).

2.8.10 Authority decides to not consider any adjustment in revenue from Revenue Share Assets towards revenue from Disallowed Area, revenue from Existing Assets, Annual Fee payment to AAI as part of 45.99% revenue share (Paras 2.6.31, 2.6.32, and 2.6.33).

2.8.11 Authority decides to true up Rs. 641.68 Cr which shall be provided to the airport operator along with the re-assessed true up for the Second Control Period as part of the tariff determination for the Third Control Period.

CHAPTER 3. TRUE UP FOR THE SECOND CONTROL PERIOD

3.1 Issues raised by DIAL pertaining to True up for the Second Control Period

3.1.1 DIAL raised the following issues concerning the Second Control Period for true up as part of their MYTP.

- Additions to Regulatory Asset Base,
- Weighted Average Cost of Capital,
- Aeronautical Depreciation,
- Operating Costs,
- Aeronautical Taxes,
- Treatment of various items under Revenue from Revenue Share Assets,
- Eligibility and Applicability of Base Airport Charges along with true up for the same,
- Traffic.

3.1.2 For each of the issues raised by DIAL, the Authority looked at the past decisions taken with regards to that particular building block for Second Control Period as per the Tariff Order for the Second Control Period following which the Authority has examined the same and made their proposals pertaining to true up for Second Control Period. Authority's proposals on true up for Second Control Period are followed by comments and counter comments from various stakeholders on the same, which are then followed by Authority's Examination and Final Decision on the true up for Second Control Period as part of tariff determination for Third Control Period. The following paras explain these issues in detail.

3.2 True up of Regulatory Asset Base

DIAL's submissions regarding true up of Regulatory Asset Base for the Second Control Period

3.2.1 DIAL, in consonance with their requests regarding true up for the First Control Period, requested for adjustment to the tune of Rs. 176.36 Cr (Rs. 3,241.36 Cr less Rs. 3,065 Cr)[1] to be carried out in the Regulatory Asset Base with regards to the excess reduction in Development Fee from the aeronautical Regulatory Asset Base concerned with the capitalization of the ATC Tower. DIAL also requested for addition of the depreciated value of the Baggage Screening Related Assets (assuming addition of such assets in the First Control Period as per their submission) to the aeronautical RAB. The revised RAB as per the submission of DIAL as on March 31, 2014 is Rs. 7,373.36 Cr as against Rs. 7,105.60 Cr considered by AERA in the Tariff Order for the Second Control Period. DIAL provided the actual additions to RAB in the Second Control Period to be considered for true up.

3.2.2 The asset allocation among aero and non-aero assets had been considered by DIAL based on the following methodology;

- Upfront Fee Paid to AAI which is an Intangible Asset had not been considered as part of aeronautical assets as the same was not mandated to be classified as aeronautical assets as per the SSA and hence the same had been classified as Inadmissible Assets.

---

[1] The total amount collected through Airport Development Fee is Rs. 3,415 Cr and the estimated cost of ATC tower was Rs. 350 Cr which was capitalised only in FY 2019. DIAL's request in the tariff proposal is that the deduction towards ADF should correspond to the investment that is capitalised which is Rs 3415 less Rs 350 Cr i.e. Rs. 3,065 Cr. Against the same in the previous tariff order Rs. 3,241.36 Cr has been deducted towards Development Fee.

- Assets on airside directly related to aeronautical activity such as investment in assets including runways, drainage, culverts, taxiways, aprons and bays, airfield ground lighting, satellite rescue and fire station, perimeter roads, boundary wall, sub stations, etc. had been allocated as 100% aeronautical as they were classified as aeronautical activities under Schedule 5 of the OMDA.
- Investment in cargo terminal was completely classified as non-aeronautical in accordance with Schedule 6 of the OMDA while the investment in passenger terminal building is classified as aeronautical except in areas clearly identified towards retail or commercial activity.
- Assets which had common usage and support the overall functioning of the management of the airport for example administrative office had been allocated on the same proportion of the overall terminal area mix of IGIA.
- Assets which were not directly allocable to either aeronautical or non-aeronautical were classified as mixed assets. DIAL allocated this in line with the treatment provided by the Authority in the Tariff Order for the Second Control Period based on the independent study report prepared by Jacobs Consultants.

3.2.3 Based on the submission and considering the above, the aeronautical asset addition during the years in the Control Period is shown in the table below;

Table 21: Aeronautical Asset Addition submitted by DIAL for Second Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Addition to Aeronautical Assets	50.78	104.52	113.14	59.02	652.06*	979.52

**includes assets capitalised with respect to Air Traffic Control Tower which shall be adjusted by DF to the extent of Rs. 350 Cr consequently.*

3.2.4 Considering the above asset addition, the RAB for the Second Control Period as submitted by DIAL is shown in the table below;

Table 22: Aeronautical RAB submitted by DIAL for Second Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Aero RAB as submitted by DIAL	6,855.00	6,366.00	5,927.00	5,463.00	5,033.00	29,644.00

Decisions taken by the Authority regarding Regulatory Asset Base for Second Control Period as per Tariff Order for the Second Control Period

3.2.5 The Authority at the time of tariff determination for the Second Control Period had decided to consider additions to RAB as submitted by DIAL for the Second Control Period adjusted for the inflation forecast. The details of aeronautical RAB and HRAB considered by the Authority for the Second Control Period are in the table below;

Table 23: RAB considered by the Authority as per Tariff Order for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Opening Pro Rata Aeronautical RAB (A)	**6,748.22**	**6,343.49**	**6,032.53**	**5,709.74**	**5,391.48**
Addition to Aeronautical RAB for the year (B)	90.16	172.65	165.45	176.02	190.88
Additions to Aeronautical RAB carried over from RAB True Up (C)	15.18	-	-	-	-
Depreciation and Amortization towards aeronautical RAB (D)	510.07	483.61	488.24	494.28	499.08
Assets funded out of DF (E)	-	-	-	-	-
Closing Aeronautical RAB (F=A+B+C-D-E)	**6,343.49**	**6,032.53**	**5,709.74**	**5,391.48**	**5,083.28**

आर्थिक विनियामक प्राधिकरण Airports Economic Regulatory Authority of India सत्यमेव जयते

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Opening Hypothetical Regulatory Asset Base (G)	**357.38**	**328.14**	**300.86**	**273.87**	**247.08**
Depreciation Pertaining to Hypothetical Regulatory Base (DHRAB)	29.24	27.28	26.99	26.79	26.48
Closing Hypothetical Regulatory Asset Base (H)	**328.14**	**300.86**	**273.87**	**247.08**	**220.60**
Opening RAB (A+C+G)	7,120.78	6,671.63	6,333.39	5,983.61	5,638.56
Depreciation pertaining to RAB (D+DHRAB)	539.31	510.89	515.23	521.07	525.56
Closing RAB (F+H)	6,671.63	6,333.39	5,983.61	5,638.56	5,303.88
Average RAB	**6,896.21**	**6,502.51**	**6,158.50**	**5,811.09**	**5,471.22**

3.2.6 Authority at the time of determination of tariff for the Second Control Period had decided to continue with the asset allocation ratio of 89.25% for aeronautical assets and 10.75% for non-aeronautical assets. The Authority had decided to commission an independent study to analyze the asset allocation for the Second Control Period among aeronautical and non-aeronautical assets.

3.2.7 The Authority had also decided to true up the Regulatory Asset Base and Return on RAB for the Second Control Period at the time of determination of aeronautical tariff for the Third Control Period based on actual additions to RAB and actual depreciation during the Second Control Period as per the actual date of capitalization of the assets on a pro rata basis.

3.2.8 Authority had also decided not to consider any adjustments related to foreign currency fluctuation on capital or interest payments or any other changes in respect of the ECB Loan. The Authority also mentioned that if it were to consider foreign exchange fluctuations by expensing out actual losses on this account as an operating expense, it would also true up WACC (including actual interest rates on domestic term loan).

<u>Authority's Examination regarding True up of Regulatory Asset Base for the Second Control Period</u>

3.2.9 Authority looked at DIAL's submission regarding additions/adjustments to Regulatory Asset Base on account of capex related to Baggage Screening Equipment, and adjustment towards DF utilized for ATC tower which as per the submission was capitalized in FY 2019.

3.2.10 The Authority, as per the proposal mentioned in the earlier chapter regarding true up for the First Control Period, had proposed to consider adjustment in DF only in the year the ATC tower gets capitalized which was in FY 2019. This adjustment was carried out on a pro rata basis for FY 2019 with the balance carried forward to the next year in line with the pro rata addition to the asset base.

The Authority also noted that against the original envisaged cost of Rs. 350 Cr, the actual cost incurred at the time of ATC capitalization was Rs. 398.62 Cr with an increase of Rs. 48.62 Cr considered as an addition to RAB. The Authority noted that DIAL had earlier proposed to fund the cost escalation through DF which was rejected by AERA. Hence DIAL utilized its own cash accruals to fund the cost escalation. Authority, based on the submission, formed the opinion that as the cost incurred towards capitalization of ATC Tower was mandatory and had been incurred by DIAL based on its own sources, the cost escalation of Rs. 48.62 Cr could be considered as part of aeronautical RAB.

3.2.11 The Authority, in continuation of the proposal in the First Control Period, to consider addition of Baggage Screening related assets towards Regulatory Asset Base only post remittance of the collected amount to MoCA, had considered such additions only from FY 2019. The depreciation associated with this asset had also been estimated from FY 2019 to ensure that the asset was depreciated on an accelerated basis within the balance useful life of the asset. These adjustments had been carried out on a pro rata basis in line with the decision taken at the time of tariff determination for Second Control Period.

3.2.12 As per Hon'ble TDSAT order dated April 23, 2018 in the matter of issues raised by DIAL with regards to decisions taken by AERA in the First Control Period, AERA had commissioned an independent study concerning allocation of assets between aeronautical and non-aeronautical assets for the Second Control Period.

The independent study reviewed the various asset categories and developed a basis for segregation of various assets into aeronautical and non-aeronautical and based on the same had reclassified some portion of aeronautical asset addition to non-aeronautical asset addition. The recommendations of the independent study regarding allocation of assets are in the following table;

Table 24: Summary of asset re-segregation in Second Control Period as per the independent study

Particular	Summary
Segregation of EPOS system integration to CCTV	DIAL considered assets pertaining to EPOS system integration to CCTV as 100% aeronautical in nature. *The independent study determined that the costs related to software for monitoring retail sales integrated to CCTV to plug revenue leakage are non-aero in nature. Hence, the assets are re-segregated as 100% non-aeronautical.* **Thus, the re-segregation of the asset reduces the RAB to an extent of Rs. 5.98 Cr in Second Control Period.**
New Udaan Bhavan (NUB)	DIAL allocated the assets related to NUB based on weighted average floor space of all the airport terminals as support functions of entire airport operations are managed from NUB. *The independent study determined that NUB premises are commonly used for operations of GMR group. Thus, the allocation is revisited to exclude total space and costs pertaining to area rented out to group entities. The balance costs are segregated on the weighted average terminal space.* **Thus, re-segregation of these assets reduces the RAB to an extent of Rs. 3.59 Cr in Second Control Period.**
Senior Management Development Operation	DIAL considers the expenses related to development of office of the Business Chairperson and Group Chairperson as common expenses with allocation of assets based on weighted average floor space of all terminals. *The independent study found that the senior management is entrusted with the responsibilities at the Group level. As it is not feasible for the independent study to determine the proportion of man-hours spent by senior management for group companies, the independent study has reallocated the expenses in the ratio of 50:50 for aero and non-aero.* **Thus, the re-segregation of the concerned expenses reduces RAB to an extent of Rs. 3.61 Cr in Second Control Period.**
Common Transit Houses	DIAL taken 10 transit houses on lease and considered them as common assets with an aeronautical allocation of 84.10%. *The independent study states that as the purpose of visit of transiting personnel cannot be determined, an assumption of 50:50 allocation for aero and non-aero is considered for re-segregation.* **Thus, the re-segregation of expenses reduces RAB to an extent of Rs. 7.95 Cr in Second Control Period.**

Particular	Summary
Re-segregation of aeronautical assets to common assets	DIAL considered a few assets in Terminal 2 as 100% aeronautical in nature. *The independent study in their analysis found that the expenses incurred for refurbishment and expansion of Terminal 2 include retail spaces. Hence, the study has re-segregated the assets with an aeronautical allocation of 84.20% based on floor space proportion of Terminal 2.* **Thus, the re-segregation of these assets reduces RAB to an extent of Rs. 2.76 Cr in Second Control Period.**
Common Assets reclassified to aeronautical assets	DIAL considered assets such as perimeter intrusion systems, tetra mobile radio systems, sign boards and CISF assets as common assets allocated on the basis of weighted average floor space of all the terminals. *The independent study found that these assets are considered as aeronautical under schedule 5 of the OMDA. Hence, the same are re-classified as 100% aeronautical.* **The re-segregation of these common assets increases the RAB to an extent of Rs. 0.31 Cr.**
Total Adjustments to RAB	**Rs. 23.58 Cr**

The summary of the independent study concerning allocation of assets is in Annexure 2. The detailed report is appended as Appendix 1. Based on the above recommendations, the independent study had the following adjustments as part of the asset addition towards aeronautical RAB for the Second Control Period.

Table 25: Fixed Asset Adjustment as per the independent study for Second Control Period

Fixed Asset Adjustment (Rs. Cr)	FY 15	FY16	FY17	FY18	FY19	Total
(1) Total Investment in Fixed Assets during Second Control Period	**54.19**	**126.58**	**143.95**	**72.89**	**686.21**	**1,083.82**
(2) Investments in RAB during Second Control Period						
(i) Aeronautical Assets, *included in (1) above*	34.33	70.34	75.93	39.87	629.02	849.50
(ii) Adjustments to (2)(i) above for settlement/sale/deletion	(0.10)	(0.21)	(0.22)	(0.12)	0	(0.65)
(iii) Common Assets, *to the extent apportioned as Aeronautical Assets*	16.55	33.90	36.59	19.22	23.03	129.29
(iv) Adjustment for Air Traffic Control Tower funded from DF, *included in (2)(i) above**	-	-	-	-	(350.00)	(350.00)
Total Investment in RAB during Second Control Period	**50.78**	**104.04**	**112.3**	**58.97**	**302.05**	**628.14**
(3) Proposed adjustments to RAB due to change in segregation logic, for reasons below:						
(i) Reworking based on the Hand Over – Take Over (HOTO) certificates	-	-	-	-	-	-
(ii) Segregation of the EPOS system integration to CCTV	(5.98)	-	-	-	-	(5.98)
(iii) New Udaan Bhavan Improvement	(0.41)	(1.30)	(0.33)	(1.23)	(0.32)	(3.59)
(iv) Senior Management Office Improvements	(0.02)	(2.22)	(0.77)	(0.25)	(0.35)	(3.61)
(v) Transit House Improvements	(0.06)	(0.37)	(2.86)	(1.50)	(3.15)	(7.95)
(vi) Segregation from Common to Aero	0.01	0.04	0.06	0.20	-	0.31
(vii) Segregation from Aero to Common	-	-	-	-	(2.76)	(2.76)

Fixed Asset Adjustment (Rs. Cr)	FY 15	FY16	FY17	FY18	FY19	Total
Total proposed adjustments to RAB	(6.47)	(3.85)	(3.90)	(2.78)	(6.58)	(23.58)
(4) Adjusted Investment in RAB during Second Control Period (4) = (2) + (3)	44.31	100.19	108.40	56.19	295.47	604.56
(5) Adjustments to the Opening RAB as on the 1st April 2014 for settlement/sale/deletion by DIAL.[#]	(23.89)	(1.38)	(19.18)	(10.84)	(2.77)	(58.06)
(6) Adjusted Investment in RAB during Second Control Period net of adjustments made to the opening RAB in the Second Control period (6) = (4) + (5)	20.42	98.81	89.22	45.35	292.70	546.50

**The total Investment in Gross Fixed Assets amounts to ₹ 733.82 crores. The number is arrived after deducting the Development Fee (DF) funding in ATC Tower for ₹ 350 crores from the total Investment in Gross Fixed Assets during Second Control Period (as per FAR of DIAL) of ₹ 1083.82 crores.*

#The total adjustments on account of Sales/Deletions/Settlement with contractors sums to ₹ 58.71 crores. Out of the total value of such sales/deletions/settlement, ₹ 0.65 crores (Refer item 2(ii) of Table 25) pertain to assets of Second Control Period and the remaining ₹ 58.06 crores (Refer item 5 of Table 25) pertained to assets related to the First Control Period and were adjusted to the Gross Fixed Assets of the Second Control period. The adjustment of Rs. 58.71 Cr gets covered under Depreciation (E) and Deletion (D) while arriving at the RAB for the Second Control Period (Table 27).

3.2.13 As can be seen from the above table, the independent study had proposed adjustments to DIAL's submissions which resulted in an amount of Rs. 23.58 Cr being re-classified from aeronautical asset addition to non-aeronautical asset addition during the Second Control Period. As a result, the aeronautical asset base for Second Control Period to an extent of Rs. 23.58 Cr had been reclassified from aeronautical assets to non-aeronautical assets.

3.2.14 The Authority proposed to adopt the recommendations of the independent study for true up of Regulatory Asset Base for Second Control Period.

3.2.15 The adjustment of Rs. 23.58 Cr had been carried out on the additions over the Second Control Period as shown in the table below;

Table 26: Adjustments in Additions to RAB proposed to be considered by the Authority for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Additions to RAB as submitted by DIAL as per Table 21	50.78	104.52	113.14	59.02	652.06	979.52
Additions to RAB as suggested by the independent study post reclassification as mentioned in Table 25	44.31	100.19	108.40	56.19	645.47[#]	954.56[#]
Net adjustments on DIAL's submission as considered by the Authority*	6.46	4.33	4.74	2.83	6.60	24.96*

**There is a difference in the asset addition to RAB assessed by the independent study and DIAL submission to the extent of Rs. 1.38 Cr which reflects in the net adjustment also. The same is on account of some rounding off error as noted by the independent study in its analysis.*

#The total addition as per the table less the adjustment towards DF of Rs 350 Cr shall lead to the cost of Rs. 604.56 Cr mentioned as the total asset addition as per the independent study (Refer item 4 of Table 25). Similarly, the addition in FY 2019 adjusted by Rs. 350 Cr would lead to the addition as mentioned in Table 25 for FY 2019.

These adjustments would result in the asset allocation ratio getting revised to 89.16% for the airport operator as on FY 2019 and 88.92% for the period from FY 2015-2018. Authority proposed to consider this asset allocation ratio for its analysis regarding true up for the Second Control Period. The asset allocation ratio so identified, as explained later also formed the basis for determining the efficient O&M Costs for the Second Control Period.

3.2.16 The revised RAB YoY (including Hypothetical RAB) for the Second Control Period proposed to be considered by the Authority for tariff computation for the Third Control Period is shown in the table below;

Table 27: Aeronautical RAB proposed to be considered by Authority for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Opening Pro Rata Aeronautical RAB (A)	6,919.27	6,424.07	5,965.94	5,560.96	5,131.06
Pro Rata addition for the current year (B)$	16.26	20.52	30.75	20.43	252.14*
Pro Rata addition from the previous year (C)$	15.18#	28.06	79.67	77.65	35.76
Deletions (D)	22.26	1.15	2.05	9.15	2.51
Depreciation and Amortization towards aeronautical RAB (E)	504.38	505.55	513.37	518.82	526.68
Assets funded out of DF (F)	-	-	-	-	117.95*
Pro Rata Aeronautical RAB for the Second Control Period (ARAB=A+B+C-D-E-F)	6,424.07	5,965.94	5,560.96	5,131.06	4,771.83
Opening Hypothetical Regulatory Asset Base	357.38	329.54	301.83	274.00	246.09
Depreciation Pertaining to Hypothetical Regulatory Base (DHRAB)	27.84	27.71	27.83	27.91	27.25
Closing Hypothetical Regulatory Asset Base	329.54	301.83	274.00	246.09	218.84
Average HRAB (HRAB)	343.46	315.69	287.92	260.05	232.47
RAB considered for the Second Control Period (ARAB + HRAB)	**6,767.53**	**6,281.63**	**5,848.87**	**5,391.11**	**5,004.30**
Depreciation pertaining to RAB (E+DHRAB)	**532.22**	**533.26**	**541.20**	**546.73**	**553.93**

**pro rata adjustment in additions for the FY 2019 had been carried out with the balance carried forward to FY 2020. The balance pertaining to B i.e. Pro Rata addition is Rs. 393.20 Cr which was arrived at by deducting Rs 252.14 Cr from Rs 645.46 Cr mentioned in Table 26 for the FY 2019 while the balance pertaining to F i.e. asset funded out of DF is Rs 232.05 Cr which was arrived at be deducting Rs 117.95 Cr from Rs 350 Cr which was the DF pertaining to ATC Tower. The balances shall be adjusted in the first year of Third Control Period at the time of RAB determination.*

#pro rata adjustment as considered by Authority in the Second Control Period Tariff Order

$The asset addition for each year as per Table 26 was split on a pro rata basis between the current year and the next year. For eg; the asset addition of Rs. 44.32 Cr in FY 2015 was split into Rs. 16.26 Cr in FY 2015 under (B) and Rs. 28.06 Cr in FY 2016 under (C).

Stakeholder comments regarding True up of Regulatory Asset Base for the Second Control Period

3.2.17 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to true up of Regulatory Asset Base for the Second Control Period. The comments by stakeholders are presented below;

DIAL's comments regarding true up of Regulatory Asset Base for the Second Control Period:

3.2.18 DIAL, consistent with its comments with regards to calculation of RAB for the First Control Period, has requested for correction of error in its earlier submission of calculation of RAB for Second Control Period as per the MYTP. DIAL has recalculated the RAB for the Second Control Period considering the average depreciation for the year rather than the full year depreciation. The revised RAB for Return, to be provided to the extent of WACC, year on year for the Second Control Period is as shown in the table below;

Table 28: Revised RAB for Return submitted by DIAL for Second Control Period as per Stakeholder Consultation Process

Year ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Opening RAB (A)	**6,919.27**	**6,424.09**	**5,965.99**	**5,561.02**	**5,131.20**
Additions Prorata					
Relating to Current Year	16.26	20.52	30.75	20.43	252.14
Relating to previous year carried forward to Current Year	15.18	28.06	79.67	77.67	35.76
Total Additions (B)	**31.44**	**48.58**	**110.42**	**98.10**	**287.90**
Depreciation and Others					
Deletion	22.26	1.15	2.05	9.15	2.51
DF Adjustments	-	-	-	-	117.95
Disallowance by AERA	-	-	-	-	-
Depreciation	504.36	505.53	513.34	518.77	526.58
Total Deletion, Adjustments, Disallowance and Depreciation (C)	**526.62**	**506.68**	**515.39**	**527.92**	**647.04**
Closing RAB (D = A+B-C)	**6,424.09**	**5,965.99**	**5,561.02**	**5,131.20**	**4,772.06**
HRAB					
Opening HRAB (E)	357.38	329.52	301.79	273.93	245.97
Depreciation on HRAB (F)	27.86	27.73	27.86	27.96	27.35
Closing HRAB (G = E–F)	329.52	301.79	273.93	245.97	218.62
Average RAB (I = A+B-C/2)	**6,687.40**	**6,219.33**	**5,818.72**	**5,395.16**	**5,095.58**
Average HRAB (J = E-F/2)	**343.45**	**315.66**	**287.86**	**259.95**	**232.30**
Total RAB for Return to be considered for Tariff Determination (K = I+J)	**7,030.85**	**6,534.99**	**6,106.58**	**5,655.11**	**5,327.88**

Further DIAL has provided the following comments item wise on the segregation of assets amongst aeronautical and non-aeronautical assets as suggested by the independent study.

Table 29: DIAL's Comments on Segregation of Assets as suggested by Independent Study as per Stakeholder Consultation Process

Particular	Outcome of Independent study	DIAL's submission as part of stakeholder comments
EPOS system integration to CCTV	The independent study determined that the costs related to software for monitoring retail sales integrated to CCTV to plug revenue leakage are non-aero in nature. Hence, the assets are re-segregated as 100% non-aeronautical.	The stated CCTV system is not just only for preventing revenue leakage but also for maintaining airport security, passenger movement etc. hence it should be considered as aeronautical. Study suggests this to be 100% non-aeronautical which is not correct and not in line with the intended use of the asset. At the least it should be considered common asset.
New Udaan Bhawan	NUB premises are commonly used for operations of GMR group. Thus, the allocation is revisited to exclude total space and costs pertaining to area rented out to group entities. The balance costs are segregated on the weighted average terminal space.	Independent study suggests that 19.53% of the NUB area has been let out and balance has been allocated into weighted average terminal ratio. Under the table 25 of the asset allocation report of RS & CO the area for third floor NUB building occupied by DIAL has been shown as 1535 sqm. However, the area occupied by DIAL for the indicated floor in NUB is 2303 sqm for the entire period of CPIII. The error needs be corrected.

आर्थिक विनियामक प्राधिकरण
सत्यमेव जयते
Economic Regulatory Authority of India

Particular	Outcome of Independent study	DIAL's submission as part of stakeholder comments
Senior management development	Senior management is entrusted with the responsibilities at the Group level. As it is not feasible for the independent study to determine the proportion of man-hours spent by senior management for group companies, the independent study has reallocated the expenses on an assumption of 50:50 for aero and non-aero.	The senior management refers to the DIAL's senior management. All other group companies have their own expenditure corresponding to the asset and opex purchased for senior management in their organization. Hence, such asset is specific to DIAL and has to be considered as common asset instead of an assumption of 50:50 for aero and non-aero.
Common transit house	The purpose of visit of transiting personnel cannot be determined, an assumption of 50:50 allocation for aero and non-aero is considered for re-segregation.	DIAL is entrusted to the business of aeronautical and non-aeronautical services Therefore we request the Authority to continue to treat the common transit house as common asset and allocation as proposed based on assumption of 50:50 is to be reconsidered.

Other Stakeholders' comments regarding true up of Regulatory Asset Base for the Second Control Period:

3.2.19 IATA commented that the current practice of cost allocation underestimates the portion of costs allocated to non-aeronautical activities.

IATA noticed that the approach to cost allocation is to split assets mainly on the basis of surface area. IATA considers the use of surface areas a relatively simple and common approach which considers an accounting approach to allocate costs. In airports, most commercial activities are inextricably linked to air transport. If a system starts by directly allocating revenues or costs purely based on the name of the activity but without considering externalities or links between activities, the result will be flawed. The detailed reasoning of IATA for the above-mentioned comments is as follows;

"We see that again the approach is to split assets mainly on the basis of surface area. While the usage of surface area can be considered as a relatively simple and common approach, it raises important concerns in the context of allocation costs at airports. Intuitively, the use of surface areas would not make sense in a competitive environment. If a company has two identical warehouses, one providing storage of luxury goods and the other of low value goods, it would make sense in an accounting approach to allocate the real estate costs across both equally. However, it would not make sense to allocate all other costs according to the same rule. This becomes even more obvious when considering that in airports most commercial activities are inextricably linked to air transport. When various lockdowns were lifted worldwide, airside revenues did not pick up in the same way that off-airport retail has.

Taking the simplistic surface area approach will lead to serious underestimations of the costs that should be allocated to non-regulated activities:

- *The cost of building infrastructure to surface area. Volumetric considerations critically impact both CAPEX and OPEX.*
- *The cost of providing large open spaces with big spans and high ceilings will have a large impact on both substructure and superstructure that is not proportional to square meters. These types of spaces are usually designed to accommodate wide open spaces for commercial areas to increase commercial revenues.*

Economic Regulatory Authority of India

- *In some instances, the need to provide additional square meters for commercial spaces (shops, restaurants, offices...) will result in additional "floors" or reinforced structures resulting in a marked increase in costs.*

- *In some airports, decisions on affecting some areas to 100% regulated activity (i.e. check-in hall, security...) are not driven by sound, rational and customer-supported decisions after consultation and agreement with the airlines operating and paying for those areas. Neither the passengers nor the airlines need an architectural masterpiece, wooden roofs or 15 meters high ceilings with art displays to efficiently do their required processes. All those decisions are usually made unilaterally by airports with the objective of creating a good impression on the passenger that will improve the likelihood of increasing commercial revenues by changing the passengers' frame of mind.*

- *The use of surface areas as the allocation driver also leads to situations where certain activities could generate revenues at "zero" cost (e.g. advertising on walls, boarding bridges, baggage belts, trolleys, information screens, among others that don't occupy "floor space").*

Generally, the discretion of the airport operator to structure its business makes it difficult to divide one infrastructure such as a terminal into two or more mere segments; additionally, the cost allocation keys leave room for a lot of discretion. Similar issues arise on operating costs.

Fundamentally, allocation systems will be flawed if they are built on the wrong assumptions. If a system starts by directly allocating revenues or costs purely based on the name of the activity but without considering externalities or links between activities, the result will be flawed.

This accounting approach ignores the economic reality of different activities and the dependencies between activities. For instance, AERA does not apportion any runway costs to non-regulated activities under the premise that "landing" is a purely aeronautical activity. The fact that if a runway is closed, no passengers can arrive or leave and therefore certain activities will have no customers, is completely ignored. The significant investment made in bringing travellers through a specific building making them captive customers is reduced to zero in many systems. A number of airports are located outside of city centres with long journeys to the city and it is doubtful that a passenger would drive to that distant location and pay significant car parking fees to then shop and dine at the commercial facilities an airport proposes. In fact – shopping centres of that nature frequently provide complementary shuttles or shoulder the cost of public transport facilities or roads to bring foot traffic to the location. While sceptics would argue that this does not hold for city centre airports, any airport operator will confirm that post-security commercial offers are a substantial portion of commercial activity due to passenger dwell time and that simply does not hold for an equivalent non-airport facility in the same location.

Along the same lines – the costs of some services such as security provide benefits to both aeronautical and non-aeronautical activities, as do services that serve both passengers and staff. This complexity is rarely reflected in allocation rules and passenger security costs are deemed to be 100% aeronautical while restaurants and dining facilities are 100% non-aeronautical.

In a nutshell, a pure accounting-based approach that ignores economic externalities and links between activities will result in rules that are unfair. For the same reasons that competition authorities carefully scrutinize companies that attempt to vertically integrate or practices linked to tied selling, applying overly simplistic rules on the basis of surface areas will result in a bad outcome for consumers. It is of *extreme importance that this fundamental issue is understood and acknowledged by AERA and that measures are taken to implement a fair cost allocation system for both assets and operating costs.*

IATA would welcome the opportunity to bring alternative examples for AERA's consideration."

DIAL's counter-comments and response to stakeholder comments regarding True up of Regulatory Asset Base for the Second Control Period

3.2.20 Subsequent to the Stakeholder Comments received by DIAL as part of Stakeholder Consultation Process, DIAL's response to the various stakeholder comments with respect to true up of Regulatory Asset Base for the Second Control Period are presented below;

DIAL's Response to IATA's comments on true up of Regulatory Asset Base for the Second Control Period:

3.2.21 According to DIAL, the allocation principle adopted by Delhi Airport was formulated by Jacobs' Consultancy on basis of sound logical grounds, concession terms and best global practices thereby requiring no revisit. The allocation methodology was adopted on a few key principles as stated below;

"Full allocation: *all costs, revenues and expenditure should be allocated uniquely avoiding both missing items and double counting;*

Attribution quality: *wherever possible, costs, revenues and assets should be directly pointed to aeronautical or other activities, or allocated using a credible and accurate measurement system. More general apportionment of costs in the form of overheads should be minimised;*

Relevance: *costs and asset allocations not directly measurable should be attributed using drivers which are clearly related to usage in the area concerned;*

Objectivity: *where possible attribution bases should be directly measurable;*

Consistency: *the approaches used to attributing costs in different areas should be broadly consistent with each other. In addition cost, revenue and asset allocations for any activity should be consistent with each other;*

Continuity: *the methodology used to allocate costs between aeronautical and other activities, should also be used (where required) to allocate aeronautical costs between areas such as runways and taxiways, terminals and parking areas (albeit at a greater level of detail);*

Avoidable Cost: *the primary activity of the airport is to provide aeronautical services and the users should bear the cost of these. The resources essential to the primary activity, operation of the airport, even if there were no secondary (non-aeronautical) activities should be allocable to aeronautical activities. Where, however, the presence of non-aeronautical activities has generated an additional requirement for space or facilities, which would otherwise not have been needed, the resulting otherwise avoidable costs should be regarded in full as non-aeronautical.*

Transparency: *the allocation system should be clear and verifiable when scrutinized.*

Accordingly, the allocation exercised are based on settled principle and need not to be revisited. Further, on the specific observation of IATA on additional space built due to Non-Aeronautical business requirement, we would like to submit that the non-aeronautical revenue plays a vital role in the airport viability. IATA has mentioned the commercial space created by airport leads to cost increase, however, IATA has not mentioned that the non-aeronautical revenues derived from such areas keeps the aeronautical tariff at lower level. In case of DIAL 30% of non-aero revenue cross *subsidize aeronautical tariff. In past two control period non-aero revenue at DIAL reduced the tariff burden on its stakeholders to the extent of Rs. 4000 Cr.*

The allocation methodology is also aligned to the DIAL concession i.e. OMDA. OMDA provides the list of aeronautical service as well as non-aeronautical services. As per concession the assets have been classified based on the service provided by them accordingly the assets which are providing aeronautical services mentioned in schedule 5 of OMDA are classified as aeronautical and asset providing non-aeronautical service mentioned in schedule 6 of OMDA classified as non-aeronautical. Further, the allocation exercise has been tested by the independent consultant appointed by the Authority and annexed to the consultation paper.

IATA in its response suggested to allocate runway cost to non-regulated activity on the ground that if the runway is closed then no passenger can arrive and certain activity will have no customer. This argument is baseless and against the basic premise of concession as well as global practice. If we go by this logic then there are various non-aero activities like F&B, Lounges, retail, car park without which the passenger cannot think of using airport/airlines however the cost providing these service have not been allocated to aeronautical business. Further, AERA also recognize that due to aeronautical facility airport is able to earn the non-aeronautical revenue this is the basic premise due to which AERA cross subsidizes aeronautical tariff from 30% of non-aeronautical revenue.

In a nutshell, we would like to submit that allocation principle adopted by Delhi Airport are based on sound logical grounds, concession terms and basis the best global practices accordingly required no revisit or reinvention."

Authority's Examination on Stakeholder Comments regarding issues on True up of Regulatory Asset Base for the Second Control Period

3.2.22 The Authority, consistent with the decision taken for the First Control Period regarding the formula for calculating RAB in this Tariff Order, has decided not to consider DIAL's revised submissions as part of stakeholder consultation process and, instead, has considered RB_i defined in Schedule 1 of SSA for calculating RAB for Second Control Period as shown below.

$$RB_i = RB_{i-1} - D_i + I_i$$

"Where

RB_0 for the first regulatory period would be the sum total of

(i) the Book Value of the Aeronautical Assets in the books of the JVC and

(ii) the hypothetical regulatory base computed using the then prevailing tariff and the revenues, operation and maintenance cost, corporate tax pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation.

I = investment undertaken in the period

D = depreciation calculated in the manner as prescribed in Schedule XIV of the Indian Companies Act, 1956. In the event, the depreciation rates for certain assets are not available in the aforesaid Act, then the depreciation rates as provided in the Income Tax Act for such asset as converted to straight line method from the written down value method will be considered. In the event, such rates are not available in either of the Acts then depreciation rates as per generally accepted Indian accounting standards may be considered."

The RAB has been so calculated considering the investments made in a year on a pro rata basis. The RAB calculation adopted in the Consultation Paper is consistent with the principles of the SSA and the methodology adopted in the past Tariff Orders.

Thus, Authority decides to not consider any changes to the RAB proposed in the Consultation Paper No. 15/2020-21 for Second Control Period.

3.2.23 Authority has noted the comments made by DIAL on the segregation of the assets amongst aeronautical and non-aeronautical assets by the independent study. With regards to EPOS system integration to CCTV, DIAL commented that the same should be considered as common asset as the CCTV system is also used for maintaining airport security, passenger movement apart from preventing revenue leakage. Authority would like to point that EPOS is considered as non-aeronautical asset as per Schedule 6 of OMDA and the asset under discussion is not just CCTV but EPOS system integration to CCTV. Thus, Authority has decided to consider the asset allocation for the same as per independent study's recommendation consistent with the Consultation Paper No. 15/2020-21.

Authority has taken note of the comments made by DIAL regarding New Udaan Bhavan that the area for third floor in New Udaan Bhavan is 2303 sq.m and not 1535 sq.m as considered by the independent study. In this regard, Authority would like to state that the offices of Group Chairman and Business Chairman at the third floor have been excluded as they are used for operations of Group Companies. It has resulted in the decrease of area by 33% which comes to 1535 sq.m. Thus, Authority has considered no revisions with respect to asset allocation of New Udaan Bhavan and has segregated the same consistent with the Consultation Paper No. 15/2020-21.

Authority has taken note of DIAL's comments that the Senior Management Development refers to the senior management of DIAL and hence such asset being specific to DIAL should be considered as a Common Asset. Authority would like to point that the expenses for Senior Management Development are pertaining to development of Business Chairman and Group Chairman, entrusted with the responsibilities of the entire group. Authority would also like to state that there were no records maintained by DIAL describing the purpose of costs pertaining to Senior Management Development thereby the costs cannot be considered as common costs. Thus, no adjustment has been considered by the Authority to the segregation of costs pertaining to Senior Management Development proposed in the Consultation Paper No. 15/2020-21.

Authority has noted DIAL's comments pertaining to Common Transit House which states that DIAL is entrusted with the business of aeronautical and non-aeronautical services based on which DIAL has requested Authority to treat the Common Transit House as a Common Asset. Authority is of the view that Common Assets outside the terminal cannot be segregated on the basis of terminal area as it is not an appropriate cost driver. Authority would like to point out there were no records maintained regarding the costs pertaining to Common Transit House describing the purpose of each line item. As such, Common Transit House cannot be considered as Common Asset. Thus, Authority has not considered any adjustments to the segregation of costs pertaining to Common Transit House proposed in the Consultation Paper No. 15/2020-21.

Authority has hence considered the adjustments as suggested by the Independent study as mentioned in the proposal of the Consultation Paper without any deviation.

3.2.24 Authority has considered the comments made by IATA regarding the current practice of cost allocation. Authority has noted that IATA considers the use of surface area to allocate assets as a relatively simple and common approach which would lead to underestimations of costs related to non-regulated activities.

Authority agrees with DIAL's response to IATA that the allocation methodology is based on a settled principle and need not be revisited. Authority is also of the view that the allocation methodology adopted is aligned with the principles defined in Schedule 5 & Schedule 6 of OMDA which specified aeronautical and non-aeronautical activities respectively. Further, surface area has been considered as one of the drivers and not the only driver for allocation of common assets within the terminal. The common assets outside the terminal have been apportioned based on different cost drivers that are relevant to the activity for which the asset is used.

Authority has hence decided to continue with the existing treatment as suggested by the Independent Study and continue segregation of the assets as proposed by the Independent Study consistent with the Consultation Paper No. 15/2020-21.

Based on the above, Authority decides to consider RAB, consistent with its proposal in the Consultation Paper, as per Table 27 of this Tariff Order towards calculation of true up for the Second Control Period.

3.3 True up of Weighted Average Cost of Capital

DIAL's submissions regarding True up of Weighted Average Cost of Capital for the Second Control Period

3.3.1 DIAL made the following submissions with regards to the Weighted Average Cost of Capital in line with similar submissions with regards to the WACC for the First Control Period.

- Cost of equity to be considered as 22.8%.
- Return on RSD to be considered as 16%.
- With regards to the cost of debt, DIAL considered expensing out actual forex losses and had re-stated the cost of debt based on actual cost of debt in rupee terms, calculated by considering the actual outgo towards interest and hedging costs. The restated effective cost of debt was 9.28%.

3.3.2 Based on the above, the effective WACC had been considered as 14.06% which had been calculated as per the table below;

Table 30: Computation of WACC for Second Control Period submitted by DIAL as per MYTP

FY ending March 31	2015	2016	2017	2018	2019
Cost of Equity	22.86%	22.86%	22.86%	22.86%	22.86%
Cost of RSD	16.00%	16.00%	16.00%	16.00%	16.00%
Effective cost of debt	9.28%	9.28%	9.28%	9.28%	9.28%
Means of Finance Proportion					
Equity Proportion	27.16%	27.16%	27.16%	27.16%	27.16%
RSD Proportion	16.32%	16.32%	16.32%	16.32%	16.32%
Debt Proportion	56.52%	56.52%	56.52%	56.52%	56.52%
WACC	**14.06%**	**14.06%**	**14.06%**	**14.06%**	**14.06%**

Decisions taken by the Authority regarding Weighted Average Cost of Capital for Second Control Period as per Tariff Order for the Second Control Period

3.3.3 The Authority at the time of tariff determination for the Second Control Period had considered cost of debt for the Rupee Term Loan for the Second Control Period at 11.38% which shall be trued up at the time of determination of aeronautical tariff for the Third Control Period subject to a ceiling on the overall increase of 50 bps.

3.3.4 The Authority had also calculated the weighted average cost of debt for the Second Control Period considering the cost of borrowing for the ECB Loan and cost of borrowing for RTL which is as shown in the table below;

Table 31: Cost of Debt considered by Authority as per Tariff order for Second Control Period

FY ending March 31	2015	2016	2017	2018	2019
External Commercial Borrowing (ECB)	7.08%	7.39%	7.78%	7.77%	7.74%
Rupee Term Loan (RTL)	11.38%	11.38%	11.38%	11.38%	11.38%
Weighted Average Cost of Debt	9.78%	10.01%	10.25%	10.37%	10.53%

3.3.5 The Authority had considered cost of equity at 16% which was in line with the decision taken at the time of the Tariff Order for the First Control Period as the Authority felt that the relevant factors considered for arriving at 16% return on equity as reasonable and had not undergone any change in the ensuing period. Authority had also decided to commission an independent study to determine the cost of equity applicable in respect of IGI, Airport, New Delhi at an appropriate time.

3.3.6 The Authority had decided to treat RSD as a means of finance at zero cost as the Authority felt that there were no costs involved in raising RSD.

3.3.7 Authority had decided that the Equity Base shall be reduced by the amount paid as Upfront Fee i.e. Rs. 150 Cr. Further Reserves and Surplus if positive shall also be considered as part of Equity Base and shall protect the Paid Up Equity if the Reserves and Surplus turn negative on account of accumulated losses. Based on these principles along with the cost of equity and cost of debt mentioned in the earlier paras, the Authority determined the Weighted Average Cost of Capital as 9.97%.

3.3.8 The Authority had also decided not to true up WACC at the time of determination for the Third Control Period except for the elements as below including;

- New Debt subject to the ceiling on the cost of debt for Rupee Term Loan at actuals as of April 1, 2014 plus 50 basis points.
- New RSD (in addition to Rs. 1,471.51 Cr already considered by the Authority as means of finance while determining DF).
- Fresh Paid up Equity (in addition to Rs. 2,300 Cr already considered by the Authority (after removing upfront fee of Rs. 150 Cr from the paid-up equity of Rs. 2,450 Cr) as a means of finance while determining DF).
- Funds from Reserves and Surplus on actuals, if positive during the Second Control Period.

Authority's Examination regarding True up of Weighted Average Cost of Capital for the Second Control Period

3.3.9 The Authority looked at DIAL's submission with regards to the Weighted Average Cost of Capital. The Authority had at the time of the determination of WACC for the Second Control Period had indicated that WACC shall be trued up subject to new debt, additional equity infusion and additional RSD raised by DIAL, along with increase in reserves and surplus.

3.3.10 The Authority had also considered the Hon'ble TDSAT judgement to include the upfront fee of Rs. 150 Cr as part of equity base which had been carried out by the Authority along with the true up of WACC in the First Control Period.

3.3.11 The Authority also noticed that the actual cost of debt as submitted by DIAL for the Second Control Period is 9.28% which is considerably lesser than the weighted average cost of debt as considered by the Authority for the Second Control Period.

The Authority understands that the reduction in the cost of debt was on account of various refinancing exercises that DIAL had carried out based on which the debts had been refinanced with foreign currency bonds which had reduced the cost of borrowing. This cost of debt as noted by the Authority takes into consideration the outflow towards various hedge costs taken by the airport operator in addition to the interest cost incurred by the debt instrument. The Authority hence considered the cost of debt at actuals at 9.28% p.a. towards true up of WACC for the Second Control Period.

3.3.12 The Authority also noted that there had been additions/adjustments in deposits raised from real estate activities during the Second Control Period. Authority proposed to consider return on RSD as equivalent to the cost of debt for the Second Control Period, consistent with the proposal mentioned in this Tariff Order regarding true up of WACC for the First Control Period, based on the recommendations of the independent study whose summary is in Annexure 7. The details of RSD YoY are as shown in Table 32.

3.3.13 The Authority noted the additions /adjustments in Reserves and Surplus for the years FY 2017, FY 2018 and FY 2019 and proceeded to consider the same based on actuals.

3.3.14 The Authority commissioned an independent study to determine the return on equity from the Third Control Period and as already decided during the tariff determination for the Second Control Period and as explained during the true up for the First Control Period in this Tariff Order, the Authority doesn't see any merit in revising the cost of equity from the already considered 16%. The Authority hence proposed to consider the cost of equity as 16% for the purpose of true up of WACC for the Second Control Period.

3.3.15 Based on the above, WACC for Second Control Period had been determined at 11.10% as part of the tariff determination for the current Control Period against 9.97% in the Tariff Order for the Second Control Period. The calculation can be seen in the table below;

Table 32: WACC proposed to be considered by the Authority for Second Control Period

FY ending March 31	2015	2016	2017	2018	2019
Cost of Equity	16.00%	16.00%	16.00%	16.00%	16.00%
Cost of RSD	9.28%	9.28%	9.28%	9.28%	9.28%
Effective cost of debt	9.28%	9.28%	9.28%	9.28%	9.28%
Paid Up Capital	2,450.00	2,450.00	2,450.00	2,450.00	2,450.00
Reserves and Surplus (if positive)	-	-	218.44	53.30	145.00
Equity	2,450.00	2,450.00	2,668.44	2,503.30	2,595.00
RSD	1,471.51	1,471.51	1,566.00	1,373.11	1,732.54
Debt	5,290.63	5,254.68	5,272.80	5,272.80	5,272.80
Means of Finance Proportion					
Equity Proportion	27.16%				
RSD Proportion	16.32%				
Debt Proportion	56.52%				
WACC	**11.10%**				

Stakeholder comments regarding True up of Weighted Average Cost of Capital for the Second Control Period

3.3.16 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to true up of Weighted Average Cost of Capital for the Second Control Period. The comments by stakeholders are presented below;

DIAL's comments regarding true up of Weighted Average Cost of Capital for the Second Control Period:

3.3.17 DIAL requested that the RSD be treated as Quasi Equity and should be allowed a return equivalent to 16%. In the event that the Authority considers the cost of debt as the opportunity cost then it should be equivalent to cost of debt at which rupee term loan was available to DIAL and hence the same should be considered as 11.38% instead of 9.28% considered in the Consultation Paper for the Third Control Period.

Authority's Examination on Stakeholder Comments regarding issues on True up of Weighted Average Cost of Capital for the Second Control Period

3.3.18 Authority has analyzed the submission made by DIAL regarding consideration of an appropriate return on RSD for the Second Control Period in detail as part of the analysis of stakeholder comments and submission for True Up for First Control Period. Consistent with its stand for true up of First Control Period in this Tariff Order, Authority is of the view that the airport users benefitted from zero cost financing that DIAL was able to raise from Non-Transfer Assets and that DIAL would have incurred the actual cost of debt if they would have raised the amount equivalent to RSD from the market.

Thus, Authority, consistent with the decision taken with regards to True up for the First Control Period in this Tariff Order, has decided to consider the Cost of RSD as equivalent to actual Cost of Debt at 9.28% for the Second Control Period as per the recommendations of the independent study. Authority would also like to state that DIAL can consider investing the funds pertaining to RSD elsewhere and not utilize it for capex related to airport, if DIAL is of the view that it is not getting the appropriate return on RSD.

Authority based on the above has decided to determine WACC for Second Control Period as 11.10% consistent with its proposal for the same as per the Consultation Paper for the Third Control Period.

Economic Regulatory Authority of India

3.4 True up of Aeronautical Depreciation

DIAL's submission regarding True up of Aeronautical Depreciation for the Second Control Period

3.4.1 DIAL submitted the actual depreciation related to aeronautical assets for the Second Control Period to be considered for truing up. The following table summarises the actual depreciation as submitted by DIAL for the Second Control Period;

Table 33: Actual Depreciation submitted by DIAL for Second Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Depreciation for the Second Control Period	541.54	542.94	551.40	557.57	559.44	2,752.89

Decisions taken by the Authority regarding Aeronautical Depreciation for Second Control Period as per Tariff Order for the Second Control Period

3.4.2 The Authority had considered depreciation rates as mentioned in the table below for the assets in the Second Control Period;

Table 34: Rates of Depreciation Considered by the Authority as per Tariff Order for Second Control Period

Asset Classes	Rate of Depreciation (SLM)	Rate of Depreciation (WDV)
Building	3.3%	10.0%
Railway, Taxiway & Apron	3.3%	10.0%
Plant & Machinery	6.7%	15.0%
Computer (Software shown as intangible in financial)	16.7%	60.0%
Furniture & Fixtures	10.0%	10.0%
Office Equipment	20.0%	15.0%
Vehicles	12.5%	15.0%
Land	0.0%	0.0%
Intangibles	1.7%	10.0%

3.4.3 Authority had also made the following adjustments while calculating depreciation;

- Depreciation on assets disallowed as per Order no 28/2011-12 in the matter of levy of development fee by DIAL at IGI Airport, New Delhi needs to be removed.
- Depreciation on foreign exchange fluctuations capitalized by DIAL needs to be removed.
- Depreciation on Assets funded out of DF needs to be removed.
- Depreciation on Intangible Assets (such as interest on account of DF securitization, VRS payments to AAI, Upfront Fee, etc.) either disallowed or expensed out by the Authority vide its Tariff Order for the First Control Period needs to be removed.

3.4.4 The depreciation values (including depreciation associated with Hypothetical RAB) as considered by the Authority at the time of tariff determination for the Second Control Period are as shown in the table below;

Table 35: Aeronautical Depreciation considered by Authority as per the Tariff Order for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Aeronautical Depreciation	539.31	510.89	515.23	521.07	525.56	2,612.06

Authority's Examination regarding True up of Aeronautical Depreciation for the Second Control Period

3.4.5 Authority had looked at DIAL's submission regarding the Depreciation and had also perused the relevant clauses in the financial statements of DIAL along with auditor's certificates which had mentioned that the depreciation rates considered were aligned with the depreciation rates as per the Authority's Order no. 35/2017-18 dated January 12,2018 along with its Amendment to Order No. 35/2017-18 dated April 9, 2018. Authority had recalculated the depreciation values based on the reclassification of assets as suggested by the independent study because of which there had been adjustment in Gross Block of aeronautical assets to the extent of Rs. 23.58 Cr (Table 24).

The depreciation associated with the Baggage Screening Assets had also been adjusted to ensure that these assets are depreciated within the useful life of the assets as determined by AERA as per the Order No 35/2017-18 along with its amendment i.e. depreciation for this asset commenced only from FY 2019 and would be accelerated within the balance residual useful life from FY 2019, even though the assets were commissioned in FY 2010-11.

3.4.6 The depreciation YoY for the Second Control Period as recalculated by the Authority is shown in the table below;

Table 36: Depreciation proposed to be considered by Authority for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Depreciation as submitted by DIAL (as per Table 33)	541.54	542.94	551.40	557.57	559.44	2,752.89
Adjustment pertaining to Baggage Screening Assets	(8.75)	(8.75)	(8.75)	(8.75)	(2.27)*	(37.27)
Adjustment pertaining to re-segregation of assets by the independent study	(0.57)	(0.93)	(1.45)	(2.09)	(3.25)	(8.29)
Depreciation as proposed to be considered by the Authority	532.22	533.26	541.20	546.73	553.93	2,707.32

**The adjustment amount is lesser in FY 2019 on account of commencement of accelerated depreciation associated with Baggage Screening Related Assets from the last 4 months in FY 2019.*

The depreciation as considered above included the depreciation associated with Hypothetical RAB which had been depreciated at the same effective depreciation rate as the aeronautical assets.

Stakeholder comments regarding True up of Aeronautical Depreciation for the Second Control Period

3.4.7 There were no stakeholder comments with regards to Depreciation for the Second Control Period.

Authority's Examination on Stakeholder Comments regarding issues on True up of Aeronautical Depreciation for the Second Control Period

3.4.8 Authority has decided to consider Depreciation as per Table 36, towards determination of true up for the Second Control Period, as part of tariff determination for Third Control Period.

3.5 True up of Operating Expenses

DIAL's submission regarding True up of Operating Expense for the Second Control Period

3.5.1 DIAL made the following submissions with regards to operating expense for truing up in the Second Control Period;

- Aeronautical portion of forex losses had been considered as part of administrative expenses in the Second Control Period. The details of the forex loss that had been considered in the Second Control Period is seen in the table below;

Table 37: Foreign Exchange Losses submitted by DIAL for Second Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Aeronautical Portion of Forex Loss	471.61	12.41	73.02	(0.42)	19.67	576.29
Non-Aeronautical Portion of Forex Loss	57.40	1.51	8.89	(0.05)	2.39	70.14
Total	**529.02**	**13.93**	**81.91**	**(0.47)**	**22.06**	**646.44**

- Refinancing cost incurred in the form of prepayment charges, upfront fee, break cost and processing fee, etc. towards refinancing the foreign currency loan through long term bonds had also been allocated among aeronautical and non-aeronautical expenses. The details of such costs as submitted by DIAL in the Second Control Period is seen in the table below;

Table 38: Refinancing Cost and Bank charges submitted by DIAL for Second Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
IRS break cost	91.83	-	8.17	-	-
ECB Break cost	9.22	-	11.38	-	-
Prepayment Charges	-	-	29.42	-	-
Upfront & processing fee	27.15	14.17	38.10	8.83	9.02
Bank Charges	4.65	2.42	3.91	2.87	2.36
Total	132.85	16.59	90.99	11.70	11.38
Aeronautical portion	**118.43**	**14.79**	**81.11**	**10.43**	**10.15**

- Expense allocation among aeronautical and non-aeronautical was based on the following principles;
  - All expenditures directly attributable to aeronautical or non-aeronautical had been classified accordingly.
  - Expenditure classification was based on the nature of cost centre and respective expenditure incurred in the cost centre.
  - Remaining costs which cannot be directly measured, relevant drivers were used to bifurcate such costs.
- Property taxes paid to municipalities in Delhi based on actual payment basis had been considered.
- Airport Operator Fee as per the contractual agreement was 3% of gross revenues of DIAL and accordingly 3% of aeronautical revenues had been considered for the purpose of tariff determination.
- VRS Payment made to AAI had been considered on actual payment basis.

3.5.2 The aeronautical operating expenses for the Second Control Period considering the above mentioned submissions is shown in the table below;

Table 39: Operating Expenses submitted by DIAL for Second Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Airport Operator Fee	80.15	84.56	97.97	113.33	51.16	427.17
Manpower cost	118.63	112.54	117.25	147.67	167.70	663.79
Operating expense	253.56	252.61	261.63	314.92	341.93	1,424.66
Administrative expense	259.73	150.68	245.16	215.15	216.93	1,087.65
Property tax	20.35	5.30	28.82	6.47	7.09	68.04
Utility cost	112.32	121.66	106.54	113.20	103.35	557.07
Payment to AAI for VRS	16.81	16.40	15.81	15.33	14.80	79.14
Forex Losses	471.61	12.41	73.02	(0.42)	19.67	576.29
Total	**1,333.15**	**756.17**	**946.21**	**925.65**	**922.63**	**4,883.80**

Decisions taken by the Authority regarding Operating Expense for Second Control Period as per Tariff Order for the Second Control Period

3.5.3 The Authority had decided to allocate operating expenses similar to the allocation mix considered at the time of true up for the First Control Period. The property taxes paid by DIAL was considered at actuals. Authority had also decided to commission an independent study to ascertain the efficient costs regarding operating expenses for the Second Control Period. The outcome of the independent study would be taken into consideration at the time of tariff determination for the Third Control Period towards true up of efficient operating costs for the Second Control Period.

3.5.4 Authority had decided to commission an independent study to examine the issue of allocation of assets, services, revenues and expenses generated in the IT JV into aeronautical and non-aeronautical more closely.

3.5.5 Authority had adopted the following growth rates for certain key items considering the actual costs for FY 2013-14 as the base;

Table 40: Growth Rates considered by the Authority as per Tariff order for Second Control Period

Name of the Category	Growth Rate considered
Manpower Costs	7%
Repairs and Maintenance	9%
Other O&M Costs	7% (including real growth of 1.9%)

3.5.6 Authority had decided to project the airport operator fee as 3% of the previous year's aeronautical revenues.

3.5.7 The Authority had also decided to commission an independent study to assess the efficient operating costs for the Second Control Period and to true up the same based on the outcome of the independent study at the time of tariff determination for the Third Control Period.

Authority's Examination regarding True up of Operating Expenses for the Second Control Period

Costs associated with IT JV structure

3.5.8 As per the decisions taken by the Authority in the Tariff Order for the Second Control Period, the Authority commissioned an independent study on allocation of costs for the IT JV.

The independent study developed a basis of segregation and categorized all the major assets held by the IT JV concessionaire WAISL. The summary of the independent study is in Annexure 3. The detailed report is appended as Appendix 1. The recommendations of the independent study regarding adjustments to the allocation of costs of IT JV are shown in the table below;

Table 41: Adjustments to the IT JV Funding Expenses amongst aeronautical and non-aeronautical as per the independent study

Particulars (Rs. Cr)	FY15	FY16	FY17	FY18	FY19	Total
IT JV Payment	53.00	18.14	2.75	-	-	73.89
% Split by DIAL	89.27%	89.20%	89.08%	89.04%	89.04%	
Aeronautical IT Expenses	47.31	16.18	2.45	-	-	65.94
Revised % on assets	78.15%	78.15%	78.15%	78.15%	78.15%	
Revised Aero IT Expenses	41.42	14.18	2.15	-	-	57.74
Differential to Non-Aero	**5.89**	**2.00**	**0.30**	-	-	**8.20**

The concession fee (Receivables>Subsistence Level) received by DIAL is entirely segregated as Non-Aeronautical revenue which has happened in the years, FY 2018 and FY 2019, since the total revenue earned by the concessionaire is from CUTE and CUSS services. The total IT cost is subsidized through the total IT revenue with the excess revenue over cost being passed on to passengers in the form of 30% subsidization of non-aeronautical revenue from IT. These services are classified non-aeronautical as per OMDA and hence the same would prevail.

The premium payable (Receivables<Subsistence Level) by DIAL was treated as Common Expense which had happened in the years FY 2015, FY 2016 and FY 2017 as mentioned in the Table 41.

The costs incurred by the concessionaire were for the upkeep and maintenance of the entire IT infrastructure at the Airport which included both Aeronautical Assets and Non-Aeronautical Assets. The IT cost was subsidized through the total IT revenue with the excess cost over revenue added to tariff computation cost of passengers and airlines. The cost incurred by DIAL towards the support payment made for funding the excess of cost incurred over the revenue earned was segregated into aeronautical and non-aeronautical costs, based on the segregation proportion of the information technology assets.

Unlike in the case wherein concession fee received by DIAL was treated as non-aeronautical, as per the independent study, the excess of costs arising against the revenue cannot be treated as costs related to CUTE and CUSS services, as these costs were for the upkeep and maintenance of the entire IT infrastructure at the Airport which included both aeronautical assets like FIDS, TMRS, AOCC, etc. and Non-Aeronautical Assets like EPOS, CUTE and CUSS.

As can be seen from the above table, the independent study had proposed adjustments to DIAL's submissions which results in an amount of Rs. 8.20 Cr being re-classified from aeronautical expense to non-aeronautical expense in the Second Control Period. The adjustment in aeronautical expenses of the IT JV shall be considered while determining Efficient Operation and Maintenance costs for the Second Control Period.

The independent study also analyzed the implication of the IT JV funding structure on the cost incurred by DIAL and assessed that as per the current structure with JV, only the excess costs over the revenue were passed on to the passengers and airlines. The costs passed on to the passengers were lower than costs that would have been passed on for tariff determination in the alternate structure without JV. The independent study concluded that the current structure established by DIAL was efficient.

The Authority proposed to adopt the recommendations of the independent study for true up of Operating Expenses for Second Control Period.

Efficient Costs for O&M

3.5.9 As per the decisions taken to study the allocation of efficient costs with regards to operating and maintenance expenses for the Second Control Period, AERA has commissioned an independent study to determine the Efficient Operation and Maintenance Costs.

The independent study has reviewed the various cost centers and developed a basis for segregation into Aeronautical and Non-Aeronautical activities. The independent study had also determined the appropriate proportion of Common Cost Centre that may be included in Aeronautical activity, in order to determine the total aeronautical cost.

The details of the various adjustments proposed are as shown in the table below;

Table 42: Efficient O&M Cost adjustment as per the independent study for Second Control Period

S. No	Details of Expense	Observation	Amount of adjustment
1	IT Systems Maintenance costs for T1 & T2	***Segregation by DIAL:* *100%*** Aeronautical ***Observation:*** These are common facilities used for both Aero and Non-Aero services. So, the total IT expense of Rs. 8.22 Cr are classified to "Common" and segregated in the proportion of the Adjusted Gross Fixed Assets ratio of 88.92%:11.08%	Rs. 2.26 Cr
2	Landscaping costs	***Segregation by DIAL:* *100%*** Aeronautical ***Observation:*** It includes costs for entire Terminal, approach roads to Terminals and the admin office serving both Aero and Non-Aero facilities. Hence this expense is segregated as "Common" and segregated in the proportion of the weighted average terminal space i.e. 84.10%:15.90%	Rs. 4.42 Cr
3	Quality Management costs	***Segregation by DIAL:* *100%*** Aeronautical ***Observation:*** Quality Management Team, work for overall improvement of Airport operations and aren't specific to Aeronautical operations. Hence the costs are classified as "Common" and segregated in proportion of Adjusted Gross Fixed Asset Ratio of 88.92%:11.08%.	Rs. 1.60 Cr
4	Common Costs within Terminal	***Segregation by DIAL:*** Proportion to Floor area measurement segregated into Aeronautical and Non-Aeronautical Space in the ratio of 82%:18%. ***Observation:*** The floor area measurement was as per Jacobs' Report dated 14th June 2011. However, Order No 28 of AERA dated 14th November 2011 directed elimination of 8652 sq.m from gross area calculation. Considering this impact, the	Addition of Rs. 8.11 Cr

S. No	Details of Expense	Observation	Amount of adjustment
		proportion of aeronautical space was increased from 82% to 84.10%.	
5	Support Function and Senior Management Costs	***Segregation by DIAL:*** Costs related to office of Senior Management, allocated costs from group companies and support functions were segregated in proportion of Gross Fixed Asset Base of the Company. ***Observation:*** As per change in segregation logic for assets related to Senior Management's office, the Aeronautical proportion was reduced from 89.27% to 89%.	Rs. 2.05 Cr
6	Chartering costs	***Segregation by DIAL:*** Flying charges of charter used by the Business and Group Chairperson of DIAL have been currently segregated in proportion to the Gross Fixed Asset Base of the company of 89:11. ***Observation:*** Since the purpose of these chartering services cannot be accurately segregated to Aeronautical and Non-Aeronautical services, it is assumed that the chartering services are used by the senior management in a 50:50 proportion for Aeronautical and Non-Aeronautical services.	Rs. 10.61 Cr
7	Transit house expense	***Segregation by DIAL:*** Segregation of expenses is based on Gross Fixed Asset Ratio. ***Observation:*** Since the purpose of use of these guest houses cannot be accurately segregated to Aeronautical and Non-Aeronautical services, it is assumed that the guest house is used in a 50:50 proportion for Aeronautical and Non-Aeronautical services.	Rs. 17.91 Cr
8	Charities and Donations	These expenses are not related to passenger or airline services, these costs are segregated as 100% Non-Aeronautical.	Rs. 7.27 Cr
9	Legal costs	***Segregation by DIAL:*** Segregation based on Gross Adjusted Fixed Asset Ratio. ***Observation:*** Review of legal cases for Second Control Period upto FY17-18, showed that 19% of the total legal cases were Non-Aeronautical in nature, while the remaining were either Aeronautical or Common in nature. Considering the above fact, the segregation costs were revised from 89% proportion of Gross Fixed Asset to 74.84% proportion of Aeronautical cases to Total cases.	Rs. 7.71 Cr
10	Common HR/ Manpower costs	***Segregation of DIAL:*** Segregated based on manpower count per department into Aeronautical and Non-Aeronautical costs. ***Observation:*** As the segregation based on the manpower count per department isn't representative to the proportion of the associated cost of the department, the segregation logic has been revisited as the segregation was revised in the proportion of Aeronautical Gross Fixed Asset to the Total Gross Fixed Assets.	Rs. 5.97 Cr-Manpower costs. Rs. 2.51 Cr - Other HR related costs
11	Property Tax	***Segregation of DIAL:*** Segregated based on proportion of the asset base. ***Observation:*** Due to changes in segregation logic for the assets held outside the terminal, the segregation of the assets was revisited resulting in adjustment of aeronautical costs pertaining to Property Tax.	Rs. 1.1 Cr

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

S. No	Details of Expense	Observation	Amount of adjustment
12	Payment to AAI for VRS	***Segregation of DIAL:*** Segregated based on manpower count per department into Aeronautical and Non-Aeronautical costs. ***Observation:*** As the segregation based on the manpower count per department isn't representative to the proportion of the associated cost of the department, the segregation logic has been revisited as the segregation was revised in the proportion of Adjusted Gross Fixed Asset Ratio (88.92%)	Rs. 0.72 Cr
13	Finance Charges	***Segregation of DIAL:*** Segregated on the basis of Gross Fixed Asset Ratio into Aeronautical and Non-Aeronautical costs. ***Observation:*** Due to changes in segregation logic for the assets held outside the terminal, the segregation of the assets was revisited resulting in adjustment of aeronautical costs pertaining to Finance Charges.	Rs. 0.57 Cr
14	Reclassification of IT –JV expenses	As mentioned under Table 41, the reclassification of IT JV expenses of Rs 8.20 Cr from aeronautical to non-aeronautical has been considered. The details have been discussed under para 3.5.8.	Rs. 8.20 Cr
Total O&M Cost Adjustment			**Rs. 64.79 Cr**

The summary of the independent study is in Annexure 4. The detailed report is appended as Appendix 2. Based on the adjustment proposed in Table 42, the Efficient Operation and Maintenance costs was restated as follows;

Table 43: Efficient O&M Costs as per the independent study for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Manpower cost (salaries, wages and manpower)	117.48	111.45	116.11	146.26	166.53	657.83
Operating expense	248.15	250.77	261.42	313.76	332.68	1,406.78
Administrative expense (Admin and General expense)	135.14	128.45	153.38	193.22	200.65	810.84
Property tax (including additional property tax)	20.09	5.18	28.36	6.35	6.93	66.91
Utility cost	112.31	121.66	106.54	113.20	103.35	557.06
Payment to AAI for VRS	16.65	16.24	15.66	15.18	14.70	78.43
Finance Charges	118.13	14.75	80.90	10.40	10.16	234.34
Total	**767.95**	**648.50**	**762.37**	**798.37**	**835.00**	**3,812.19**

The Authority proposed to consider the above as Efficient Operating Costs towards true up for the Second Control Period. Based on the suggested changes, Authority reworked the segregation ratio for these operating expenses which would be considered towards segregation of the O&M Costs in the future i.e. Third Control Period.

The revised segregation ratios are shown in the table below;

Table 44: Revised Segregation Logic for O&M Costs proposed to be considered by the Authority for Second Control Period

Operating Expenses	Cost allocation % as considered by Authority in the First Control Period	Cost allocation % proposed to be considered by Authority in the Second Control Period as per the Independent Study commissioned by the Authority	Justification for the revised segregation
Staff Cost	89.79%	88.98%	Based on Gross Fixed Asset Ratio (weighted average considering 88.92% for the first 4 years of Second Control Period and 89.16% for the last year of the Second Control Period).
AAI- VRS Payment	89.79%	88.98%	On similar lines as staff cost.
Administrative and General Expenses	70.28%	86.57%	Based on Gross Fixed Asset Ratio for most of the items and specific segregation percentage for certain items.
Electricity and Water Charges	100%	100%	Consistent with AERA's past segregation logic.
Operating Expenses	91.89%	87.76%	Certain Operating Expenses are considered as 100% Aeronautical. Certain Expenses including IT JV costs are segregated in proportion to the respective terminal space.
Property Tax	87.54%	88.19%	Overall Expense Ratio has been considered

The Authority reserved treatment of Refinancing Costs, CSR, Airport Operator Fee and Forex Losses separately based on separate examination which has been discussed in the below sections.

Treatment of Refinancing Cost and Forex Losses

3.5.10 Authority looked at the DIAL's submission regarding the refinancing cost and had noted that the cost of debt has decreased from the First Control Period to the Second Control Period primarily on account of the refinancing exercises carried out by DIAL and had hence proposed to allow the costs incurred in refinancing by DIAL as part of operating expense. Authority proceeded to use the segregation ratio as per the outcome of the independent study i.e. 88.98% to segregate the refinancing cost into aeronautical and balance as non-aeronautical.

3.5.11 Authority looked at DIAL's submission regarding the forex losses for the Second Control Period. The Authority noticed that the total forex losses as claimed by DIAL over the Second Control Period under efficient costs is Rs. 575.81 Cr. Considering the above and the refinancing cost incurred by DIAL, the effective cost of debt increases to 12.28% as seen in the table below;

Table 45: Effective Cost of Debt including Refinancing Cost and Forex Losses for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Interest as claimed by DIAL	488.58	486.54	467.26	492.80	567.38
Average Debt	5,395.47	5,418.91	5,396.03	5,311.91	5,456.13
Effective Cost of Debt as submitted by DIAL	9.28%				

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Aeronautical Portion of Forex losses as submitted by DIAL	471.61	12.41	73.02	(0.42)	19.67
Aeronautical portion of Refinancing Cost as per the Independent Study	118.13	14.75	80.90	10.40	10.12
Total aeronautical Forex Losses and Refinancing Cost	589.74	27.17	153.93	9.98	29.79
Interest including refinancing cost and Forex losses	1,078.32	513.71	621.19	502.78	597.17
Effective cost of debt considering the above	12.28%				

3.5.12 The Authority formed the view that while refinancing cost incurred by DIAL can be considered as part of efficient costs, as the same would incentivize the operator to look at cheaper sources of funding which would eventually lead to lower cost of debt and reduction in tariffs, considering forex losses also would defeat the entire purpose of efficient costs being allowed through tariff as these items would lead to a cost of debt much higher than the originally considered cost of debt. The Authority noted that the weighted average cost of debt considered at the time of tariff determination for the Second Control Period was 10.19% (Table 31) and the cost of debt for Rupee Term Loan was 11.38%.

The Authority formed the view that the Airport Operator's effective cost of debt shouldn't exceed at the least the cost of the borrowing in the local currency which was determined as 11.38% as per the Tariff Order for the Second Control Period. The Authority hence proposed to allow only forex losses to the extent the effective cost, including the allowed forex losses, don't exceed 11.38%. Authority took the view that only to this extent the forex losses incurred by the operator can be considered as Efficient Costs.

The forex losses proposed to be considered by the Authority for the Second Control Period are in the table below;

Table 46: Forex Losses proposed to be considered by the Authority for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Average Debt	5,395.47	5,418.91	5,396.03	5,311.91	5,456.13
Interest as claimed by DIAL (A)	488.58	486.54	467.26	492.80	567.38
Aeronautical portion of Refinancing Cost as per the Independent Study (B)	118.13	14.75	80.90	10.40	10.12
Cost of debt considered as efficient	11.38%				
Total Cost outgo that could be considered as pertaining to the Efficient Cost of Debt on a weighted average basis (C)	879.44	508.47	590.40	502.96	588.88
Cost Outgo pertaining to interest and aeronautical portion of Refinancing Cost (D=A+B)	606.71	501.29	548.17	503.20	577.50
Forex Losses proposed to be considered by the Authority for the Second Control Period (E=C-D)	272.74	7.18	42.23	(0.24)	11.37

3.5.13 Authority proposed to consider the asset segregation ratio of 89% on this cost item arrived at under Table 46 to arrive at the aeronautical forex losses for the Second Control Period. The mentioned segregation ratio had been suggested by the Independent Study for the segregation of Refinancing Cost/Financing Charges. Considering this asset segregation ratio, the revised aeronautical forex losses proposed to be considered by the Authority for the Second Control Period are shown in the table below;

Table 47: Forex Losses proposed to be considered under Aeronautical Operating Costs by the Authority for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Forex Losses proposed to be allowed by the Authority as Efficient Costs for the Second Control Period	242.52	6.38	37.55	(0.22)	10.11

Treatment of CSR expenses

3.5.14 Authority examined DIAL's submission regarding CSR expenses under admin & general expenses. Authority had the following points regarding CSR;

Section 135 of the Companies Act 2013 states that CSR is calculated at atleast 2% of the average net profits made by the company during the three immediately preceding financial years.

Provisions of Section 37 of the Income Tax Act state that deduction for any expenditure which were not mentioned specifically in Section 30 to Section 36 of the Income Tax act shall be allowed if the same is incurred wholly and exclusively for purposes of carrying out business or profession. CSR doesn't form part of Sections 30 to 36 of the Income Tax Act and as CSR is not incurred for business or operational purposes, it cannot be allowed under the provisions of Section 37 of Income Tax Act. As such, CSR cannot be accounted as part of O&M expenses.

The Authority formed a firm opinion that CSR was an appropriation out of profits and thereby it does not consider CSR as part of operating expenses. Authority hence proposed not to consider CSR as part of operating expense for the Second Control Period.

Airport Operator Fee

3.5.15 Authority, in consonance with the decision taken with regards to true up for the First Control Period, proposed to continue with determination of Airport Operator Fee every year as 3% of the aeronautical revenues actually collected during the previous year. The Authority formed the view that there is no necessity to change the principles as any over recovery which happened at the time of Second Control Period due to delayed implementation of the Tariff order would be trued up along with the carrying cost in future years.

Authority hence proposed to continue with the same principles of determining Airport Operator Fee as 3% of the previous year's aeronautical revenues. The details are in the table below;

Table 48: Airport Operator Fee proposed to be considered as part of Efficient O&M for the Second Control Period

FY ending March 31 (Rs Cr)	2014	2015	2016	2017	2018	Total
Aeronautical Revenues collected by the Airport Operator	2,806.35	2,950.92	3,407.58	3,931.53	1,705.47	14,801.85
FY ending March 31 (Rs Cr)	**2015**	**2016**	**2017**	**2018**	**2019**	
Airport Operator Fee considered as 3% of Aeronautical Revenues in the previous year	84.19	88.53	102.23	117.95	51.16	444.06

3.5.16 The details of the operating expenses proposed to be considered by the Authority for the Second Control Period are in the table below;

Table 49: Efficient Operating Costs proposed to be considered by the Authority for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Manpower cost (salaries, wages and manpower)	117.48	111.45	116.11	146.26	166.53	657.83
Operating expense	248.15	250.77	261.42	313.76	332.68	1,406.78
Admin and General expense	135.14	128.45	153.38	193.22	200.65	810.85
Property tax (including additional property tax)	20.09	5.18	28.36	6.35	6.93	66.91
Utility cost	112.32	121.66	106.54	113.20	103.35	557.07
Payment to AAI for VRS	16.65	16.24	15.66	15.18	14.70	78.43
Bank Charges	118.13	14.75	80.91	10.41	10.12	234.32
Forex	242.52	6.38	37.55	(0.22)	10.11	296.35
Airport Operator Fee	84.19	88.53	102.23	117.95	51.16	444.06
Total	**1,094.67**	**743.41**	**902.16**	**916.11**	**896.24**	**4,552.59**

Stakeholder comments regarding True up of Operating Expenses for the Second Control Period

3.5.17 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to true up of Operating Expenses for the Second Control Period. The comments by stakeholders are presented below;

DIAL's comments regarding true up of Operating Expenses for the Second Control Period:

3.5.18 DIAL has provided their observations on the findings of the independent study and have the following points against each of the observations;

Table 50: DIAL's comments on Segregation of Efficient O&M Costs by independent study

Particular	Outcome of study	DIAL submission as part of stakeholder comments
Landscaping expense	This cost is for entire terminal, approach roads to terminals and the admin office serving both Aero and Non-Aero facilities. Hence this expense is segregated as "Common" and segregated in the proportion of the weighted average terminal space i.e. 84.10%:15.90%	Landscaping cost provides aesthetic look of the terminal and gives feel good factors to the passengers and airport users. It is an essential expense and there is no commercial revenue generated by DIAL from this. The landscaping expense will be incurred irrespective of any commercial objective in mind. Landscaping provide customer satisfaction and helps in improving airport quality parameters. DIAL has earned various awards for environment; the landscaping plays vital role in reducing carbon footprint. By disallowing the cost of landscape, it is not only dis-incentivizing the airport operator but also discouraging expenditure towards green environment. The landscaping forms part of the airport infrastructure irrespective of any commercial development or not. Further, it is associated with the approach to the terminal and hence an integral part of aeronautical assets. Accordingly, we would like to submit that

Particular	Outcome of study	DIAL submission as part of stakeholder comments
		landscaping being part of the approach to the airport should be considered as aeronautical.
Quality management cost	Quality Management Team, work for overall improvement of Airport operations and aren't specific to Aeronautical operations. Hence the costs are classified as "Common" and segregated in proportion of Adjusted Gross Fixed Asset Ratio of 88.92%: 11.08%.	In accordance with clause 9.1 read with Schedule 1 and Schedule 2 of OMDA, DIAL is obligated to provide quality of service to all airport users. Also, as per OMDA DIAL has to monitor its quality standard and need to benchmark it quality standard of top 5 international airports in Asian region. This cost is kind of mandatory cost which DIAL has to incur to maintain, measure & monitor and promote quality standards at Airport and provide quality services to all airport users. DIAL has to incur this cost irrespective of nature of service whether aero or non-aero. In case any part of such cost is disallowed by AERA it will not be in accordance with allocation principle followed and will not be consistent with the contractual rights and obligation of DIAL. In past also this cost has been allowed as 100% aeronautical by the Authority. Accordingly, we request Authority to consider the quality cost as 100% aeronautical expenditure as considered in the previous Tariff Orders.
Chartering expense	Auditor suggested to allocate this expense on 50:50 basis as this has been used by senior management who allocate their time to other businesses as well.	This expense is in accordance with the DIAL's board approval. The usage is restricted to Group Chairman, M.D, E.D and other senior executives of DIAL as they have to fly from Delhi to various other locations on DIAL's work. Accordingly, we request to consider it allocated as a common asset.
Charity and donation	These expenses are not related to passenger or airline services, these costs are segregated as 100% Non-Aeronautical.	Charity and donation are causes of social responsibility. The charity and donation have been undertaken by an entity in the interest of the society dependent on it. Hence, these expenses should be allowed at least as common. Disallowance of these expenses will discourage the organization to undertake social works.
Payment to AAI for VRS	As the segregation based on the manpower count per department isn't representative to the proportion of the associated cost of the department, the segregation logic has been revisited as the segregation was revised in the proportion of Adjusted Gross Fixed Asset Ratio (88.92%)	Authority at para 17.27 revised the allocation of AAI VRS based on manpower count per department into Aeronautical and Non-Aeronautical costs. Following is the extract of para 17.27 Order 40/2015-16: *The Authority had also noted that Payment to AAI for VRS as an expense has been allocated by DIAL at the weighted average value of the operating expense and the same was considered by the Authority in its Delhi Tariff Order 03 / 2012-13.*

आर्थिक विनियामक प्राधिकरण
Economic Regulatory Authority of India
सत्यमेव जयते

Particular	Outcome of study	DIAL submission as part of stakeholder comments
		The Authority had reconsidered its approach and is of the opinion that VRS expense is on account of manpower and its related costs and accordingly proposed to consider the allocation of VRS payment to AAI into aeronautical and non-aeronautical components at the rate of allocation of manpower costs in the second Control period. AAI VRS cost is a one-time cost and the allocation principle once settled should be continued for the balance period. There is no basis for departure from the agreed principle. Hence, we request Authority to continue with the agreed principle in First Control Period.

3.5.19 Further to the above, in the case of forex losses, DIAL has requested for consideration of forex losses in its entirety for the Second Control Period as WACC has been trued up. Further to the same they have requested that in the event Authority proposes to allow forex losses to the extent of the cost of RTL, considering the same as efficient, the refinancing cost and other charges incurred by DIAL should be kept outside the purview for determination of efficient forex losses. Such refinancing cost and forex losses have to be allowed separately as operating expenses.

3.5.20 DIAL has mentioned that the exclusion of CSR expense would have a negative impact in realizing the return on equity eligible to be earned by the airport operator.

DIAL has also noted certain points from the independent study report which has been reproduced below;

"Further, as also recognized by the independent auditor constituted by AERA in its report at note 2 page 19 has stated that "Being a registered Company, CSR expenditure is a statutory requirement as a business expense required to be spent for the purpose of continuing and maintaining the operations of the Company". Hence, it may be seen that these are mandatory costs under companies act 2013 and not discretionary spent. The authority has considered CSR not to be allowed as it is an apportionment out of the profit. However, it may be perused that these are mandatory costs and only for the purpose of calculation of 2% mandatory spent the reference to profit in the previous year is derived."

Based on the above points, DIAL has requested for consideration of CSR as part of operating expense.

Other Stakeholders' comments regarding true up of Operating Expenses for the Second Control Period:

3.5.21 MIAL has commented that the Authority should allow the consideration of the total foreign exchange losses as part of operating expenses.

MIAL considers that DIAL resorted to offshore funding as it benefits the users on account of a lower cost of funding, but due to the foreign exchange fluctuations the cost increased. The exchange risks associated with offshore funding cannot be predicted as they depend on various uncontrollable factors and thus in a regulatory scenario, the entire cost should be allowed to DIAL as a principle.

3.5.22 MIAL also commented that the refinance charges ought to be excluded while calculating effective cost of debt and included as part of admin & general expenses.

MIAL has stated that refinance charge is a one-time cost arrangement incurred to reduce the rate of interest over the life of loan. Thus, MIAL requests the Authority to exclude refinance charges as part of interest component while calculating effective cost of debt and allow it as part of admin & general expenses.

3.5.23 APAO commented that the Authority should allow foreign exchange fluctuations on actual basis.

As per APAO, the Authority considered the benefits of lower cost of ECB for the first two Control Periods but did not allow forex fluctuations in full for same period. Thus, APAO requests Authority to consider losses associated with foreign exchange rate variations on an actual basis.

3.5.24 IATA commented that Authority ought to undergo further scrutinizing and analyzing to adequately examine the efficient costs of DIAL and the cost allocation between aero and non-aero activities.

IATA stated that the regulator needs to make two major decisions while determining efficient costs – whether the baseline costs are efficient, and what drivers would make such efficient costs vary over time. IATA noted that the efficiency analysis done by the independent consultant is based on trend analysis and benchmarking analysis. As per IATA, trend analysis does not indicate levels of cost efficiency but rather the change in cost levels over time whereas the benchmarking analysis does not make any adjustments for potential disparities as the study notes that the comparison of expenses between airports maybe misleading due to the complex mix of elements between airports. The detailed reasoning from IATA for the above-mentioned comments is as follows;

"When determining operating costs, there are two major decisions that a regulator needs to make. The first is whether the starting (aka baseline) operating costs are efficient (if not, a catch-up target would need to be incorporated in the next period). The second is what drivers would make such efficient costs vary over time.

On the first point, AERA has relied on the Study on "efficient operation and maintenance costs" commissioned to R. Subramanian LLP. We see that the efficiency analysis is based on trend, as well as domestic and international benchmarks, In this regard, we have the following remarks:

- *Trend analysis: While trend analysis is useful to see whether costs are increasing or decreasing (and therefore raise alarm bells where needed), it doesn't provide much indication on whether the level of cost incurred is efficient or not,*
- *Domestic Benchmarks: Unlike trend analysis, benchmarking costs could be more helpful for determining efficiency levels. However, for this approach to work, it is essential that there are like for like comparisons. As noted on page 115 of the study, by the same consultant: "Since all these costs at the airport are driven by various factors like physical size of the airport, passenger mix, capacity constraints, weather conditions, etc., comparison of operating and maintenance costs between airports may be misleading, considering the complex mix of elements between airports."*

  And unfortunately, the study does not attempt to make adjustments for the potential disparities. This needs to be corrected. While no two airports are the same, there are ways to make adjustments in order to appropriately compare companies, especially when all the comparator companies are regulated by the same entity and therefore could retrieve all the necessary information as well

(AERA may wish to review how the UK water regulator has implemented models to make water companies of different sizes more comparable).

The other point to be surpassed is that the underlying assumption behind benchmark is that there is an efficient company in the comparator mix, which may or may not be the case, specially there are not many different airport operators to make appropriate comparisons (moreover, since these operators do not operate in a competitive environment, it is difficult to see how

- *International benchmarks: The international benchmark is short and does not bring much insight in relation to DIAL's efficiency against other airports. While it mentions that DIAL is ranked relatively cheaper (from a cost perspective), it does not provide much insight as to what this is. As a starter, there isn't any analysis on how the cost of living at these different airports could affect the ranking and whether this is the driver for lower costs at DIAL rather than improved productivity.*

In our view, and on the basis of the shortfalls identified above, AERA cannot determine that the costs of the second control period (which become the baseline for the Third control period) are efficient.

Firstly, further efforts are needed in order to improve the benchmarking and obtain meaningful results. Secondly, and as pointed out in the past to AERA, we urge the regulator to consider carrying out a "bottom up" analysis of the airport with a focus on productivity (i.e. thoroughly analyse how each activity can be carried out in a more efficient manner), as well as using information from other industries (salary costs, etc). Only then, it can be determined whether DIAL costs are efficient or not."

Thus, IATA requests Authority to consider a bottom up analysis of airport with a focus on productivity as well as using information from other industries to determine efficient costs for DIAL while also reviewing the cost allocation study undertaken by the independent consultants.

3.5.25 IATA also commented that Authority may need to review its calculations when allowing forex losses.

As per IATA, Authority's approach to allow forex losses till overall cost of forex debt equals cost of debt in national currency is understandable but also stated that forex losses determined against current levels of debt bear no relation to RAB as the actual debt to RAB ratio increases over the course of Second Control Period as seen below;

"

Year ended March 31 (In Rs. Cr)	***2015***	***2016***	***2017***	***2018***	***2019***
Debt (as per Table 43 of Consultation Paper)	*5,395.47*	*5,418.91*	*5,396.03*	*5,311.91*	*5,456.13*
RAB (as per Table 65 of Consultation Paper)	*6,767.53*	*6,281.63*	*5,848.87*	*5,391.11*	*5,004.30*
Actual debt / RAB	*80%*	*86%*	*92%*	*99%*	*109%*

On the basis of the above, AERA may need to review its calculations when allowing forex losses."

3.5.26 PHDCCI commented that Authority should consider actual cost of debt while calculating Forex Losses.

PHDCCI stated that offshore funding by DIAL came at a lower cost with exchange risks depending on unpredictable factors. As part of regulatory principle, PHDCCI requests Authority to consider the actual cost of debt including associated cost as this is the actual outflow the airport operator has incurred in terms of funding arrangement.

आर्थिक विनियामक प्राधिकरण सत्यमेव जयते of India Economic Regulatory Authority

DIAL's counter-comments and response to stakeholder comments regarding True up of Operating Expenses for the Second Control Period

3.5.27 Subsequent to the Stakeholder Comments received by DIAL as part of Stakeholder Consultation Process, DIAL's response to the various stakeholder comments with respect to true up of Operating Expenses for the Second Control Period are presented below;

DIAL's Response to IATA's comments on true up of Operating Expenses for the Second Control Period

3.5.28 DIAL stated that the detailed study on efficient O&M Cost allocation by the independent consultants was thoroughly done and there is no requirement of any further study despite having some reservations on the outcome of the study. As per DIAL, the independent consultant had considered each and every aspect of cost and recommended their own analysis on cost allocation and considerations of efficient cost.

DIAL also responded to the bottom up approach suggested by IATA, stating that bottom up approach will also require some benchmark. DIAL operates at the lowest cost around the world which would render the bottom up analysis to yield the same result. DIAL also pointed out that IATA's suggestion of comparison to other industries is baseless as they would not yield any logical outcome.

3.5.29 With regards to IATA's comment on correlation of debt to RAB, DIAL's response is quoted verbatim below;

"IATA has raised concern regarding the correlation of debt to RAB. In this regard it is stated that the funding in assets at DIAL includes that of aeronautical services as well as non-aeronautical services. IATA's attempt to compare the debt to aeronautical RAB is totally out of place and misleading. The Authority while calculating the WACC considers the gearing of the funding including debt, equity and other means, which is then multiplied to the applicable RAB. In such an exercise the funding proportion is considered limited to the RAB only in allowing the return for the period. Similarly, the forex losses once calculated are further split into aeronautical and non-aeronautical as per the methodology adopted by the Authority."

Authority's Examination on Stakeholder Comments regarding issues on True up of Operating Expenses for the Second Control Period

3.5.30 Authority has noted DIAL's submissions regarding segregation of Landscaping Expenses by the independent study. DIAL has stated that Landscaping cost provides aesthetic look of the terminal and is an essential expense to be incurred irrespective of its commercial objective, and thereby it should be considered as aeronautical in nature. Authority is of the view that the basis for segregation of costs is not determined by commercial revenue earning capacity or validation by any external agency. The Landscaping Costs have been segregated based on guidelines under Schedule 5 and Schedule 6 of OMDA. Thus, Authority considers that the expenses should be considered as Common and segregated in the ratio of terminal building consistent with Authority's stand in Consultation Paper No. 15/2020-21.

Authority has taken note of DIAL's comments on Quality Management Costs which state that as per OMDA, DIAL has to monitor its quality standard in order to provide quality services to all airport users. DIAL also commented that Authority in the past had considered the costs as aeronautical and requested Authority to consider the same for the tariff determination for Third Control Period. In this regard, Authority would like to point out that it had mandated the independent study to bring in a fresh perspective to determine efficient O&M costs. In this regard, irrespective of the past decisions of the

Airports Economic Regulatory Authority of India

Authority on the same, the Quality Management Costs were considered as Common after an extensive study of the nature of such costs and the activities involved with this cost. Thus, Authority has decided to consider Quality Management costs as Common Costs consistent with their stand in Consultation Paper No. 15/2020-21.

Authority has noted DIAL's comment on segregation of Chartering Expenses which states that the costs incurred are restricted to the Group Chairman and other senior executives as they have to travel to various locations for official purposes, and thus they should be considered as Common Costs. Authority, in this regard, has indicated that there were no records maintained by DIAL to assess the purpose of the charter flights as already mentioned in the independent study. As such, Authority cannot consider the Chartering Expenses as Common Costs. Thus, Authority has decided to segregate the expenses in the ratio of 50:50 as per the proposal in Consultation Paper No. 15/2020-21.

Authority has taken note of DIAL's comment on costs pertaining to Charity and Donation which states that the costs are incurred as part of social responsibility and thus they should be considered common costs as disallowance of the same would discourage the organization to undertake social works. Authority is of the view that these costs are voluntary in nature and not related to passenger services. Thus, no portion of such costs can be considered as aeronautical in nature. Hence Authority has decided to consider the costs as per the proposal in Consultation Paper No. 15/2020-21.

Authority has taken note of DIAL's comment on payment to AAI for VRS which states that Authority should not allocate the same into aeronautical and non-aeronautical based on allocation of manpower costs and instead consider the allocation principle used in the First Control Period. Authority is of the view that it cannot consider cost segregation based on the decisions taken in the previous Tariff Orders as Authority had been directed to commission an independent study to determine Efficient O&M costs. As per the independent study, the segregation based on the manpower count per department as considered in the previous Tariff Orders is not representative to the proportion of the associated cost of the department. Thus, the segregation was revised based on segregation of Adjusted Gross Fixed Asset Ratio (88.92%) to ensure more accuracy in cost segregation. Hence Authority has decided to consider the costs as per the proposal in Consultation Paper No. 15/2020-21.

3.5.31 Authority has noted the comments made by IATA to consider a bottom up analysis of airport with a focus on productivity as well as using information from other industries to determine efficient costs. Authority also took note of IATA's comments requesting Authority to review the independent study for Efficient O&M Expenses. In this regard, Authority agrees with DIAL's response to IATA that the independent study was done to the best effort possible and segregation made based on established practices and the treatment as mentioned in the OMDA concerning aeronautical and non-aeronautical services. Authority would also like to state that the baseline costs were assessed and compared over time to assess improvement in efficiency/productivity. The trend charts were only one of the means of analyzing improvements in operations and other qualitative factors such as continuous improvements by Project & Engineering, Quality team were also analyzed. Apart from the above, a root cause analysis was performed to analyze the factors contributing to upward/downward trend in the expenses. Authority acknowledges that there are limitations in external benchmarks but the efficient costs were determined after an extensive study on allocation of the costs, improvement in operations, derivation of base line costs, increase in costs vis-à-vis the scale of operations over a period, etc. and thus Authority is of the view that the independent study for Efficient O&M Expenses is comprehensive in nature and there are no adjustments to be made to the recommendations of the independent study.

Authority would also like to state that it has considered the importance of using a standard framework for benchmarking so that the outcome of the independent study can be applied to other airports as well. Thus, in this regard, Authority has decided to consider the segregation of efficient O&M expenses in the allocation ratios recommended by the independent study for the Second Control Period consistent with their proposal in Consultation Paper No. 15/2020-21.

3.5.32 Authority has noted the comments made by various stakeholders including DIAL, MIAL, APAO, and PHDCCI regarding allowance of forex losses as part of operating expenses for the Second Control Period.

Authority is of the view that considering the entire forex losses as part of operating expenses would lead to the effective cost of debt being much higher than the cost of debt considered at the time of tariff determination of Second Control Period. Also, allowing forex losses at their entirety in the current case would negate the benefits accrued due to the foreign currency loans which resulted in lower cost of debt for Second Control Period. Thus, Authority has decided to allow forex losses only to the extent the effective cost of debt, including the allowed forex losses, does not exceed the original cost of debt for Rupee Term Loan taken during Second Control Period i.e. 11.38% consistent with the proposal in Consultation Paper No. 15/2020-21 dated 09.06.2020.

Authority has taken note of the comments made by IATA regarding the increase in actual debt to RAB ratio over the course of Second Control Period. Authority has also noted DIAL's response to IATA regarding the same. Authority would like to indicate that the increase in the said ratio is due to decrease in RAB on account of depreciation of assets pertaining to RAB and near constant levels of debt in Second Control Period. Authority would like to bring to notice that DIAL had refinanced the debt taken earlier by taking foreign currency bonds. The repayment of the foreign currency bonds shall be made at the end of the tenor in the form of a one-time bullet repayment which would occur after Second Control Period. Thus, the debt levels considered by Authority during Second Control Period do not see a proportionate decrease consistent with the RAB. Authority is also in agreement with DIAL's response that the comparison of actual debt and RAB during Second Control Period by IATA does not hold any relevance as the debt used for funding assets includes both aeronautical and non-aeronautical assets whereas the RAB is determined only for aeronautical portion of the assets.

Based on the above, Authority decides not to review the forex losses considered in its proposal in Consultation Paper No. 15/2020-21, with the efficient forex losses determined based on the aeronautical asset segregation ratio as determined by the independent study.

3.5.33 Authority, consistent with its proposal in Consultation Paper No. 15/2020-21, considers refinancing charges as part of efficient costs as it would incentivize DIAL to consider cheaper sources of funding leading to decrease in cost of debt which would in-turn reduce the tariff being charged to the airport user. Regarding MIAL's comment that the same has to be excluded from the calculation of determining the effective cost of debt, Authority's view is that such an approach would lead to the effective cost of debt being much higher, which would negate any possible benefits that would have accrued in terms of lower costs to the airport user in the first place. Authority has hence decided to consider refinancing charges as part of efficient operating costs and also considered these refinancing charges while calculating effective cost of debt for Second Control Period for the purpose of calculating the efficient forex losses that has to be allowed as part of Efficient Operating Expenses. The efficient refinancing costs as already mentioned in the Consultation Paper shall be determined based on aeronautical asset segregation ratio.

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

3.5.34 Authority has looked at the comments made by DIAL with regards to CSR expenses. Authority noted that DIAL has pointed towards the report made by the independent consultant pertaining to segregation of efficient O&M costs to justify the inclusion of CSR expenses as part of operating expenses. Further to the points already explained in Consultation Paper No. 15/2020-21, Authority reiterates that the CSR expenditure is an apportionment out of profits and hence cannot be classified as an efficient expense. Thus, Authority has decided to not include CSR expense as part of efficient operating expense for tariff determination consistent with their proposal in Consultation Paper No. 15/2020-21.

3.5.35 Based on the above, Authority has decided to consider Operating Expenses in Table 49 consistent with the proposals considered in Consultation Paper No. 15/2020-21 with the efficient segregation ratios as suggested by the independent study.

3.6 True up of Aeronautical Taxes

DIAL's submission regarding True up of Aeronautical Taxes for the Second Control Period

3.6.1 DIAL considered the following with regards to aeronautical taxes for the Second Control Period;

- DIAL considered aeronautical revenues including the S Factor while arriving at aeronautical taxes. This matter had been discussed in the Hon'ble TDSAT order which remanded the matter back to AERA for consideration.
- Aeronautical Taxes had been allocated in the ratio of aero PBT and non-aero PBT.

3.6.2 The aeronautical taxes as arrived at by DIAL for the years pertaining to the Second Control Period are shown in the table below;

Table 51: Aeronautical Taxes submitted by DIAL for Second Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Aero Revenue (A)	2,818.74	3,265.73	3,777.67	1,528.70	987.79
Cross subsidy- non-aero (B)	167.43	194.96	210.88	247.11	283.35
Total Aero Revenue (C = A+B)	2,986.17	3,460.69	3,988.56	1,775.81	1,271.14
Annual Fee (AF = 45.99% * A)	1,296.34	1,501.91	1,737.35	703.05	454.28
Aero Expense (AE)	1,333.15	756.17	946.21	925.65	922.63
EBIDTA (E = C – AF – AE)	356.68	1,202.61	1,304.99	147.11	(105.77)
Interest (I)	359.39	333.75	310.75	286.43	263.85
Depreciation (D)	541.54	542.94	551.40	557.57	559.44
Aero PBT (PBT = E – I – D)	(544.26)	325.93	442.84	(696.89)	(929.07)
Non-Aero PBT (NPBT)	69.77	187.09	244.75	343.85	351.24
Aero to Non-Aero PBT Ratio (R = PBT/(PBT+NPBT)	0%	64%	64%	0%	0%
Tax as per Financials (T)	-	129.07	236.81	-	-
Aeronautical Taxes (AT = R * T)	-	**82.00**	**152.51**	-	-

Decisions taken by the Authority regarding Aeronautical Taxes for Second Control Period as per Tariff Order for the Second Control Period

3.6.3 The Authority, at the time of tariff determination for the Second Control Period, had decided that the actual corporate tax paid out that could be ascribed to aeronautical earnings shall be reckoned for the purpose of determining the Target Revenue which shall be trued up at the time of determination of the tariff for the Third Control Period. Authority, at the time of tariff determination for the Second Control Period, had estimated the aeronautical taxes to be nil.

Table 52: Aeronautical Taxes considered by Authority as per Tariff Order of Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Aeronautical Tax	-	-	-	-	-	-

Authority's Examination regarding True up of Aeronautical Taxes for the Second Control Period

3.6.4 Authority took cognizance of Hon'ble TDSAT direction to consider a consultative process to consider S factor as part of revenue for providing aeronautical taxes as a benefit as part of tariff determination process and had proposed to carry out the consultation process for determination of aeronautical taxes from the Third Control Period prospectively.

3.6.5 Authority assessed DIAL's submission and understood that DIAL paid taxes for FY 2016 and FY 2017. The Authority assessed the effective tax rate as 19.32% and 24.18% respectively in these two years by dividing the taxes paid in the year by the Profit Before Taxes for the respective year.

3.6.6 Authority, as part of the Consultation Paper No. 15/2020-21 had excluded S Factor as part of aeronautical revenue to calculate Aeronautical Tax for the Second Control Period. The aeronautical tax was arrived at by considering the effective tax rate on the aeronautical PBT as seen in the table below;

Table 53: Aeronautical Taxes assessed by Authority for true up of Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Aero Revenue (A)	2,950.92	3,407.58	3,931.53	1,705.47	987.79
Annual Fee (AF = 45.99% * A)	1,357.13	1,567.15	1,808.11	784.35	454.28
Aero Expense (AE)	1,094.67	743.41	902.16	916.11	896.24
EBIDTA (E = A – AF – AE)	499.13	1,097.02	1,221.26	5.02	(362.74)
Interest (I)	354.81	329.34	306.65	282.65	262.37
Depreciation (D)	532.22	533.26	541.20	546.73	553.93
Aero PBT (PBT = E – I – D)	(387.90)	234.43	373.42	(824.35)	(1,179.03)
Effective Tax Rate (T)	0.00%	19.32%	24.18%	0.00%	0.00%
Aeronautical Taxes (AT = PBT * T)	-	45.29	90.28	-	-

3.6.7 The aeronautical taxes proposed to be considered by the Authority for the purpose of determination of Target Revenue for the Second Control Period against the submission of DIAL as per MYTP are shown in the table below;

Table 54: Aeronautical Taxes proposed to be considered by the Authority for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Aeronautical Taxes as submitted by DIAL as part of MYTP	-	82.00	152.51	-	-	234.51
Aeronautical Taxes proposed to be considered by Authority for the Second Control Period	-	45.29	90.28	-	-	135.57

Stakeholder comments regarding True up of Aeronautical Taxes for the Second Control Period

3.6.8 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of the Authority in Consultation Paper No. 15/2020-21 with respect to true up of Aeronautical Taxes for the Second Control Period. The comments by stakeholders are presented below;

DIAL's comments regarding true up of Aeronautical Taxes for the Second Control Period:

3.6.9 DIAL has requested that the Authority consider the S-Factor in consideration for aeronautical tax for DIAL. Since, this is the issue of settling principle under the SSA the effect of such consideration should be taken from the First Control Period itself, rather than from the Third Control Period as proposed by AERA.

Authority's Examination on Stakeholder Comments regarding issues on True up of Aeronautical Taxes for the Second Control Period

3.6.10 Authority in the Consultation Paper No. 15/2020-21 had called for a stakeholder consultation process on consideration of S factor as part of aeronautical revenue base while computing aeronautical taxes only from Third Control Period. In this regard, Authority has decided to not consider S factor as part of aeronautical revenue base for computation of aeronautical taxes for Second Control Period consistent with the decision taken for First Control Period.

3.6.11 Authority, as part of Tariff Order No. 40/2015-16 for the Second Control Period, had decided to determine corporate tax pertaining to aeronautical earnings by considering depreciation pertaining to only aeronautical services. The relevant extract is quoted verbatim below;

"Additionally, the Authority has decided to determine such corporate tax pertaining to aeronautical earnings based on the consideration of actual/projected aeronautical revenue, operating expenses pertaining to aeronautical services, depreciation pertaining to aeronautical assets and interest expense and had considered the applicable tax rate.

....

The Authority further clarifies that the depreciation, to be considered for such tax calculation, should be the depreciation on account of aeronautical assets only. The Authority is of the view that as Hypothetical Regulatory Base, to be determined in line with SSA, is of hypothetical nature and does not correspond to physical assets in the books of accounts of DIAL, depreciation on such assets should not be considered towards calculation of tax pertaining to aeronautical services."

In this regard, Authority has decided to exclude depreciation pertaining to HRAB while considering depreciation pertaining to aeronautical services for computing aeronautical taxes for all three Control Periods.

Based on the above, Authority has revised the Aeronautical Taxes to be considered as part of true up for Second Control Period, as seen in the table below;

Table 55: Aeronautical Taxes decided to be considered by Authority for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Aero Revenue (A)	2,950.92	3,407.58	3,931.53	1,705.47	987.79	12,983.30
Annual Fee (AF=45.99%*A)	1,357.13	1,567.15	1,808.11	784.35	454.28	5,971.02
Aero Expense (AE)	1,094.67	743.41	902.16	916.11	896.24	4,552.59

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
EBIDTA – Aero (E=A-AF-AE)	499.13	1,097.02	1,221.26	5.02	(362.74)	2,459.70
Interest – Aero (I)	354.81	329.34	306.65	282.65	262.37	1,535.81
Depreciation – Aero (D)	504.38	505.55	513.37	518.82	526.68	2,568.79
Aero PBT (PBT=E-I-D)	(360.06)	262.14	401.25	(796.45)	(1,151.78)	(1,644.90)
Effective Tax rate as per projected financials (T)	-	19.32%	24.18%	-	-	
Aeronautical Tax (Max of 0 or Aero PBT X Effective Tax Rate) (AT=PBT*T)	-	**50.64**	**97.01**	-	-	**147.65**

3.7 True up of Revenue from Revenue Share Assets

DIAL's submission regarding True up of Revenue from Revenue Share Assets for the Second Control Period

3.7.1 DIAL indicated that Other Income was not generated from the services mentioned in Schedule 6 of the SSA nor from aeronautical related assets and was part of the airport operator cash management process and hence the same had to be excluded under consideration of Revenue from Revenue Share Assets. DIAL also added that interest income was related to investment of interim surplus funds and the retention of the share-holders' funds in the business till the same were paid out as dividends. DIAL's contention was that this income does not form part of either aeronautical or non-aeronautical revenues and hence the same should be outside regulatory purview.

3.7.2 DIAL also requested that the cross subsidy from Revenue Share Assets would include Fuel Throughput Income and exclude revenue from AAI/Existing Assets/Disallowed Area. Further, as detailed earlier in their submission regarding True up for the First Control Period, DIAL submitted that the S Factor should be considered post Annual Fee payable to AAI. DIAL accordingly considered the S Factor post adjustment pertaining to Annual Fee for calculation of Target Revenue for the Second Control Period. The details are as per the table below;

Table 56: Revenue from Revenue Share Assets submitted by DIAL for Second Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Non-Aero Revenues	1,362.95	1,656.14	1,846.41	2,207.67	2,795.51	9,868.68
Less Adjustment towards Other Income	*71.63*	*154.14*	*201.02*	*284.65*	*591.19*	*1,302.62*
Less Revenue from Existing Assets	*242.71*	*281.83*	*324.10*	*374.22*	*431.13*	*1,653.99*
Less Revenue from Disallowed Area	*15.31*	*16.96*	*19.79*	*23.73*	*24.44*	*100.23*
Non-Aero revenue prior to adjustment for revenue share	1,033.31	1,203.21	1,301.50	1,525.08	1,748.75	6,811.85
Less adjustment for revenue share payable to AAI	*475.72*	*553.38*	*598.56*	*715.59*	*829.60*	*3726.15*
Non-Aero revenue on which 30% cross subsidization has been applied	558.09	649.86	702.94	823.69	944.50	3,679.08
30% towards cross subsidisation considered in the tariff submission of DIAL	167.43	194.96	210.88	247.11	283.35	1,103.72

Decisions taken by the Authority regarding Revenue from Revenue Share Assets for Second Control Period as per Tariff Order for Second Control Period

3.7.3 Authority at the time of tariff determination for the Second Control Period had decided for the time being that the revenues from the Commercial Property Development during the First Control Period and the projected revenue during the Second Control Period shall not be considered towards tariff determination for the Second Control Period.

3.7.4 The Authority had decided to consider non-aeronautical revenues as submitted by DIAL for the Second Control Period for all contract linked revenues. In the case of all the other non-aeronautical revenues a CPI inflation rate was applied by the Authority.

3.7.5 The Authority consistent with its decisions at the time of true up of the First Control Period had decided to consider Fuel Into Plane services as part of aeronautical revenues along with Fuel Throughput Charges.

3.7.6 The Authority had decided to consider revenue from cargo screening also as non-aeronautical in addition to revenue from cargo related services, while revenue from Ground Handling has been treated as non-aeronautical in the Second Control Period.

3.7.7 The Authority had decided to consider revenue realised by DIAL under Other Income as non-aeronautical in nature (except Income from dividend only), and had also decided that all components of Other Income should be accounted into either aeronautical or non-aeronautical categories in the future. The Authority had projected Other Income as nil for the Second Control Period as it considered these items to be intermittent in nature with no consistent drivers on which they can be projected.

3.7.8 The Authority had also decided to true up all non-aeronautical revenues based on actuals for the Second Control Period at the time of tariff determination for the Third Control Period.

3.7.9 The non-aeronautical revenue considered by the Authority as per the Tariff Order of Second Control Period is in the table below;

Table 57: Non-Aeronautical Revenue considered by Authority as per Tariff Order of Second Control Period

FY Ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Air Traffic Related revenues	72.07	87.44	92.68	98.23	119.33
Passenger Traffic Related revenues	537.50	622.25	727.22	850.32	994.69
Contract linked revenues	376.25	401.78	429.39	448.81	485.10
Cargo revenues	140.34	146.90	158.77	170.29	185.98
Total Non-Aeronautical Revenues	1,126.16	1,258.37	1,408.06	1,567.65	1,785.09

Authority's Examination regarding True up of Revenue from Revenue Share Assets for the Second Control Period

3.7.10 Authority looked at DIAL's submission with regards to revenue from Revenue Share Assets. The details regarding Authority's examination are seen in the paras below.

Fuel Throughput Charges

3.7.11 Authority at the time of tariff determination for the Second Control Period had taken a decision to consider revenue from Fuel Throughput Charges along with revenue from Fuel into Plane services as part of aeronautical revenues and not as Revenue from Revenue Share Assets. Authority also considered the same as part of aeronautical charges while truing up the Target Revenue for the First

Control Period based on detailed reasoning provided in 2.6.15. The Authority formed the view that there was no basis for revising the same and consistent with its proposal for true up for the First Control Period, had proposed to consider Fuel Throughput Charges as part of aeronautical revenues for the Second Control Period.

Other Income

3.7.12 The Authority at the time of tariff determination for the Second Control Period had considered Other Income as nil based on the projections submitted by DIAL for Second Control Period. The Authority had also mentioned that Other Income shall be trued up based on actuals at the time of tariff determination for the Third Control Period. The Other Income as actually earned by DIAL during Second Control Period as per their submission as part of the petition is in the table below;

Table 58: Other Income submitted by DIAL for Second Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Other Income					
Sale of scrap	-	0.16	0.81	-	0.84
Profit on sale of assets/non-current investments	0.28	0.05	0.00	-	-
Management Fee	11.55	-	-	-	-
Tender cost recovery	-	-	-	-	-
Misc. Income	1.24	0.06	0.01	-	1.92
Interest on delayed payment	-	43.14	8.92	13.49	210.49
Interest income	30.76	27.43	43.29	47.47	102.94
Income from investment	20.47	47.99	97.43	125.03	159.06
Dividend income	19.31	35.52	51.38	67.76	63.59
SEIS valuation income				30.27	55.11
Exchange difference	0.81	-	-	0.63	-
Total Other Income	**84.42**	**154.35**	**201.84**	**284.65**	**593.95**

Authority, consistent with its decisions taken at the time of the Tariff Order for the Second Control Period, had only excluded Dividend Income as part of Revenue from Revenue Share Assets to be considered for the cross-subsidization purposes as seen in the table below;

Table 59: Other Income proposed to be considered by the Authority as part of Revenue from Revenue Share Assets for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Total Other Income	**84.42**	**154.35**	**201.84**	**284.65**	**593.95**
Less: Dividend Income	19.31	35.52	51.38	67.76	63.59
Other Income proposed to be considered under Revenue from Revenue Share Assets	**65.11**	**118.83**	**150.46**	**216.89**	**530.36**

Treatment of Revenue from Existing Assets

3.7.13 Authority looked at DIAL's submission with regards to revenue from Existing Assets. The details of the same for the Second Control Period are in the table below;

Table 60: Revenue from Existing Assets submitted by DIAL for Second Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Revenues from Existing Assets					
Land License Fee	127.89	152.91	185.72	209.62	234.76
Hangar	17.32	29.63	30.13	31.88	33.94
Inflight Kitchen Fee	18.51	22.46	26.16	28.24	33.06
Retail- Duty Free	-	-	-	-	-
Ground Handling Related Revenue	-	-	-	-	-
Car Parking	-	-	-	-	-
Radio Taxi	5.65	5.05	4.60	4.43	5.05
Advertisement	-	-	-	-	-
Bank ATM	0.68	0.72	0.50	0.95	1.15
Food and Beverages	3.07	3.11	2.81	5.19	14.49
Forex	-	-	-	-	-
Lounges	-	-	-	-	1.40
Other Travel Services	0.68	0.68	1.04	1.06	0.98
Retail Duty Paid	1.33	1.02	2.49	5.00	12.98
Telecom	0.61	0.62	0.53	-	-
Misc Others	-	-	-	-	-
Total (A)	175.74	216.2	253.98	286.37	337.82
Cargo Revenue (Self Handled) (B)	-	-	-	-	-
Cargo Revenue (as demised premises) (C)	66.97	65.64	70.12	88.35	94.12
Reduction on T2 Assets deployed by DIAL (D)	-	-	-	-0.75	-0.81
Total revenue from demised premises (A+B+C+D)	**242.71**	**281.84**	**324.10**	**373.97**	**431.13**

The Authority noticed that the summation of the income claimed by DIAL to be excluded from Revenue from Revenue Share Assets was Rs. 1653.99 Cr over the five-year period in the Second Control Period. The Authority at the time of true up for the First Control Period had proposed not to consider such revenues for exclusion from revenue from Revenue Share Assets in the First Control Period as mentioned in 2.6.17.

To reiterate, the Authority formed the view that Existing Assets don't share a mutually exclusive relation with aeronautical or non-aeronautical assets and the term Existing Assets had been defined as such to demarcate and identify those assets already existing prior to the execution of OMDA.

The definition of non-aeronautical assets doesn't exclude Existing Assets. In fact the definition of Non-Aeronautical Assets specifically states;

"all assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part II of Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity), to the extent such assets

(a) are located within or form part of any terminal building;

(b) are conjoined to any other Aeronautical Assets, assets included in paragraph (i) above and such assets are incapable of independent access and independent existence; or

(c) are predominantly servicing/ catering any terminal complex/ cargo complex".

As these Existing Assets were forming part of the terminal building, were conjoined to other aeronautical assets, were incapable of independent access and independent existence, and were predominantly servicing/catering terminal complex/cargo complex, exclusion of the revenue from Existing Assets was not justified. Authority held the view that as long as the non-aeronautical revenues accrue to the Concessionaire from Existing Assets, the same had to be considered for cross subsidization.

The Authority felt no merit in excluding such revenue from Existing Assets in the Second Control Period and hence proposed not to exclude such revenue from Existing Assets under Revenue from Revenue Share Assets.

Treatment of Revenue from Disallowed Area

3.7.14 Authority looked at DIAL's submission with regards to revenue from the Disallowed Area and proposed not to exclude such revenues from Revenue Share Assets based on the justification already provided in the past Tariff Orders and the justification already provided under true up for the First Control Period in 2.6.16.

Treatment of Annual Fee pertaining to Revenue from Revenue Share Assets

3.7.15 The Authority looked at DIAL's submission regarding exclusion of Annual Fee pertaining to revenue from Revenue Share Assets, while arriving at the S Factor i.e. the revenue considered for 30% cross subsidization shall be post deduction of the Annual Fee pertaining to the revenue from Revenue Share Assets. The Authority, as already mentioned in its analysis, while truing up the revenues for the First Control Period noted that the proposal of DIAL to exclude revenue share of 45.99% pertaining to the Revenue from Revenue Share Assets tantamount to allowing pass-through of the Annual Fee paid with regards to Revenue Share Assets which was against the tariff setting principles enshrined in the OMDA and the SSA. The detailed analysis and reasoning of the same could be seen in 2.6.18. Therefore, Authority consistent with its proposal towards true up for the First Control Period proposed not to exclude the Annual Fee from the Revenue from Revenue Share Assets while arriving at the S Factor for the Second Control Period.

3.7.16 The Authority at the time of tariff determination for the Second Control Period had decided to project non-aeronautical revenues based on nominal growth rates linked to inflation except for contract linked revenues for which the submission made by DIAL had been considered. The Authority had noted that while the inflation rates have tapered during these years, the non-aeronautical revenues as actually earned by DIAL had shown remarkable growth. The non-aeronautical revenues as actually earned by DIAL in the Second Control Period as per their submission vis a vis the non-aeronautical revenue as considered by the Authority for the Second Control Period are shown in the table below;

Table 61: Revenue from Revenue Share Assets as per actuals against the projections as per Order no 40/2015-16

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Non-Aeronautical Revenues as projected as per Order No 40/2015-16	1,126.16	1,258.37	1,408.06	1,567.65	1,785.09	7,135.33
Non-Aero Revenues as submitted by DIAL for the Second Control Period	1,362.95	1,656.14	1,846.41	2,207.67	2,795.51	9,868.68
Non-Aeronautical Revenues (excluding Fuel Farm Revenues)	1,230.77	1,514.30	1,692.55	2,030.90	2,626.65	9,095.16

The Authority at the time of tariff determination for the Second Control Period had indicated that non-aeronautical revenues shall be trued up based on actuals and hence the Authority proposed to true up the revenues from Revenue Share Assets based on actuals.

3.7.17 Based on the above the revenue from Revenue Share Assets as considered by the Authority for cross subsidization in the Second Control Period is shown in the table below;

Table 62: Revenue from Revenue Share Assets proposed to be considered by the Authority for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Non-Aero Revenues as submitted by DIAL for the Second Control Period	1,362.95	1,656.14	1,846.41	2,207.67	2,795.51	9,868.68
Less Fuel Farm Revenue as earned by DIAL during the Second Control Period	*132.18*	*141.85*	*153.86*	*176.77*	*168.86*	*773.52*
Non-Aeronautical revenues (excluding Fuel Farm Revenues) as proposed to be considered by AERA	1,230.77	1,514.30	1,692.55	2,030.90	2,626.65	9,095.16
Less Adjustment towards portions of Other Income not considered as mentioned in Table 59	*19.31*	*35.52*	*51.38*	*67.76*	*63.59*	*237.56*
Non-Aero revenue proposed to be considered for Cross Subsidization	1,211.46	1,478.77	1,641.17	1,963.14	2,563.06	8,857.60
30% to be considered for cross subsidization	363.44	443.63	492.35	588.94	768.92	2,657.28

Stakeholder comments regarding True up of Revenue from Revenue Share Assets for the Second Control Period

3.7.18 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to true up of revenue from Revenue Share Assets for the Second Control Period. The comments by stakeholders are presented below;

DIAL's comments regarding true up of Revenue from Revenue Share Assets for the Second Control Period:

3.7.19 DIAL has requested for consideration of submissions with regards to revenue from Revenue Share Assets similar to the MYTP and also consistent with their submissions as part of stakeholder comments for the First Control Period. Further to the same in the case of Other Income wherein Authority has considered all the income apart from Dividend income as part of revenue from Revenue Share Assets, DIAL has requested that all segments of Other Income including Dividend Income to be excluded from the consideration under revenue from Revenue Share Assets.

The justification as submitted by DIAL with regards to the same is as shown below;

"As per Schedule 1 of the SSA, S Factor constitutes only revenue from accruing from Revenue Share Assets. The definition of Revenue Share Assets is as below:

> *"Revenue Share Assets" shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of aeronautical related services arising at the Airport and not considered in revenues from Non-Aeronautical Assets (e.g. Public admission fee etc.)*

The definition of non-aeronautical assets under the OMDA is as follows:

> *"Non-Aeronautical Assets" shall mean:*

all assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part I of Schedule 6 and any other services mutually agreed to be added to the Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity); and all assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part II of Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity), to the extent such assets (a) are located within or form part of any terminal building; (b) are conjoined to any other Aeronautical Assets, asset included in paragraph (i) above and such assets are incapable of independent access and independent existence; or (c) are predominantly servicing/ catering any terminal complex/cargo complex and shall specifically include all additional land (other than the Demised Premises), property and structures thereon acquired or leased during the Term, in relation to such Non-Aeronautical Assets.

With regard to inclusion in revenue from revenue share assets the detailed submission has been made at para 2.3.2 which may be referred.

It is evident from the above that the revenue derived under the head of other income does not form part of revenue from Revenue Share Assets. Hence, the same cannot be considered as part of S-Factor for the calculation of aeronautical tariff under the scheme of the SSA awarded to DIAL.

These earnings, i.e. interest income, treasury income, etc. relate to investment of interim surplus funds and the retention of the share-holders' funds in the business till the same are paid out as dividends. Such incomes do not form part of either aeronautical or non-aeronautical revenues.

Accordingly, we request Authority to consider the terms of the concession provided to Delhi Airport. This is in accordance with the TDSAT order dtd. 23rd April 2018 for Delhi Airport wherein it decided that as per section 13 of the Act, AERA is required to respect rights/concession.

Principle settled in earlier orders

The Authority in First Control Period also excluded the revenues realised by the DIAL from "Other Income" including Interest Income, income from sale of investment, income from delayed payment, etc. as non-aeronautical revenue. Authority stand for first control period clearly stated in the second control period, the relevant extract is at para 6.43 of order no 40/2015-16 is reproduced below:

The Authority, during the determination of tariff for the first Control Period, had not considered the revenues realised by DIAL from "Other Income" (typically including Interest Received Deposit with Banks, Income from Current Investments, Income from Non-Current Investments, Interest received - Delayed payment, Sale of Others material/Scrap others, Profit on Sale of Depreciable Assets, Dividend income, Realized Foreign Exchange Gain/Loss, Misc. income Others, Liquidated Damages received, Management Fee, Tender cost recovery) as non-aeronautical revenue.

However, in the order no 40/2015-16 at para 19.15 for second control period Authority had changed its stance and opined that the interest income will be treated as non-aeronautical revenue at the time of true up. Following is the extract of the order:

The Authority, for the time being, had projected this sub-head at 'nil' value for the second Control Period. However the Authority proposed to true up the "Other Incomes" based on the actual values realized by DIAL during the second Control Period at the time of tariff determination for the third Control Period.

This is the departure from the principle adopted in the First Control Period without giving any reasons for the same. This is against the consistency principal.

Airports Economic Regulatory Authority of India

Double consideration of the income from treasury

Further it is important to note that Authority while truing up the under/over recovery in following control period considers the over/under collection with time value or carrying cost at the value of WACC arrived. This inter-alia means that the authority has considered any potential interest on the surplus during the control period with a rate of WACC. Such interest relates to the investment which can be made from the surplus amount at much higher rate as compared to the actual and also is considered 100% aeronautical in nature. Considering the treasury income over and above the present value of the surplus would lead to double accounting of the same income.

In view of the above the other income should not be considered in the determination of aeronautical charges."

Other Stakeholders' comments regarding true up of Revenue from Revenue Share Assets for the Second Control Period:

3.7.20 MIAL commented that the Authority ought to exclude Other Income from non-aeronautical revenue.

As per MIAL, airport operator as part of cash management invests interim surplus funds and retention of shareholder funds in the business till they are paid out as dividends and earns interest income on such investments. They should be outside regulatory purview as they are neither a part of non-aeronautical revenue nor aeronautical revenue. MIAL states that the Authority did not consider Other Income as non-aero in First Control Period but changed its stand and considered the same as non-aero in Second Control Period. MIAL requests Authority to be consistent in its approach and to exclude Other Income from non-aeronautical revenue.

3.7.21 Airlines Operator Committee (AOC) has submitted that any revenue generated from CUTE/CUSS should be considered aeronautical in nature.

As per AOC, CUTE/CUSS is a bundled provision of services for airline use. The provision of CUTE is a single inseparable system which has been bifurcated into aero and non-aero by the independent study. This reduces the aero revenue of DIAL due to cross subsidy of non-aero revenues during tariff determination. As per Hon'ble TDSAT Order, the colour of revenue from aeronautical service cannot be changed to that of revenue from non-aeronautical service by an act of leasing out by concessionaire. AOC considers CUTE/CUSS to be an aeronautical service and thus requests Authority to consider revenue generated from CUTE/CUSS as aeronautical in nature.

DIAL's counter-comments and response to stakeholder comments regarding True up of Revenue from Revenue Share Assets for the Second Control Period

3.7.22 Subsequent to the Stakeholder Comments received by DIAL as part of Stakeholder Consultation Process, DIAL's response to the various stakeholder comments with respect to true up of revenue from Revenue Share Assets for the Second Control Period are presented below;

DIAL's Response to AOC's comments on true up of Revenue from Revenue Share Assets for the Second Control Period

3.7.23 DIAL stated that, in terms of concession, CUTE services are considered non-aeronautical in nature and vide order of the Authority dated 19th November 2018; the CUTE Counter Charges were discontinued from 1st December 2018. The detailed response of DIAL in this regard is as follows;

"Authority has dealt with the subject matter of contention at para 6.110 of order no 40/2015-16. Following is the relevant excerpt

> *"….. the Authority had further sought opinions from the Ministry of Civil Aviation and AAI and had also sought legal counsel on the matter. The Authority is in receipt of their response, and has also received views from MIAL on the matter.* ***The ministry has suggested that these services be treated as non-aeronautical unless there are pressing reasons to presume otherwise. Hence, it was noted that all the above views concurred that CUTE counter services and Cargo X-Ray screening services may be treated as Non-Aeronautical in nature.*** *The Authority does not find it prudent to infer the nature of treatment of any service when signing parties to the OMDA themselves concur on the treatment of the service. This view is also consistent with the view taken by the Authority in its MIAL Tariff Order no. 32/201213. Hence, the Authority has in principle decided to consider cargo X-Ray screening services and CUTE counter charges to be non-aeronautical in nature….(Emphasis added)*
>
> *…..This view is also consistent with the view taken by the Authority in its MIAL Tariff Order no. 32/201213. Hence, the Authority has in principle decided to consider cargo X-Ray screening services and CUTE counter charges to be non-aeronautical in nature. "*

Accordingly, in terms of the concession, CUTE service considered non-aeronautical in case of DIAL. Further, it may also be perused that the CUTE counter charges have been discontinued from 1st December 2018 vide the order of the Authority dated 19th November 2018."

Authority's Examination on Stakeholder Comments regarding issues on True up of Revenue from Revenue Share Assets for the Second Control Period

3.7.24 Authority has noted that the comments made by DIAL regarding consideration of revenue from Existing Assets, revenue from Disallowed Area, and Deduction of Annual Fee payable to AAI, and Fuel Throughput Charges for Second Control Period are consistent with DIAL's stakeholder comments regarding the same for First Control Period.

Authority would like to point out that to a large extent, the stakeholder comments by DIAL regarding treatment of Fuel Throughput Charges, revenue from Existing Assets, revenue from Disallowed Area and deduction of Annual Fee payable to AAI are re-iterations of DIAL's submissions regarding the same as per MYTP. Authority had looked at DIAL's submissions as part of Consultation Paper No. 15/2020-21 and had taken a stand to not consider Fuel Throughput Charges as part of revenues from Revenue Share Assets, to not exclude revenue from Existing Assets and revenue from Disallowed Area from revenue from Revenue Share Assets, and not to deduct Annual Fee payable to AAI from revenue from Revenue Share Assets. Authority does not see any merit in revisiting their stance on the same.

Based on the above, Authority, consistent with the decisions taken regarding revenue from Revenue Share Assets for the First Control Period in this Tariff Order, has decided to not make any adjustments to the treatment of revenue from Existing Assets, revenue from Disallowed Area and deduction of Annual Fee payable to AAI with regards to the cross-subsidization of revenue from Revenue Share Assets for the Second Control Period. Similarly, Authority has decided to not make any adjustments to the existing treatment of Fuel Throughput Charges as part of aeronautical services. The justifications for these decisions have been discussed in detail in the relevant sections under True up for the First Control Period in this Tariff Order.

3.7.25 Authority has examined the comments made by DIAL and MIAL pertaining to consideration of Other Income as part of revenue from Revenue Share Assets for the Second Control Period. Authority has noted that DIAL requested to exclude all segments of Other Income, including Dividend Income, from consideration for revenue from Revenue Share Assets.

Authority analyzed the stakeholder submissions regarding treatment of Other Income and in this regard would like to point out that in the Order No. 40/2015-16 (SCP Tariff Order), Authority had asked DIAL to classify all revenue heads, including Other Income as aeronautical or non-aeronautical during submission of tariff proposal for Third Control Period as is reproduced below;

"While the Authority decides to follow the above treatment in respect of "Other Income" for the purpose of true-up for the first Control Period, it is of the view that, all components of "Other Income" should be accounted under aeronautical or nonaeronautical categories, in the future, as far as possible. However, going forward, the Authority asks DIAL to classify all revenue heads, including other income as either aeronautical or non-aeronautical while submitting its proposal for the third Control Period."

Authority's view and treatment as mentioned in the Consultation Paper No. 15/2020-21 is only a continuation of the view reiterated in the Tariff Order for the Second Control Period and is consistent with the decision that Other Income, apart from Dividends, such as Income from Investments etc. are revenues accruing to airport operator through cash earned from airport operations and hence should be considered as part of revenue from Revenue Share Assets.

Authority has hence decided to consider Other Income, apart from Dividend Income, as part of revenue from Revenue Share Assets to be considered for cross-subsidization for Second Control Period.

3.7.26 Authority has noted AOC's comments pertaining to consideration of revenue generated from CUTE/CUSS as aeronautical in nature and has also made note of DIAL's response to AOC regarding the same. Authority would like to mention that determination of CUTE counter charges have been discontinued as part of BAC Tariff Order, effective from December 01, 2018, and prior to the same the CUTE counter charges were determined and fixed as part of aeronautical tariff by the Authority in the earlier Tariff Orders. Currently the airport operator has entered into a JV for providing Common User services and has a revenue share arrangement based on which if subsistence is paid to meet the revenue deficit of this JV; certain percentage of the subsistence paid is treated as aeronautical expense while the surplus earned is classified as non-aeronautical revenue consistent with the treatment mentioned under OMDA. The cost benefit analysis in terms of efficiency has been studied as part of the independent study commissioned by Authority and based on the outcome which suggested that the current structure is efficient, Authority has decided that treatment shall continue to be the same as proposed in the Consultation Paper.

भा.वि.आ.वि.प्रा.
AERA

3.8 Treatment of Base Airport Charges

DIAL's submission regarding Treatment of Base Airport Charges for the Second Control Period

3.8.1 DIAL mentioned in their submission that as per their interpretation of the SSA they would be eligible to recover Base Airport Charges plus 10% from the date of issue of Tariff Order wherein the charges calculated were lesser than Base Airport Charges plus 10%. DIAL mentioned that their eligibility to charge BAC shall be till the time they had been actually allowed to charge BAC plus 10%. AERA had allowed DIAL to charge Base Airport Charges as per the interim Tariff Order issued by AERA on November 19, 2018, effective from December 1, 2018 and hence DIAL calculated the BAC eligibility starting from January 1, 2016 and ending at December 1, 2018.

To calculate the amount they were eligible to recover, DIAL calculated the BAC revenue that would accrue based on the traffic assumed in the Tariff Order for the Second Control Period and had compared the same with the revenue approved in the Tariff Order for the Second Control Period for the corresponding period. If the former was lesser, then DIAL calculated the revenues accrued based on actual traffic on which BAC plus 10% was assumed to be levied as the tariff during the eligibility period. The cumulative amount during the BAC eligibility period adjusted by WACC had been considered for true up at the end of the Second Control Period.

The relevant extract from the DIAL tariff proposal is as follows;

"In terms of Clause 3.2 of the SSA, it has been mandated that the Aeronautical Charges which DIAL is entitled to collect, are to be calculated in terms of Schedule 6 of the SSA. Relevant portion is reproduced herein under:

"3.1.2 The Aeronautical Charges for any year during the Term shall be calculated in accordance with Schedule 6 appended hereto. For abundant caution, it is expressly clarified that the Aeronautical Charges as set forth in Schedule 6 will not be negotiated post bid after the selection of the Successful Bidder and will not be altered by the JVC under any circumstances."

....

"Schedule 6

Aeronautical Charges, for the purposes of this Agreement, shall be determined in the manner as set out hereunder:

1. The existing AAI airport charges (as set out in Schedule 8 appended hereto) ("Base Airport Charges") will continue for a period of two (2) years from the Effective Date and in the event the JVC duly completes and commissions the Mandatory Capital Projects required to be completed during the first two (2) years from the Effective Date, a nominal increase of ten (10) percent over the Base Airport Charges shall be allowed for the purposes of calculating Aeronautical Charges for the duration of the third (3rd) Year after the Effective Date ("Incentive"). It is hereby expressly clarified that in the event JVC does not complete and commission, by the end of the second (2nd) year from the Effective Date, the Mandatory Capital Projects required to be completed and commissioned, the Incentive shall not be available to the JVC for purposes of calculating Aeronautical Charges for the third (3rd) year after the Effective Date.

2. From the commencement of the fourth (4th) year after the Effective Date and for every year thereafter for the remainder of the Term, Economic Regulatory Authority/ GOI (as the case may be) will set the Aeronautical Charges in accordance with Clause 3.1.1 read with Schedule 1 appended to *the Agreement, subject always to the condition that, at the least, a permitted nominal increase of ten (10) percent of the Base Airport Charges will be available to the JVC for the purpose of calculating Aeronautical Charges in any year after the commencement of the fourth year and for the remainder of the Term.*

..."

On an analysis of Clause 2 of Schedule 6 of the SSA it can be seen that Clause 2 of Schedule 6 of the SSA provides that ' the Authority/ GOI (as the case may be) will set the Aeronautical Charges in accordance with Clause 3.1.1 read with Schedule 1 appended to this agreement, subject always to the condition that, at the least, a permitted nominal increase of ten (10) percent of the Base Airport Charges will be available to the JVC for the purposes of calculating Aeronautical Charges in any year after the commencement of the fourth year and for the remainder of the Term.'

As such, your good office is required to evaluate the Aeronautical Charges calculated in accordance with Schedule 1 of the SSA in comparison to the Aeronautical Charges calculated in accordance with Schedule 6, at the time of setting of the Aeronautical Charges, i.e., at the beginning of a control period.

Further, Clause 2 of Schedule 6 of the SSA expressly states that the 'permitted nominal increase' as assured by the SSA is available to DIAL for the purpose of calculation of Aeronautical Charges. Therefore, from the foregoing it can be inferred that in terms of the SSA, the date of levy of Base Airport Charges should coincide with the date on which the aeronautical tariff calculated under Schedule 1 of the SSA is calculated.

In view of the above, it is pertinent to examine the contents of the Second Tariff Order to determine the date as on which the calculation of Aeronautical Charges under Schedule 1 has been done by your good office for the Second Control Period. The relevant portion of the Second Tariff Order is as under:

"25.16 The Authority would like to mention that the X-factor of +96.08% is based on the date of implementation of new tariffs on 01.01.2016 that is, almost one year and nine months into the Second Control Period...

...

Decision No. 22: Regarding the Tariff Structure/Rate Card to be considered for the Second Control Period, based on the material before it and its analysis, the Authority has decided:

22.a To determine an X-factor of +96.08% (with date of implementation of tariff as 01.01.2016) based on its decisions in respect of regulatory building blocks towards determination of aeronautical tariffs for the Second Control Period (01.04.2014 – 31.03.2019) for the IGI Airport, New Delhi.

...

Order

28.1 In exercise of power conferred by Section 13(1)(a) of the AERA Act, 2008 and based on the above decisions, the Authority hereby determines the aeronautical tariffs to be levied at IGI Airport, New Delhi for the Second Control Period (2014-15 to 2018-19), effective from 01.01.2016 and the rate card so arrived at as of 01.01.2016 upto 31.03.2019 has been attached as Annexure I to the Order. ..."

In terms of the Second Tariff Order, it is evident that the Aeronautical Charges for the Second Control Period were calculated keeping in mind the implementation date of 01.01.2016. Since, in terms of the

आर्थिक विनियामक प्राधिकरण
सत्यमेव जयते
Economic Regulatory Authority of India

above, the date of implementation of the Aeronautical Charges as calculated under Schedule 1 of the SSA should coincide with the date of implementation of Base Airport Charges when the former is lower than the latter, the date of implementation of Base Airport Charges should also be 01.01.2016 for the Second Control Period.

Since the X-factor and the Aeronautical Charges for the Second Control Period have been calculated taking the date of 01.01.2016 as the benchmark implementation date and it is these Aeronautical Charges which have been compared with the Base Airport Charges to determine whether the Base Airport Charges would be applicable or not. It is evident that the Base Airport Charges would be implemented on the same date as on which the Aeronautical Charges would have been implemented had the same been found to be higher in comparison to the Base Airport Charges. As such, while deciding whether the Aeronautical Charges as calculated under Schedule 1 of the SSA would apply or Base Airport Charges are to apply, the date of implementation would have to be kept constant which in the scenario of the Second Control Period is 01.01.2016. In view of the foregoing, it is submitted that the date of applicability of the Base Airport Charges for the Second Control Period should be 01.01.2016 and the true up for the same has been considered.

In order to substantiate the above claim the following table indicates that the aeronautical tariff as approved under tariff order no.40 /2015-16 had fallen below BAC +10% of BAC from 01.01.2016."

3.8.2 As a result, DIAL made the following submission on the applicability of such BAC plus 10% from January 1, 2016;

Table 63: Eligibility of BAC submitted by DIAL for Second Control Period as per MYTP

Year ending March 31 (Rs. Cr)	**2015**	**Apr-Dec'15**	**Jan-Mar'16**	**2017**	**2018**	**2019**
Revenue Approved in Order No. 40	2,989.85	2,390.35	110.02	488.02	539.50	596.62
BAC Revenue with Traffic in Order No. 40	689.33	554.27	184.08	790.94	847.36	907.88
BAC Eligibility	NO	NO	YES	YES	YES	YES
BAC Revenue from Actual Data/traffic	-	-	739.35	836.06	930.79	698.00#
BAC Revenue to be trued-up	-	-	184.33*	836.06	930.79	698.00
Adjustment Factor based on WACC for Second Control	-	-	1.48	1.30	1.14	1.00
BAC Revenue to be trued-up	-	-	**273.54**	**1,087.72**	**1,061.68**	**698.00**

**adjusted for the eligibility period*
 # till December 1, 2018

3.8.3 Based on the above table, DIAL requested for a true up with regards to the Base Airport Charges amounting to Rs. 3,120 Cr which was arrived at by summation of the BAC revenue to be trued up over the period from January 2016 till December 2018.

Decisions taken by the Authority regarding Base Airport Charges as per Order No 30/2018-19 regarding Base Airport Charges

3.8.4 The Authority had not passed any decision with regards to the issue of Base Airport Charges at the time of tariff determination for the Second Control Period.

3.8.5 However, during the Second Control Period, DIAL had approached the Authority with the contention that the aeronautical tariffs determined by the Authority have fallen below the Base Airport Charges stipulated in the SSA. As per Clause 2 of Schedule 6 in SSA, DIAL is entitled to collect Base Airport Charges + 10% if the aeronautical charges determined by AERA fall below BAC in any year during the period of concession. DIAL requested the Authority to allow them to levy Base Airport Charges from 7th July 2017, the date when Tariff Order for Second Control Period was given effect as per the orders of the Hon'ble Supreme Court.

3.8.6 The Authority examined DIAL's submission and stated that the aeronautical charges calculated at BAC + 10% are greater than the charges levied by DIAL as per the Tariff Order for the Second Control Period. The Authority had also mentioned that DIAL recovered more than what was due to it in the First and Second Control Periods upto July 2017, to the order of Rs. 5200 Cr taking into consideration the net present values.

3.8.7 The Authority, after examining DIAL's submissions, issued Consultation Paper No. 6/2018-19 on May 29, 2018 concerning determination of aeronautical tariffs with respect to Base Airport Charges and the final order regarding this was issued in November 19, 2018 based on which BAC plus 10% was to be effected from December 1, 2018. The Authority also proposed that the excess amount recovered by DIAL during the Second Control Period will be calculated separately and adjusted during tariff determination of Third Control Period.

Authority's Examination regarding treatment of Base Airport Charges for the Second Control Period

Major Points as per DIAL's submission with regards to treatment of BAC:

Authority looked at DIAL's submission regarding the Base Airport Charges Eligibility and the request for truing up the eligible BAC to the extent of Rs. 3120 Cr and noted the following points based on which DIAL had made the above claim;

- DIAL's interpretation of Clause 2 of the Schedule 6 of the SSA governing Base Airport Charges was that the date of levy of BAC should coincide with the date on which the aeronautical tariff under Schedule 1 of the SSA was calculated. If the aeronautical charges calculated as per Schedule 1 of the SSA were lower than the Base Airport Charges, the date of implementation of Base Airport Charges had to be the same date when the determined Aeronautical charges were found to be lower, irrespective of whether such determined Aeronautical charges were levied or not.
- DIAL compared the aeronautical revenue as approved under the Second Control Period Tariff Order with the revenues calculated as per Base Airport Charges for the same traffic considered in the Tariff Order and had inferred that BAC was applicable from January 1, 2016, the date of implementation of the Tariff Order for the Second Control Period. Under the assumption that BAC should be effective, DIAL submitted that the revenues that would have accrued as per BAC plus 10% from the period starting from January 2016 till December 2018 (when the BAC was actually implemented), should be provided to DIAL on an NPV basis which had been calculated as Rs. 3120 Cr.

Clauses as per the SSA and its interpretation:

Authority reviewed the relevant clauses of the SSA under Schedule 6 which is as below;

*"2. From the commencement of the fourth (4^{th}) year after the Effective Date and for every year thereafter for the remainder of the Term, Economic Regulatory Authority / GOI (as the case may be) will set the Aeronautical Charges in accordance with Clause 3.1.1 read with Schedule 1 appended to this Agreement, subject always to the condition that, **at the least**, a permitted nominal increase of ten (10) percent of the Base Airport Charges will be available to the JVC for the purposes of calculating Aeronautical Charges in any year after the commencement of the fourth year and for the remainder of the Term."*

The SSA clearly states that "at the least" a permitted nominal increase of 10 percent of the Base Airport Charges will be available to the JVC for the purpose of calculating Aeronautical Charges in any year after the commencement of the fourth year. The Authority would like to bring to attention, the usage of the underlined words which clearly indicate that the permitted nominal increase of 10% over BAC was the floor and if the aeronautical charges determined as per Schedule 1 of the SSA are lower than this floor then tariff as per BAC plus 10% will be applicable, so that the operator earns at the least BAC plus 10%. The same was a measure incorporated in the OMDA/SSA to ensure that the airport operator was assured of a minimal revenue corresponding to BAC plus 10% in the event that the tariff determined as per the Schedule 1 principles of the SSA falls below the BAC plus 10%.

Authority's analysis on the Major Points submitted by DIAL

DIAL in their submission requested for provision of BAC from January 1, 2016 till December 1, 2018 over and above the true up for the Second Control Period as per the tariff determination principles mentioned under Schedule 1 of the SSA. The Authority held the view that such a claim was devoid of merit on account of the following reasons;

- The Tariff Order was not implemented from January 1, 2016 till July 7, 2017 which was roughly three and quarter years of the Second Control Period (commencing from April 1, 2014) during which the aeronautical charges levied by DIAL were much higher than the tariff applicable as per BAC plus 10%. However, DIAL had not only collected these high aeronautical charges but also claimed compensation to the tune of the revenues that would have accrued as per BAC and had asked for the same to be trued up additionally. As per the SSA, BAC plus 10% is the floor revenue to protect the tariffs from falling below such Base Airport Charges and not an added revenue stream for true up when the actual aeronautical charges collected by DIAL were much higher than BAC plus 10%.
- DIAL claiming the BAC for the period from July 7, 2017 till December 1, 2018 along with **the revenues collected as per the Tariff Order for the Second Control Period** also lacks merit as the BAC is a revenue floor and not an added revenue stream. DIAL had **continued to collect revenues as per the Tariff Order for the Second Control Period** in this intervening period. DIAL's eligibility had to be the difference between the revenues as per BAC plus 10% and the Aggregate Revenue Requirement (ARR) provided to the airport operator, provided such ARR that had been assessed for the relevant period is lower than the revenues collected as per Base Airport Charges. (*Actual aeronautical revenues may not be considered for comparison with BAC for the lapsed control periods as the Authority considers only ARR on an NPV basis when the tariff is determined for the next cycle as part of true up exercise).*

Authority's Treatment of BAC

Authority at the time of issuing Tariff Order for the Second Control Period estimated the Target Revenue for DIAL and compared the same with the aeronautical revenues projected to be collected assuming the implementation of tariff from January 1, 2016. The details are in the table below;

Table 64: Net Target Revenue and Projected Revenue as per Tariff order for the Second Control Period

S. No	FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
1	**Net Target Revenue (NTR)**	**1,674.76**	**1,587.34**	**1,547.06**	**1,464.59**	**1,435.86**
2	NPV Target Revenue	1,977.67	1,704.57	1,510.75	1,300.6	1,159.53
3	**Total NPV Target Revenue**					**7,653.12**
4	Net Projected Revenue	2,989.85	2,500.37	488.02	539.5	596.62
5	NPV Projected Revenue	3,530.62	2,685.03	476.57	479.09	481.80
6	**Total NPV Projected Revenue**					**7,653.12**

As noted under Rows 3 and 5 in the table above, against the cumulative NPV of Target Revenue projected for the Second Control Period which is Rs. 7653.12 Cr, the airport operator had collected roughly Rs. 6215.65 Cr in the first two years of the Second Control Period itself (approx. 81% of the cumulative NPV of Target Revenue). The above had contributed to the drastic reduction in tariff for the balance years as explained in detail under the Tariff Order for the Second Control Period. However it is to be noted that the cumulative NPV of the Target Revenue for the Second Control Period is matched with the NPV of the Projected Revenue at the time of tariff determination and only on account of over recovery in the initial 2 years, reduction in tariff was effected.

Authority at the time of issuing the order for BAC dated November 19, 2018 had gone by the principles of Schedule 6 of the SSA which says that the airport operator should get at the least BAC plus 10% as aeronautical revenues. As the revenues that would have accrued to DIAL based on the tariff card approved as per the Tariff Order for the Second Control Period would have been lesser than the aeronautical revenues that would have been collected as per BAC plus 10%, the airport operator was given the right to charge BAC plus 10% from December 1, 2018.

Authority now as part of tariff determination exercise for the Third Control Period recalculated the Target ARR for the Second Control Period as part of true up exercise. These figures pertaining to Target ARR YoY have been compared with the revenues that would have accrued based on actual traffic at BAC plus 10% and the actual aeronautical revenues that were collected by the airport operator in the Second Control Period which is as shown in the table below;

Table 65: Comparison of recalculated Target ARR, Revenues as per BAC plus 10%, Actual Aeronautical Revenues collected by the Airport Operator to arrive at BAC eligibility

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019
Target ARR for the Second Control Period	2,014.78	1,575.71	1,690.63	1,472.41	1,236.83
Revenues calculated based on actual traffic at BAC plus 10%	689.33	739.35	836.06	930.79	993.28
Actual Aeronautical Revenues collected by the Airport Operator during the Second Control Period	2,950.92	3,407.58	3,931.53	1,705.47	987.79
Need for any adjustment in ARR with regards to BAC	No	No	No	No	No

As can be seen from the above table, the **Target ARR proposed to be considered** by the Authority for true up for each of the years in the Second Control Period is **considerably higher YoY than the revenues that would have accrued as per BAC plus 10%** on the actual traffic.

The Target ARR as mentioned above gets compared with the actual aeronautical revenue collection for any true up pertaining to over recovery or under recovery. DIAL shall hence be able to recover the Target ARR (which is anyways higher than the revenue potential as per BAC plus 10%) under the normal course of tariff determination exercise as part of true up. The same meets the stipulation as per the Schedule 6 of the SSA.

Had the Target ARR been lesser than revenues that would have accrued as per BAC plus 10%, then the Target ARR should be reinstated to the revenues as per BAC plus 10% (which is the minimum revenue DIAL is eligible for as per SSA **at the least**) and trued up for the next Control Period. However, the same was not the case as the recalculated Target ARR was well above the revenues that would have accrued as per BAC plus 10%.

Hence Authority proposed no adjustment with regards to BAC True up as claimed by DIAL for the Second Control Period.

Stakeholder comments regarding Treatment of Base Airport Charges for the Second Control Period

3.8.8 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to treatment of Base Airport Charges for the Second Control Period. The comments by stakeholders are presented below;

DIAL's comments regarding Treatment of Base Airport Charges for the Second Control Period:

3.8.9 DIAL, consistent with its MYTP, has requested the Base Airport Charges, provided as per Schedule 6 of the SSA, to be segregated and provided as a revenue stream in years when the aeronautical charges determined as per Schedule 1 of the SSA falls below the BAC plus 10% as per Schedule 6. The same has to be affected irrespective of whether the aeronautical charges determined as per Schedule 1 of the SSA have been levied or not. Further the revenue earned under BAC plus 10% should not be reckoned for true up while comparing the same with eligible Aggregate Revenue Requirement.

The concerned extract from the submission of DIAL has been reproduced verbatim as below;

"Delhi International Airport Limited (DIAL) has been mandated to carry out the Aeronautical Services as listed out in Schedule 5 of the Operation Development and Management Agreement (OMDA) which was executed between DIAL and Airports Authority of India (AAI) on 04.04.2006 with respect to IGI Airport, New Delhi. In furtherance of the obligations of DIAL under the OMDA, the Government of India and DIAL also entered into the State Support Agreement (SSA) dated 26.04.2006.

In terms of Clause 3.1.2 of the SSA, it has been mandated that the Aeronautical Charges which DIAL is entitled to collect, are to be calculated in terms of Schedule 6 of the SSA. The said Clause 3.1.2 and Schedule 6 of the SSA are relevant and the same are reproduced hereinunder:

> *"3.1.2 The Aeronautical Charges for any year during the Term shall be calculated in accordance with Schedule 6 appended hereto. For abundant caution, it is expressly clarified that the Aeronautical Charges as set forth in Schedule 6 will not be negotiated post bid after the selection of the Successful Bidder and will not be altered by the JVC under any circumstances."*

....

"Schedule 6

Aeronautical Charges, for the purposes of this Agreement, shall be determined in the manner as set out hereunder:

The existing AAI airport charges (as set out in Schedule 8 appended hereto) ("Base Airport Charges") will continue for a period of two (2) years from the Effective Date and in the event the JVC duly completes and commissions the Mandatory Capital Projects required to be completed during the first two (2) years from the Effective Date, a nominal increase of ten (10) percent over the Base Airport Charges shall be allowed for the purposes of calculating Aeronautical Charges for the duration of the third (3rd) Year after the Effective Date ("Incentive"). It is hereby expressly clarified that in the event JVC does not complete and commission, by the end of the second (2nd) year from the Effective Date, the Mandatory Capital Projects required to be completed and commissioned, the Incentive shall not be available to the JVC for purposes of calculating Aeronautical Charges for the third (3rd) year after the Effective Date.

From the commencement of the fourth (4th) year after the Effective Date and for every year thereafter for the remainder of the Term, Economic Regulatory Authority/ GOI (as the case may be) will set the Aeronautical Charges in accordance with Clause 3.1.1 read with Schedule 1 appended to the Agreement, subject always to the condition that, at the least, a permitted nominal increase of ten (10) percent of the Base Airport Charges will be available to the JVC for the purpose of calculating Aeronautical Charges in any year after the commencement of the fourth year and for the remainder of the Term.

..."

Schedule 6 of the SSA, grants two rights/privileges in favour of DIAL. Clause 1 of Schedule 6 of the SSA provides a one-time 'Incentive' which would be available to DIAL on completion of Mandatory Capital Projects within a stipulated time. On the other hand, Clause 2 of Schedule 6 of the SSA grants an assurance/vests the DIAL with the right to "at the least, a permitted nominal increase of 10 percent of the Base Airport Charges" which would be available to DIAL for calculation of Aeronautical Charges in any year after the commencement of the fourth year and for the remainder of the Term.

In terms of Clause 2 of Schedule 6 of the SSA, the GoI had assured/ undertaken that the calculation of Aeronautical Charges at IGI Airport which would be done in accordance with Schedule 1 of the SSA shall always be subject to, at the least, a permitted nominal increase of 10 percent of Base Airport Charges, in any year and for the remainder of the Term of the SSA (which is co-terminus with the OMDA).

As such, what is contemplated in Clause 2 of Schedule 6 of the SSA is a sovereign assurance in the nature of a safety net for DIAL in consideration of the obligations being undertaken by it, which would come into play the moment the Aeronautical Charges as calculated under Schedule 1 of the SSA, for any year would fall below the Base Airport Charges plus 10% thereof as set out in Schedule 8 of the SSA.

Therefore, a bare reading of the relevant provisions makes it evident that the intention of the SSA is that the AERA shall calculate Aeronautical Charges year on year in accordance with the principles laid down in Schedule 1 of SSA but at the same time it shall ensure that the Aeronautical Charges so calculated do not fall below the value of Base Airport Charges with the permitted nominal increase of

10 percent of Base Airport Charges, for any year during the Term. Consequently, if for any year the Aeronautical Charges calculated in accordance with Schedule 1 of the SSA, is less than the Base Airport Charges plus 10% thereof, then DIAL shall be permitted to levy the latter in terms of Clause 2 of Schedule 6 of the SSA.

As such, it has been assured in the SSA, that at the very least, for any year, DIAL would be entitled to levy Base Airport Charges (along with the permitted 10% increase) as Aeronautical Charges at the IGI Airport. From the aforementioned discussion, the principles which emerge are as under:

i. *At the time of determination of Aeronautical Charges, AERA is mandated to calculate the same as per the principles enshrined in Schedule 1 of the SSA;*
ii. *The Aeronautical Charges so arrived at in terms of the calculation under Schedule 1 of the SSA are to be compared with the Base Airport Charges along with permitted nominal increase of 10%;*
iii. *If on comparing the Aeronautical Charges as calculated under Schedule 1 of the SSA, it is found that the same are lower than the Base Airport Charges with the permitted 10% increase, then DIAL shall be entitled to charging the latter charges.*
iv. *That for any year, DIAL is entitled to the higher of the two, i.e., Aeronautical Charges calculated under Schedule 1 of the SSA on the one hand and the Base Airport Charges along with 10% increase on the other hand, and the said entitlement is to be determined for each year in the control period, before the beginning thereof. Further, the entitlement of DIAL to either Aeronautical Charges under Schedule 1 or to Base Airport Charges plus 10% thereof shall remain in force for the entire Control Period.*
v. *Further, the same exercise would again be carried out by AERA for each year of the control period at the time of determining Aeronautical Charges for the next control period.*

In view of the foregoing, it is relevant to examine the actions of AERA for the Second Control Period. The relevant portion of the Second Tariff Order is as under:

"25.16 The Authority would like to mention that the X-factor of plus96.08% is based on the date of implementation of new tariffs on 01.01.2016 that is, almost one year and nine months into the second Control Period...

...

Decision No. 22: Regarding the Tariff Structure/Rate Card to be considered for the second Control Period, based on the material before it and its analysis, the Authority has decided:

22.a To determine an X-factor of plus96.08% (with date of implementation of tariff as 01.01.2016) based on its decisions in respect of regulatory building blocks towards determination of aeronautical tariffs for the Second Control Period (01.04.2014 – 31.03.2019) for the IGI Airport, New Delhi.

...

Order

28.1 In exercise of power conferred by Section 13(1)(a) of the AERA Act, 2008 and based on the above decisions, the Authority hereby determines the aeronautical tariffs to be levied at IGI Airport, New Delhi for the Second Control Period (2014-15 to 2018-19), effective from 01.01.2016 and the rate card so arrived at as of 01.01.2016 upto 31.03.2019 has been attached as Annexure I to the Order. ..."

In terms of the Second Tariff Order, the Aeronautical Charges under Schedule 1 of the SSA were calculated for the Second Control Period keeping in mind the implementation date of 01.01.2016. On *a comparison of the Aeronautical Charges calculated under Schedule 1 as determined in the Second Tariff Order, with the Base Airport Charges plus 10% thereof, for each year, it can be ascertained that the said Aeronautical Charges under Schedule 1 are lower and therefore, DIAL is entitled to Base Airport Charges plus 10% thereof from 01.01.2016. Since, in terms of the Tariff Order for the Second Control Period, the date of implementation of the Aeronautical Charges for calculation under Schedule 1 of the SSA was taken to be 01.01.2016 and the said Aeronautical Charges are lower than Base Airport Charges with the 10% increase, the Base Airport Charges plus 10% should be applicable from 01.01.2016 itself as that is the date on which the Aeronautical Charges have gone below the Base Airport Charges plus 10% thereof.*

That even though AERA has chosen 5 years as a Control Period as per AERA Act, 2008 and the Aeronautical Charges are therefore calculated by AERA for a total of 5 years, the comparison between Aeronautical Charges as calculated under Schedule 1 of the SSA and Base Airport Charges with a 10% increase, has to be done on a year to year basis in terms of the SSA. As such, even for the Second Control Period, which is from 01.04.2014 to 31.03.2019, the Aeronautical Charges as calculated from 01.01.2016 to 31.03.2016, 01.04.2016 to 31.03.2017, 01.04.2017 to 31.03.2018 and 01.04.2018 to 31.03.2019 are lower than the Base Airport Charges plus 10%. Therefore, for the aforementioned periods, the Base Airport Charges plus 10% should become the applicable Aeronautical Charges, whereas from 01.04.2014 to 31.12.2015, the Aeronautical Charges as calculated under Schedule 1 of the SSA should be applicable. It is submitted that it is the aforementioned charges, which should be considered to be the entitlement of DIAL for the Second Control Period regardless of the charges which were being levied by DIAL at the relevant time.

However, contrary to what should have been done in terms of the SSA, while passing its Order No. 30/2018-19 dated 19.11.2018, AERA even after holding that DIAL was contractually entitled to Base Airport Charges plus 10% thereof provided under Schedule 8 of the SSA plus10% thereof, in any year of the Term, made the said charges applicable from 01.12.2018 instead of 01.01.2016. It is also relevant to point out that the same was done even though in the Consultation Paper published by AERA before passing Order No. 30/2018-19, AERA had proposed that the date on which the minimum charges of Base Airport Charges plus 10% will be available to DIAL would be decided at a later date and that for the present the proposal was to allow DIAL to charge Base Airport Charges plus 10% from 01.07.2018 till the end of the Second Control Period. The relevant part of the said Consultation Paper is as under:

> *"4.2 Accordingly the Authority proposes the following:*
>
> *4.2.1 DIAL is entitled to maintain minimum aeronautical charges equivalent to BAC plus 10% of BAC in any year during the term of the concession in terms of its concession. It is proposed that DIAL be allowed to consider the charges as provided in the Schedule 8 of the SSA plus a one-time increase of 10% as the minimum aeronautical charges.*
>
> *4.2.2 The date on which minimum charges of BAC plus 10% of BAC shall be made available to DIAL will be worked out later while truing up the figures. For the present the Authority proposes to allow DIAL the aeronautical charges equivalent to BAC plus 10% from 1st July, 2018 to 31st March 2019.*
>
> ....

4.2.5 The excess amount required by DIAL during the 2nd control period will be calculated separately and adjusted during determination of tariff for the third control period (01.04.2019-31.03.2024)."

Further, despite having proposed that the relevant date from which DIAL is entitled of Base Airport Charges plus 10% would be decided at a later stage, AERA in its Order No. 30/2018-19 decided the said date to be 01.12.2018. The relevant portion of Order No. 30/2018-19, vide which DIAL was found to be entitled to Base Airport Charges plus 10% is as under:

"4.4.3 Authority's views on BAOA's views

The Section 13(1)(a)(vi) of the AERA Act provides that the Authority has to consider the concession offered by the Central Government in discharge of its function of tariff determination. The Authority while determining the tariff for DIAL has recognized the importance of the SSA in this regard. The Hon'ble Appellate Tribunal, TDSAT has also emphasized to honor the contractual obligations of the parties, unless there is a complete conflict between the agreement and the statute. The applicability of BAC plus 10% of BAC is governed by the Schedule 6 of the SSA between DIAL and Govt. of India and is therefore required to be considered by the Authority, in case the tariff determined by AERA under Section 13 of the AERA Act falls below the BAC plus 10% of BAC in any year during the term.

.....

4.6.3 Authority's views on FIA Comments

.......Further, the Authority has also evaluated the proposal and is of the view that the rates as given in Order No. 40/2015-16 have fallen below the Base Airport Charges as is evident from the comparison at Para 3.8 and Annexure 4 of the consultation paper. It may be noted that para 2 of Schedule 6 of the SSA says that at any time the airport charges fixed should not fall below BAC plus 10%. The said para speak about charge/rate and not revenue. So it is felt there is no scope to analyse any other aspect other than a single aspect whether the charges fixed are lower than BAC plus 10% as stated in the SSA (numerical comparison).

The Authority is of the view that the Base Airport Charges is the minimum tariff entitled to DIAL within the terms and provisions in SSA and OMDA. Hence, Authority is of the view that even if the appeal against 2nd Control Period is pending for adjudication, the BAC can be implemented.

...

5. ORDER

5.1 The Authority has scrutinized the stakeholder's comments and has taken note of the responses provided by DIAL. In terms of Concession granted to DIAL in reference specifically to Schedule 6 of the SSA, DIAL has a contractual right and is entitled to Base Airport Charges (BAC) provided under Schedule 8 of OMDA plus 10% of BAC in any year of the concession term. Accordingly in terms of Section 13(1)(a) of the AERA Act the Authority decides to consider the concession offered in determination of tariff.

5.2 Upon careful consideration of the Materials available on record, the Authority, in exercise of powers conferred upon it by Section 13(1)(a) of the AERA Act, 2008, hereby orders that:

5.2.1 DIAL is entitled to maintain minimum aeronautical charges equivalent to BAC plus 10% of BAC in any year during the term of the concession in terms of the SSA awarded by the Government.

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

> *5.2.2. Accordingly, the Authority decides to allow DIAL to charge the rate equivalent to BAC plus 10% of BAC effective from 1st December 2018. The applicable aeronautical charges effective from 1st December 2018 are therefore mentioned at Annexure-1."*

It is submitted that since, the X-factor and the Aeronautical Charges for the Second Control Period were calculated taking the date of 01.01.2016 as the benchmark implementation date and it is these Aeronautical Charges which have been compared with the Base Airport Charges plus 10% thereof to determine whether the Base Airport Charges plus 10% thereof would be applicable or not. It is evident that the Base Airport Charges plus 10% thereof would be implemented on the same date as on which the Aeronautical Charges would have been implemented had the same been found to be higher in comparison to the Base Airport Charges plus 10% thereof. As such, while deciding whether the Aeronautical Charges as calculated under Schedule 1 of the SSA would apply or Base Airport Charges plus 10% thereof are to apply, the date of implementation would have to be kept constant which in the scenario of the Second Control Period is 01.01.2016 and not 01.12.2018 as decided by AERA in its Order dated 19.11.2018.

It is relevant to mention that in Order No. 30/2018-19 AERA even after rightly interpreting the intent of Clause 2 of Schedule 6 of the SSA, has not followed the same fully inasmuch as the date of entitlement of AERA to charge Base Airport Charges plus 10% thereof has been adjudged to be 01.12.2018. It is stated that in the said order AERA has stated that 'para 2 of Schedule 6 of the SSA says that at any time the airport charges fixed should not fall below BAC plus 10%' and that with regard to the Second Control Period, 'the rates as given in Order No. 40/2015-16 have fallen below the Base Airport Charges plus 10% thereof as is evident from the comparison at Para 3.8 and Annexure 4 of the consultation paper'. However, despite holding the foregoing, AERA has failed to consider the fact that the Aeronautical Charges as on 01.01.2016 had gone below Base Airport Charges plus 10% thereof and therefore Base Airport Charges plus 10% thereof should have become applicable as on that day itself. On the contrary, as per Order No. 30/2018-19, Base Airport Charges plus 10% thereof became applicable only from 01.12.2018 which in turn has the effect of making the applicable Aeronautical Charges from 01.01.2016 to 30.11.2018 lower than Base Airport Charges plus 10%, which as per the SSA as well as by AERA's own interpretation cannot be a possibility.

AERA in Para 4.6.3 of its Order No. 30/2018-19 has also rightly held that for the purpose of giving effect to Clause 2 of Schedule 6 of the SSA what is required is a comparison of the Aeronautical Charges calculated in terms of Schedule 1 of the SSA to the Base Airport Charges plus 10% thereof and not that of the revenue therefrom. As such, the entitlement of DIAL with respect to Aeronautical Charges has to be done on a simpliciter comparison of the rates calculated under Schedule 1 to the rates of Base Airport Charges plus10% thereof, for each year.

Also, once the entitlement of DIAL to charging either Aeronautical Charges under Schedule 1 or charging Base Airport Charges plus 10% for an year has been decided, then the said entitlement remains fixed for all times to come and the same remains unaffected even if there is a change in the actual air traffic or PAX subsequently. As such, once the entitlement to applicable rates is fixed at the beginning of the year, then the revenue which would be earned from such rates is wholly irrelevant for the purpose of AERA in terms of its function under Section 13 of the AERA Act. Hence, there cannot be any true up based on the revenue earned by DIAL on the basis of the rates to which it was found entitled at the beginning of the year. That in view of the foregoing, it is stated that true up in subsequent control periods can only be done when some determination has been made on the basis of projections and the same requires to be trued up on account of availability of actual numbers at a later stage.

However, there can be no true up as long as DIAL levies the Aeronautical Charges as per its entitlement determined at the beginning of the control period in terms of Clause 2 of Schedule 6 of the SSA.

That in contumacy of the principles elaborated hereinabove, AERA has in the Consultation Paper continued to apply its stance of levy of Base Airport Charges plus 10% thereof from 01.12.2018 and has disallowed the request of DIAL to levy Base Airport Charges plus 10% thereof from 01.01.2016. The levy of Base Airport Charges plus 10% thereof from 01.12.2018 has been proposed by AERA in the following terms:

> *" The tariff order was not implemented from January 1, 2016 till July 7, 2017 which is roughly three and quarter years of the Second Control Period during which the aeronautical charges levied by DIAL were much higher than the tariff applicable as per BAC plus 10%. However DIAL **has not only collected these high aeronautical charges but also claimed compensation to the tune of the revenues that would have accrued as per BAC** and has asked for the same to be trued up **additionally**. As per the SSA, BAC plus 10% is the floor revenue to protect the tariffs from falling below such Base Airport Charges and it is not an added revenue stream for true up when the actual aeronautical charges collected by DIAL are much higher than BAC plus 10%.*
>
> *DIAL claiming the **BAC for the period from July 7, 2017 till December 1, 2018 along with the revenues collected as per the tariff order for the Second Control Period** also lacks merit as the BAC is a revenue floor and not an added revenue stream. DIAL **had continued to collect revenues as per the tariff order for the Second Control Period** in this intervening period. DIAL's eligibility has to be the difference between the revenues as per BAC plus 10% and the Aggregate Revenue Requirement (ARR) provided to the airport operator, provided such ARR that has been assessed for the relevant period is lower than the revenues collected as per Base Airport Charges. (Actual aeronautical revenues may not be considered for comparison with BAC for the lapsed control periods as the Authority considers only ARR on an NPV basis when the tariff is determined for the next cycle as part of true up exercise)."*

That for the period from 01.01.2016 till 07.07.2017, AERA has not applied its own principal, as stated above, that DIAL is entitled to BAC where the assessed ARR is less than the BAC charge. Accordingly such entitlement is regardless of the Aeronautical Charges which were being collected by DIAL during the above. The entitlement of DIAL for applicability of Base Airport Charges plus 10% thereof would be 01.01.2016, i.e., the date on which the Aeronautical Charges for the Second Control Period were determined under Schedule 1 of the SSA, because the Aeronautical Charges as calculated on 01.01.2016 under Schedule 1 of the SSA, were lower than the Base Airport Charges plus 10% thereof, and therefore the entitlement of DIAL for the Base Airport Charges plus 10% would arise from that day itself. DIAL cannot be penalized for the fact that the said comparison which was due to be done at the time of determination of Aeronautical Charges for the Second Control Period was done by AERA only vide its order dated 17.11.2018.

Further, for the period from 08.07.2017 to 01.12.2018, AERA has erred in the application of its own stated principal as much as instead of comparing the Aeronautical Charges as determined under Schedule 1 of the SSA with the Base Airport Charges plus 10% thereof for each year under the respective control period, as required to be done in terms of the mandate of the SSA, AERA has sought to compare the Aggregate Revenue Requirement or the actual revenue collected through levy of Aeronautical Charges determined under Schedule 1 of the SSA to the revenue that could have been collected by levy of Base Airport Charges plus 10% thereof for the relevant period depending on the traffic for the said period. However, the said methodology as adopted by the AERA is not only

आर्थिक विनियामक प्राधिकरण Airports Economic Regulatory Authority of India सत्यमेव जयते

incongruent to the provisions of SSA, under which AERA has to undertake comparison between the Aeronautical Charges calculated under Schedule 1 of the SSA to the Base Airport Charges plus 10%, but also to AERA's own interpretation of the said Clause as stated in Para 4.3.6 of the Order dated 30/2018-19 wherein AERA has stated that the comparison is to be of the rates of Aeronautical Charges under Schedule 1 of the SSA and Base Airport Charges plus 10%, and not of the revenue therefrom. Further, since this determination and comparison is to be done at the beginning of the Control Period, there is no question of the applicability being decided by comparison of the actual revenue realised by DIAL for the relevant period.

It is also pertinent to see that if the proposal of AERA with respect to applicability of Base Airport Charges plus 10% thereof from 01.12.2018 were to take effect, then what would be the result of the same. According to the said proposal the entitlement of DIAL from 01.12.2018 onwards would be Base Airport Charges plus 10%, however, as a result of the foregoing, DIAL's entitlement from 01.01.2016 to 30.11.2018, would be only towards the Aeronautical Charges as calculated under Schedule 1 of the SSA and since the said charges are admittedly lesser than the Base Airport Charges plus 10%, the same would amount to a contravention of the assurance given by Clause 2 of Schedule 6 of the SSA. As such, even though AERA has recognized the right of DIAL to, at the very least, be entitled to Base Airport Charges plus 10%, the said right shall get defeated by AERA's own proposal as made in the Consultation Paper for the Third Control Period.

Further, for the Third Control Period, AERA has proposed as under:

> *"...*
>
> *As per the terms of the SSA, the airport operator is eligible to charge Base Airport Charge plus 10% at the least and hence no reduction is possible with regards to aeronautical tariff beyond the Base Airport Charges plus 10%.*
>
> *Authority hence proposes to allow the airport operator to continue levying Base Airport Charges plus 10% during the Third Control Period. This is also in compliance with the TDSAT directions wherein AERA is required to respect rights/concessions etc. flowing from lawful agreements / directions viz. OMDA, SSA etc. The charges determined by the Authority pertaining to BAC plus 10% as per Tariff Order No 39/2018-19, currently levied by the Airport Operator can be seen in Annexure 7. These charges have been used to arrive at the projected aeronautical revenue as mentioned under Table 110.*
>
> *12.2.3 Based on the above calculation, the difference between the Present Value of Revenue projected based on the existing Base Airport Charges plus 10% and Present value of Target Revenue is a projected over recovery to the extent Rs. 1964 Cr (arrived on a PV basis as on April 1, 2019) for the Third Control Period and the same has to be recovered in the future control periods along with carrying cost."*

That while the proposal for levy of Base Airport Charges plus 10% thereof for the Third Control Period is in consonance with the provisions of the SSA, the proposal for true up of revenue which may be 'over recovered' by DIAL in the Third Control Period is without any contractual or legal basis. It is submitted that the proposal of AERA to true up the 'over recovered' Base Airport Charges plus 10% thereof is based on the erroneous premise that the total entitlement of DIAL for the Third Control Period is the Target Revenue calculated under Schedule 1 of the SSA and that any amount collected over and above the said amount, is excessive and would therefore have to be trued up in the successive control periods. However, the said assumption is in complete contravention of the provisions of the SSA, which simply state that the entitlement of DIAL is calculated in terms of the Aeronautical Charges *and not in terms of the quantum of revenue to be collected as per the applicable Aeronautical Charges. Pertinently, the said proposal is also in contravention of AERA's own observation as made in Para 4.3.6 of Order No. 30/2018-19 wherein AERA has clearly stated that the comparison required to be done in terms of Clause 2 of Schedule 6 of the SSA is that of the rate of Aeronautical Charges to the Base Airport Charges plus 10% and not that of revenue therefrom.*

As such, once the Aeronautical Charges determined under Schedule 1 of the SSA have been compared to the Base Airport Charges plus 10% thereof and it has been determined which one of the two is higher and shall therefore, be leviable, the question of the revenue which shall be collected on account of such levy becomes irrelevant. Therefore, once it is found that the Aeronautical Charges under Schedule 1 of the SSA are lower than the Base Airport Charges plus 10% thereof and that the latter would be applicable, then the entitlement of the relevant Control Period becomes the revenue collected by levy of the Base Airport Charges plus 10% and the corresponding revenue becomes the entitlement of DIAL for said Control Period. As such, once the comparison has been made and it has been decided that the Base Airport Charges plus 10% thereof would be levied, the calculation under Schedule 1 of the SSA becomes irrelevant for the said control period and cannot be used as a yardstick to determine the revenue entitlement of DIAL for the control period. Hence, the two systems of arriving at the leviable Aeronautical Charges, i.e., the one under Schedule 1 and the other being the Base Airport Charges plus 10% thereof, are mutually exclusive and independent of each other. Therefore, the moment either one of the Aeronautical Charge systems are adopted, no reference can be made to the other system for any purpose whatsoever.

That in view of the foregoing, it is stated that once AERA has reached the conclusion that DIAL is entitled to levy Base Airport Charges plus 10% thereof for the Third Control Period, there is no question of reverting to the calculation under Schedule 1 of the SSA or to say that the entitlement of DIAL is limited to the Target Revenue calculated under Schedule 1 of the SSA. Once it has been proposed that DIAL shall be entitled to levy Base Airport Charges plus 10% thereof for the Third Control Period, the entitlement of DIAL qua revenue to be collected in the Third Control Period shall also stand amended in terms of the same. Also, as long as DIAL levies Aeronautical Charges as per the Base Airport Charges plus 10% thereof, no revenue collected therefrom can be said to be 'over recovered' or excessive in the hands of DIAL.

However, in the present case, the entitlement of DIAL to levy Base Airport Charges plus 10% thereof shall be decided at the very time of determination of Aeronautical Charges for the Third Control Period and therefore, whatever revenue is collected by DIAL by levy of Base Airport Charges plus 10% thereof shall form a part of the same entitlement. As such, there can be no true-up of the revenue collected by DIAL by levy of Base Airport Charges plus 10% thereof for the Third Control Period and the proposal of AERA in this regard is in derogation of the scheme of the Project Documents.

Further, in this regard DIAL has also sought expert view of ex-chairman AERA Mr. Yashwant Bhave. He has gone through the subject matter in detail and opined following:

- *The tariff determination process provided in Schedule 1 and the other being the Base Airport Charges plus 10% are mutually exclusive and independent of each other. Therefore, the moment either one of the Aeronautical Charge systems are adopted, no reference can be made to the other system for any purpose whatsoever. Accordingly the Base Airport Charges plus*

10% thereof entitled and proposed for the Third Control period cannot be trued up in the Fourth Control period as has been proposed by AERA. (para 4.2 of the opinion)

- *Since the order for second control period was effective on 1st Jan'2016 the aggregate revenue (or the X factor) based on the enhanced airport charges (BAC + 10%) wherever applicable, will need to be calculated from the effective date till the end of the control period i.e. 31-3-2019. (para 4.3 of the opinion)*
- *The target revenue for true up purpose for second control period should be over and above the Base Airport Charges (para 4.5 of the opinion)*

The opinion of the erstwhile regulatory expert is in consonance with the view of DIAL for the treatment of BAC+10%. The expert opinion has been attached herewith as ***Annexure –6*** *for your ready reference.*

Accordingly, it is our humble request that Authority for the purpose of true up consider only the target revenue over and above the revenue earned basis Base Airport Charge+10% for the period effective from 1st Jan'2016 – 30th Nov'2018. Also, there should be no true up of the revenue allowed by AERA on the basis of BAC+10% for third control period."

Other Stakeholders' comments regarding Treatment of Base Airport Charges for the Second Control Period:

3.8.10 The comments by AAI regarding Treatment of Base Airport Charges for the Second Control Period are as below;

"

1. *As per* ***clause 2 of Schedule 6 of the SSA***, *"the authority /GOI (as the case may be) will set the Aeronautical charges in accordance with Clause 3.1.1 read with Schedule 1 appended to this agreement, subject always to the condition that,* ***at the least a permitted nominal increase of 10% of the Base Airport charges will be available to the JVC for the purposes of calculating Aeronautical charges in any year after the commencement of the fourth year and for the reminder of the term".***
2. *DIAL has submitted the True up of the second control period (FY 2014 to FY 2019) in the Third control period to AERA.*
3. *The Tariffs for the 2nd control period were effective from 01/01/2016 as per AERA order. DIAL has been recovering the tariffs of the first control period (where there was increase of 346%) in the second control period up to 6th July 2017 due to stay from the High court. DIAL implemented the AERA order of the 2nd control period from 7th July 2017 as per order of Supreme court. The Tariffs in the AERA order for the second control period were lower than the Base charges + 10%.*
4. *Subsequently, AERA issued the order for Base airport charges in November 2018 to be implemented by DIAL from Dec 1 ,2018 and not from the date the 2nd control period tariff was implemented as tariff orders are implemented prospectively.*
5. *DIAL has over recovered in every year of the 2nd control period except in the last year. It is observed from AERA's working in the CP, that there is an overall over recovery of Rs.5737 crores (page 88, sl no. 3.10.6) in the 2nd control period and revenue earned in every year of the control period except last year is higher than the revenue which DIAL would have earned through Base charges + 10%.*
6. *As per AERA philosophy, in the true up exercise, the target ARR is compared with the actual aeronautical revenue and the resulting over recovery/under recovery is adjusted in the next*

control period. It is observed from the tariff proposal of DIAL that the actual aeronautical revenue earned by DIAL during the second control period is much higher than the trued up target ARR determined by AERA and also the revenue that DIAL would have earned if base charges were collected during the period.

7. *Hence as the requirement as per Schedule 6 of the State Support Agreement is met, Base charges +10% from 1/01/2016 cannot be made applicable. "*

<u>Authority's Examination on Stakeholder Comments regarding issues on Treatment of Base Airport Charges for the Second Control Period</u>

3.8.11 Authority has noted the comments raised by DIAL and has listed the following primary concerns DIAL has made on Authority's proposals with regards to Base Airport Charges for the Second Control Period;

a. The BAC plus 10% regime has to be implemented from January 1, 2016 instead of the date of December 1, 2018 as per the BAC Tariff Order.
b. The aeronautical charges determined as per Schedule 1 in SCP Tariff Order have to be compared with the charges under BAC plus 10% to assess the effective date of the Base Airport Charges and not the actual revenues as determination of Tariff under Schedule 1 and Schedule 6 of the SSA are independent and mutually exclusive events.
c. Once the entitlement under Schedule 6 of the SSA has been determined then the same shall stand and remain unaffected irrespective of the actual charges levied by DIAL. The revenue determined as per Base Airport Charges plus 10% shall have to be recovered as an additional entitlement estimated as Rs. 3120 Cr by the airport operator for the Second Control Period.
d. Authority's proposals regarding BAC mentioned in the Consultation Paper, as per DIAL's interpretation is in contravention of the terms of the SSA and the OMDA.

Authority's observations on DIAL's views

The present submission of DIAL is a reiteration of these submissions made by DIAL in its MYTP submission which Authority had addressed in the Consultation Paper for the Third Control Period. Authority has again examined these issues pointwise in following paras.

(a) Date of implementation of BAC plus 10% regime:

Authority is of the view that DIAL's claim of eligibility to collect BAC plus 10% as an additional entitlement from January 1, 2016 till December 1, 2018 because the aeronautical charges determined as per Schedule 1 of the SSA as per SCP Tariff Order was lesser than the charges under BAC plus 10% is completely devoid of merit. The reasons for the same are as below;

- The Tariff Order for the SCP was never implemented on January 1, 2016 due to the litigation preferred by DIAL and was implemented only in July 7, 2017. It will be a gross misreading of the provisions of the SSA if the airport operator is provided BAC plus 10% as an entitlement when the airport operator was levying much higher charges as per the FCP Tariff Order.
- The airport operator had over collected during the Second Control Period during the period from April 1, 2014 till December 31, 2015 as the tariff determined as per FCP Tariff Order was still in effect. The over collection further continued till July 7, 2017 the date on which the stay on tariff implementation was finally overturned by the Hon'ble Supreme Court of India. Given the fact that DIAL has been over collecting aeronautical revenues throughout the said period even after January 1, 2016, DIAL's proposal to recover BAC plus 10% from January 1, 2016 is grossly inconsistent.
- Authority as part of true up for the SCP has re-assessed the Target Revenue for the entire SCP and is considering the same for its true up exercise. As this Target Revenue that is being provided to

DIAL is anyways higher than the revenues as per BAC plus 10%, providing any additional entitlement more than the Target Revenue is in gross violation of the principles of the SSA.

Authority would like to point out that DIAL is not consistent in their interpretation of various provisions of Concession Agreements including SSA, OMDA etc. Authority had issued BAC Order No. 30 dated November 19, 2018, after detailed consultation process post the release of Consultation Paper No. 6 dated May 29, 2018. DIAL had never raised the issue of seeking implementation of BAC from January 1, 2016 but asked for the same from much later dates which are both different on two separate occasions, as brought out clearly in Para 2 of the above BAC Order dated November 19, 2018. *(as per request dated Dec 14, 2017, BAC was requested to be implemented for the remaining period of the Control Period which would have commenced from January 2018, while as per request dated April 25, 2018, BAC was requested to be effected from July 7, 2017)*

In fact, DIAL offered no comments on their own on various proposals of the Authority in the relevant Consultation Paper of AERA concerning BAC tariff released on May 29, 2018.

(b) Comparison of charges as per BAC plus 10% with that of the charges as per Schedule 1 of the SSA:

Authority has observed DIAL's comment that only charges have to be compared with and not the revenues in which DIAL has quoted section 4.6.3 of Authority's BAC Order No. 30/2018-19. Authority would like to clarify the intent of the point mentioned under 4.6.3 of the BAC Order No. 30/2018-19. When the Authority said that the revenues under each of the charges cannot be compared, it is because comparing the same would provide a distorted picture as UDF revenues shall be nil as per BAC tariff regime and the PSF revenues shall be nil under the tariff regime as per Order No. 40/2015-16 for the Second Control Period. However, the only way to compare DIAL's entitlement under BAC can be through comparing the total projected revenues under BAC regime and the total projected revenues under Order No. 40/2015-16 for the SCP. It is clear from above that the list of aeronautical charges under BAC tariff regime are different from those aeronautical charges under the tariff regime under Order No. 40/2015-16 (SCP Tariff Order) and the only way to compare both has to be to calculate the Projected Revenues under both the regimes.

Authority, under Annexure 4 of the Consultation Paper No. 6 dated May 29, 2018 for the BAC Tariff Order, had specifically calculated the Projected Revenues for FY 2019 under both the tariff card as per SCP Tariff Order and the Tariff card under BAC plus 10% and since the former is lesser, the BAC plus 10% regime was effected. Clearly DIAL at the time of the issuance of the Consultation Paper and the consequent stakeholder consultation process had not raised any issue with this calculation methodology. The same has been explained in detail in the points 3.8, 3.9 and 3.10 of the Consultation Paper No. 6 dated May 29, 2018. The last line of the clause 3.10 has been reproduced as below to make the above point very clear.

"So whenever the expected revenue by applying BAC is more in any year than the ARR calculated under the price cap mechanism, still the BAC has to be levied by the operator"

Authority as part of its proposal in the mentioned Consultation Paper under 4.2.2 has also said that the date on which these minimum charges shall be made available to DIAL will be worked out later while truing up figures. Authority now at the time of truing up has carried out this exercise by comparing the Target Revenues for the Second Control Period with the expected revenues under BAC plus 10%. Since the Target Revenue in all the years under the SCP is found to be higher than the revenues as per BAC plus 10%, no additional entitlement under BAC plus 10% is applicable.

Regarding DIAL's statement in its submission as part of stakeholder comments that revenue earned under BAC + 10% should not be compared with Target Revenue for true up, Authority would like to point out that;

- Target Revenue which has been defined clearly in the SSA Schedule 1 is the right benchmark to compare the revenue proposed to be earned under BAC plus 10%.
- As part of true up exercise, only Target Revenue during the Control Period is considered on a Present Value basis for determination of tariff by comparing the same with the Present Value of aeronautical revenues earned by the airport operator in actuals.
- Any other measure adopted for assessing the eligibility under BAC plus 10% for the past and completed years could lead to double counting of the entitlement meant for the airport operator in gross violation of the Schedules of the SSA.

Authority in its BAC Order dated November 19, 2018 has clearly mentioned that only because the projected revenues as per the tariff card under SCP Tariff Order are lesser than the BAC plus 10%, a situation arose because of which BAC plus 10% regime was effected. Further this particular instance arose on account of over recovery on the part of DIAL in the earlier years of the SCP (from April 1, 2014 till December 31, 2015) because of which tariff card for the SCP was adjusted to attempt to recoup the over recovery.

Authority in the future including the Third Control Period shall ensure that the projected revenues as per the tariff card shall never be lesser than the least eligible tariff which is BAC plus 10%.

(c) Entitlement of DIAL under the Schedule 6 of the SSA:

Authority understands that BAC plus 10% is a right/ privilege given to DIAL and hence the same should be provided in order to honour the terms under the SSA. Authority is fully in agreement with the same and has applied the acceptable principle to ensure that the rights of DIAL to charge BAC plus 10% as aeronautical charges at the least every year is always ensured.

Given the fact that the airport operator is being compensated by providing Target Revenue as part of true up in the Second Control Period which is higher than the revenues that the airport operator would have earned had BAC plus 10% been implemented, Authority doesn't feel any merit in DIAL's submission to provide BAC plus 10% separately as an additional entitlement. Such a proposal if implemented based on DIAL's contention will be contradictory to the provisions as per the Schedules of the SSA.

However in the years in which the airport operator has actually recovered/ is recovering only BAC plus 10% as part of Aeronautical Revenue as per Schedule 6 of the SSA, Authority is of the view that comparison has to be made concerning the over recovery of the same over and above the Target Revenue (if any) determined as per Schedule 1 of the SSA. Authority is of the view that this over recovery should be accounted for and recovered from the airport operator while all the time ensuring that the airport operator is able to collect BAC plus 10% as the aeronautical revenues at the least.

Authority's current treatment of truing up the over recovery is consistent with the Authority's proposals in the Consultation Paper dated May 29, 2018 concerning BAC tariff under point no 3.11 which is reproduced below;

"The Authority is aware that DIAL has recovered much more than what is due to it in the first and second control periods upto July, 2017. In the absence of the audited figures for 2017-18, it is estimated that the amount of over recovery by DIAL would be of the order of approximately Rs. 5200 Crores taking into consideration the net present values. This amount will need to be trued up and deducted

आर्थिक विनियामक प्राधिकरण
Economic Regulatory Authority of India
सत्यमेव जयते

from the ARR for the third control period and if it is not possible the recovery will have to be made from the ARR for the fourth control period. This is an independent exercise which will have to carried out in any case."

The same is also consistent with the decision no 5.2.5 of the BAC Tariff Order dated November 19, 2018 which states

"The Authority shall consider suitable true up of all aeronautical revenues realised by DIAL in the Second Control Period while taking up tariff determination for the Third Control Period"

(d) Consistency with the terms of the SSA under both Schedule 1 and Schedule 6:

Authority is of the view that to ensure consistency and rightful application of the terms of the SSA and its own earlier Tariff Order concerning BAC, it has to account for these over recoveries of all aeronautical revenues realized by DIAL.

Only by ensuring the over recovery is properly accounted for and recovered, Authority shall be able to ensure the provisions of the Schedule 1 of the SSA are honored. The same shall however not impinge on the operator's entitlement to collect BAC plus 10% at the least as per Schedule 6 of the SSA which shall continue to remain as the safety net for the airport operator.

Authority would like to add that AAI, the Concession Authority under OMDA and who is a significant stakeholder in the airport has also highlighted, from the tariff proposal of DIAL, that the actual aero revenue earned by DIAL is much higher than the Target Revenue determined by Authority as part of true up for Second Control Period and also higher than the revenue that DIAL would have earned from Base Airport Charges + 10%. AAI has also agreed to the various proposals of AERA with regards to tariff determination under BAC plus 10% including the date of applicability of such BAC charges.

Considering the above, Authority decides to consider no adjustments with regards to BAC true up as claimed by DIAL in its submission for the true up of Second Control Period. Authority would consider the Target Revenue as determined for its true up exercise for Second Control Period as part of tariff determination of Third Control Period.

3.9 Traffic Details for the Second Control Period

DIAL's submission regarding Traffic Projections for the Second Control Period

3.9.1 DIAL submitted the traffic at actuals for the Second Control Period as shown in the table below;

Table 66: Actual Traffic achieved by IGIA for Second Control Period

FY ending March 31	2015	2016	2017	2018	2019
Passenger Traffic (Mn)					
Domestic	27.45	34.27	42.20	48.30	50.52
International	13.53	14.15	15.49	17.38	18.70
Total	**40.98**	**48.42**	**57.70**	**65.69**	**69.23**
Air Traffic Movement ('000s)					
Domestic	237.64	276.62	316.97	350.34	362.01
International	85.81	89.07	100.34	108.89	114.70
Total	**323.45**	**365.69**	**417.31**	**459.24**	**476.72**

Decisions taken by the Authority regarding Traffic Projections for Second Control Period as per Tariff Order of Second Control Period

3.9.2 The Authority at the time of tariff determination for the Second Control Period had projected traffic based on the CAGR of 7%.

The traffic projections considered by the Authority at the time of tariff determination for the Second Control Period is as shown in the table below;

Table 67: Traffic considered by the Authority as per Tariff Order for Second Control Period

FY ending March 31	2015	2016	2017	2018	2019
Passenger Traffic (Mn)					
Domestic Arrivals (A)	10.77	11.53	12.34	13.2	14.12
International Arrivals (B)	5.07	5.43	5.81	6.21	6.55
Domestic Departures (C)	10.8	11.6	12.4	13.3	14.2
International Departures (D)	5.2	5.5	5.9	6.3	6.8
Total Passenger Traffic	**31.84**	**34.06**	**36.45**	**39.01**	**41.67**
Air Traffic Movement ('000 units)					
Domestic	205.55	217.87	2.30.92	244.75	259.41
International	83.12	88.10	93.37	98.97	104.89
Total Air Traffic Movement	**288.67**	**305.96**	**324.29**	**343.73**	**364.30**

The Authority had also decided to true up the above projected traffic based on actuals at the time of tariff determination for the Third Control Period.

Authority's Examination on Stakeholder Comments regarding Traffic achieved for the Second Control Period

3.9.3 No stakeholder comments were presented for the traffic for Second Control Period. In this regard, Authority, based on the actual traffic achieved by DIAL, observed that the actual passenger traffic and the air traffic movement realized by DIAL is much higher than the projected traffic in the Second Control Period and has decided to consider the traffic at actuals for the true up exercise as seen in Table 66.

आर्थिक विनियामक प्राधिकरण Economic Regulatory Authority of India

3.10 Revised True up for the Second Control Period

DIAL's submission regarding True up for the Second Control Period

3.10.1 The revised true up as submitted by DIAL for the Second Control Period is shown in the table below;

Table 68: True up submitted by DIAL for Second Control Period as per MYTP

Year ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Regulatory Asset Base	6,854.92	6,365.81	5,927.18	5,463.33	5,032.55	29,643.79
WACC	14.06%	14.06%	14.06%	14.06%	14.06%	
Return on RAB	963.92	895.15	833.47	768.24	707.67	4,168.44
Expense	1,333.15	756.17	946.21	925.65	922.63	4,883.80
Depreciation	541.54	542.94	551.40	557.57	559.44	2,752.89
Taxes	-	82.00	152.51	-	-	234.52
Target Revenue	**2,838.62**	**2,276.25**	**2,483.59**	**2,251.45**	**2,189.74**	**12,039.66**
Cross subsidy - Revenue from Revenue Share Asset	167.43	194.96	210.88	247.11	283.35	1,103.72
Net Target Revenue	**2,671.20**	**2,081.29**	**2,272.71**	**2,004.35**	**1,906.39**	**10,935.93**
Actual Aeronautical Revenue	**2,818.74**	**3,265.73**	**3,777.67**	**1,528.70**	**568.18**	**11,959.03**
Difference	**(147.55)**	**(1,184.44)**	**(1,504.96)**	**475.65**	**1,338.21**	**(1,023.09)**
True up of CPI	3,760.15					
PV Factor (based on WACC)	1.69	1.48	1.30	1.14	1.00	
True up as on 1st April'2019	**6,114.78**	**(1,757.66)**	**(1,957.97)**	**542.53**	**1,338.21**	**4,279.90**
BAC True up	**0.00**	**273.54**	**1,087.72**	**1,061.68**	**698.00**	**3,120.93**
Total True up to be carried forward to the Third Control Period						**7,400.83**

Authority's estimate of Target Revenue for Second Control Period as per Tariff Order of the Second Control Period

3.10.2 The Authority had estimated the target revenue for the Second Control Period in the Tariff Order of Second Control Period as seen in the table below;

Table 69: Target Revenue determined by the Authority as per Tariff Order for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Regulatory Asset Base (RAB)	6896.21	6502.51	6158.50	5811.08	5471.22	30839.52
WACC	9.97%	9.97%	9.97%	9.97%	9.97%	
Return on RAB (A= RAB X WACC)	687.27	648.04	613.75	579.13	545.26	3073.45
Expense (E)	749.69	805.92	840.49	834.68	900.57	4131.35
Depreciation (D)	539.31	510.89	515.23	521.07	525.56	2612.06
Taxes (T)	-	-	-	-	-	-
Target Revenue prior to cross-subsidy from Revenue Share Assets (GTR=A+E+D+T)	1976.28	1964.85	1969.48	1934.88	1971.39	9816.88
Non-Aeronautical Revenues	1126.16	1258.37	1408.06	1567.65	1785.09	7145.33
Less: Cross Subsidy from NAR (NAR)	337.85	377.51	422.42	470.29	535.53	2143.60
True up (TRU)	36.33					36.33
Target Revenue (NTR=GTR-NAR+TRU)	**1,674.76**	**1,587.34**	**1,547.06**	**1,464.59**	**1,435.86**	**7709.61**
Discount Rate	1.18	1.07	0.98	0.89	0.81	
NPV Target Revenue	1,977.67	1,704.57	1,510.75	1,300.6	1,159.53	7653.12
Total NPV Target Revenue						**7653.12**

Airports Economic Regulatory Authority of India

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
(as on January 1, 2016)						
Net Projected Revenue	2,989.85	2,500.37	488.02	539.5	596.62	7114.36
Discount Rate	1.18	1.07	0.98	0.89	0.81	
NPV Projected Revenue	3,530.62	2,685.03	476.57	479.09	481.8	7653.12
Total NPV Projected Revenue (as on January 1, 2016)						**7653.12**

Based on the above, the Authority had projected a decrease in aeronautical tariffs by 96.08% as per the Tariff Order for the Second Control Period.

3.10.3 The Authority based on submissions from various stakeholders regarding the viability of IGI Airport, had decided on an interim measure to help DIAL meet its estimated cash deficit of Rs. 404.88 Cr, and had decided to allow the X Factor of 89.40% to DIAL and based on the same, tariff card was prepared for the Second Control Period and was applicable from 1st January 2016. The ARR granted, as on 1st January 2016, based on the above revision in X Factor was Rs. 691.50 Cr.

Authority's Examination regarding True up for the Second Control Period

3.10.4 Authority based on the examination of various building blocks based on actuals, had determined the Target Revenue for the Second Control Period. As the granted ARR of Rs 691.50 Cr as per the Tariff Order for the Second Control Period shall be recovered as part of the true up exercise carried out, there was no need for specific adjustment towards the same.

3.10.5 Considering the various proposals as mentioned with regards to the issues raised by DIAL concerning Second Control Period, the true up for the Second Control Period is calculated in the table below;

Table 70: True up proposed to be considered by Authority for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Regulatory Asset Base (RAB)	6,767.53	6,281.63	5,848.87	5,391.11	5,004.30	29,293.43
WACC	11.10%	11.10%	11.10%	11.10%	11.10%	
Return on RAB (A= RAB X WACC)	751.33	697.39	649.34	598.52	555.58	3,252.17
Expense (E)	1,094.67	743.41	902.16	916.11	896.24	4,552.59
Depreciation (D)	532.22	533.26	541.20	546.73	553.93	2,707.32
Taxes (T)	-	45.29	90.28	-	-	135.57
Target Revenue prior to cross-subsidy from Revenue Share Assets (GTR=A+E+D+T)	2,378.22	2,019.34	2,182.98	2,061.35	2,005.75	10,647.65
Less: Cross Subsidy from Revenue Share Assets (NAR)	363.44	443.63	492.35	588.94	768.92	2,657.28
Target Revenue (TR = GTR-NAR)	**2,014.78**	**1,575.71**	**1,690.63**	**1,472.41**	**1,236.83**	**7,990.37**
Revenues calculated based on actual traffic at BAC plus 10% (BAC)	689.33	739.35	836.06	930.79	993.28	4,188.80
Actual Aero Revenue Realised (including Fuel Farm) (AR)	**2,950.92**	**3,407.58**	**3,931.53**	**1,705.47**	**987.79**	**12,983.30**
True Up (Higher of (NTR or BAC) less AR)	(936.14)	(1,831.87)	(2,240.90)	(233.06)	249.04	(4,992.93)
Add True up for FCP	641.68					641.68
True up for Second Control Period	(294.46)	(1,831.87)	(2,240.90)	(233.06)	249.04	(4,351.25)
WACC for CP2	11.10%					
PV Factor as on 1st April'2019	1.52	1.37	1.23	1.11	1.00	
True up on a Present Value Basis as on 1st April'2019	(448.66)	(2,512.24)	(2,766.09)	(258.93)	249.04	(5,736.88)
Total true up for CP2						**(5,736.88)**

3.10.6 Based on the above table, the true up proposed by Authority based on over-recovery by DIAL till Second Control Period was Rs. 5,737 Cr. This amount had to be recovered from DIAL in the subsequent Control Periods.

3.10.7 The major adjustments considered by Authority for true up of Second Control Period against the regulatory building blocks considered by Authority for the Second Control Period in the Tariff Order for the Second Control Period are as follows;

- ✓ Regulatory Asset Base had been worked out based on actual aeronautical asset additions as suggested by the independent study and based on pro rata adjustment as submitted by DIAL including the costs associated with ATC Tower. Costs associated with Baggage Screening Related Assets had also been considered from FY 2019 on a pro rata basis. Depreciation on account of these adjustments had also been affected.
- ✓ WACC had been trued up considering the actual cost of debt, return on RSD equivalent to the cost of debt while considering the adjustments in RSD and Equity Value during the Second Control Period and considering the upfront fee as part of equity.
- ✓ Efficient Operating Expenses had been considered based on the recommendations of the independent study carried out by the Authority while the costs associated with debt refinancing and forex losses had been considered subject to the same being efficient. Airport Operator Fee was considered as 3% of the actual aeronautical revenues earned in the previous year.
- ✓ Revenue from Revenue Share Assets had been considered at actuals including all portions of Other Income excluding Dividend Income alone.
- ✓ True up for the First Control Period had been revised as Rs. 641.68 Cr and considered as part of the Target Revenue for the first year in the Second Control Period.

Authority's Examination post Stakeholder Comments regarding issues on True up for the Second Control Period

3.10.8 Authority, after careful analysis and examination of the stakeholder comments across various building blocks pertaining to true up for Second Control Period, has determined the true up for Second Control as seen in the table below;

Table 71: True up decided to be considered by Authority for Second Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Regulatory Asset Base (RAB)	6,767.53	6,281.63	5,848.87	5,391.11	5,004.30	29,293.43
WACC	11.10%	11.10%	11.10%	11.10%	11.10%	
Return on RAB (A= RAB X WACC)	751.33	697.39	649.34	598.52	555.58	3,252.17
Expense (E)	1,094.67	743.41	902.16	916.11	896.24	4,552.59
Depreciation (D)	532.22	533.26	541.20	546.73	553.93	2,707.32
Taxes (T)	-	50.64	97.01	-	-	147.65
Target Revenue prior to cross-subsidy from Revenue Share Assets (GTR=A+E+D+T)	2,378.22	2,024.70	2,189.71	2,061.35	2,005.75	10,659.73
Less: Cross Subsidy from Revenue Share Assets (NAR)	363.44	443.63	492.35	588.94	768.92	2,657.28
Target Revenue (TR = GTR-NAR)	**2,014.78**	**1,581.07**	**1,697.36**	**1,472.41**	**1,236.83**	**8,002.45**
Revenues calculated based on actual traffic at BAC plus 10% (BAC)	689.33	739.35	836.06	930.79	993.28	4,188.80
Actual Aero Revenue Realised (including Fuel Farm) (AR)	**2,950.92**	**3,407.58**	**3,931.53**	**1,705.47**	**987.79**	**12,983.30**
True Up (Higher of (TR or BAC) less AR)	(936.14)	(1,826.52)	(2,234.17)	(233.06)	249.04	(4,980.85)
Add True up for FCP	641.68					641.68

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
True up for Second Control Period	(294.46)	(1,826.52)	(2,234.17)	(233.06)	249.04	(4,339.17)
WACC for CP2	11.10%					
PV Factor as on 1st April'2019	1.52	1.37	1.23	1.11	1.00	
True up on a Present Value Basis as on 1st April'2019	(448.66)	(2,504.90)	(2,757.79)	(258.93)	249.04	(5,721.23)
Total true up for CP2						**(5,721.23)**

3.10.9 The total amount to be trued up based on over recovery by DIAL till the Second Control Period has been determined by the Authority as Rs. 5,721.23 Cr, which is to be recovered from the airport operator in the Third Control Period subject to the applicability of Schedule 6 of the SSA with regards to Base Airport Charges.

3.10.10 The only adjustment considered by Authority for true up of Second Control Period against the regulatory building blocks considered by Authority for the Second Control Period in the Consultation Paper No. 15/2020-21 is the exclusion of depreciation pertaining to HRAB and considering deprecation pertaining to only aeronautical assets while computing aeronautical taxes.

भा.वि.आ.वि.प्रा.
AERA

3.11 Authority's Decisions regarding True up for the Second Control Period

Based on the material before it and based on its analysis, Authority has decided the following regarding true up for the Second Control Period.

3.11.1 Authority decides to true up Aeronautical RAB considering the actual additions on a pro rata basis and as per the asset segregation ratios as suggested by the independent study (Para 3.2.22). The adjustment towards ATC Tower capitalization and Baggage Screening Related Assets shall also be carried out on a pro rata basis for FY 2019 with the balance carried forward to FY 2020.

3.11.2 Authority decides to reclassify an amount of Rs. 23.58 Cr from Aeronautical assets to Non-Aeronautical assets in the Second Control Period, as part of additions to RAB for the Second Control Period based on the independent study (Para 3.2.23). The revised allocation ratio for FY 2019 has been considered as 89.16%:10.84%.

3.11.3 Authority decides to consider RAB calculated as per Schedule 1 of SSA for the Second Control Period with actual pro rata additions each year (Table 27).

3.11.4 Authority decides to consider the upfront fee of Rs. 150 Cr as part of equity base and true up WACC based on the cost of debt at actuals i.e. 9.28%, cost of RSD at the cost of debt i.e. 9.28%, and cost of equity of 16%. The proposed recalculated WACC for the Second Control Period is 11.10% (Para 3.3.18).

3.11.5 Authority decides to recalculate Airport Operator Fee for the Second Control Period as 3% of the Aeronautical Revenues for the previous year (Table 48).

3.11.6 Authority decides to consider refinancing cost based on actuals as part of Admin and General Expenses with the efficient refinancing costs determined based on aeronautical asset segregation ratio (Para 3.5.33).

3.11.7 Authority decides to consider forex losses based on actuals to the extent the effective cost of debt including such forex losses and refinancing charges doesn't exceed the cost of RTL considered at the time of tariff determination for the Second Control Period as per Order No. 40/2015-16. The forex losses determined to be efficient has been then segregated as per the aeronautical asset segregation ratio similar to refinancing charges (Para 3.5.32).

3.11.8 Authority decides to reclassify IT JV expenses to the extent of Rs. 8.20 Cr classified as aeronautical by DIAL over a period from FY 2015 till FY 2017 as non-aeronautical as suggested by the independent study based on revised segregation ratio for IT JV assets.

3.11.9 Authority decides to not include CSR expenses as part of Operating Expenses for the Second Control Period (Para 3.5.34).

3.11.10 Authority decides to consider Efficient O&M Costs based on the adjustment as suggested by the independent study tasked with studying the O&M Cost segregation along with adjustments in forex losses and refinancing costs as decided by the Authority (Para 3.5.35).

3.11.11 Authority decides to not consider S factor as part of aeronautical revenue base while determining aeronautical taxes for Second Control Period (Para 3.6.10). Authority also decides to exclude depreciation pertaining to Hypothetical Regulatory Asset Base and consider depreciation pertaining to only aeronautical assets while computing Aeronautical Taxes for tariff determination (Para 3.6.11).

3.11.12 Authority decides not to consider any adjustment in revenue from Revenue Share Assets towards revenue from Existing Assets, revenue from Disallowed Area, Annual Fee payable to AAI as part of 45.99% revenue share and also to consider Fuel Throughput Charges as part of aeronautical revenue (Para 3.7.24).

3.11.13 Authority decides to consider Other Income, apart from Dividend Income, as part of revenue from Revenue Share Assets for the Second Control Period (Para 3.7.25).

3.11.14 Authority decides not to consider any adjustment with regards to BAC True up on the Target Revenue assessed for the Second Control Period (Para 3.8.11).

3.11.15 Authority decides to true up Rs. 5,721.23 Cr which is to be recovered from the airport operator in the Third Control Period subject to the applicability of Schedule 6 of the SSA with regards to Base Airport Charges.

सत्यमेव जयते

भा.वि.आ.वि.प्रा.

AERA

CHAPTER 4. REGULATORY ASSET BASE AND DEPRECIATION FOR THIRD CONTROL PERIOD

4.1 DIAL's Submissions regarding RAB and Depreciation for Third Control Period

Capex Plan for the Third Control Period

4.1.1 DIAL in consultation with AECOM and NACO prepared Major Development Plan which had been submitted to AERA for its consideration. DIAL submitted that as part of prudent process, they had approached AERA for in-principle approval of capex based on preliminary designs and estimates. DIAL informed as per the tariff submission that the existing terminals had reached its sweat capacity and there was dire need for next level of expansion.

4.1.2 DIAL conducted consultation with various stakeholders and submitted capex plan to relevant authorities including AERA. AERA had appointed KITCO to independently review the capex plan submitted by DIAL. KITCO has reviewed DIAL's submission and reported its recommendations to AERA which is discussed in the latter half of this chapter.

4.1.3 DIAL informed that the development works at IGI Airport under Phase 3A Expansion primarily can be classified under the 5 packages:

i. Package 1: Expansion of Terminal 1 and associated facilities with the post expansion capacity of T1 increased from 20 million to 40 million passengers per annum.
ii. Package 2: Airfield works including development of 4th Runway
iii. Package 3: Landside/Connectivity works
iv. Package 4: Eastern Parallel Cross Taxiways
v. Package 5: Modifications to Terminal 3 and associated facilities to enable T3 have improved facilities for transfer passengers and improved levels of service for International and Domestic passengers.

Details of Phase 3A Expansion

Package 1

4.1.4 Terminal 1 (T1) of IGI Airport, New Delhi handles the domestic traffic of Low Cost Carriers (LCC). DIAL mentioned that T1 is operating beyond its capacity, and had hence proposed to undertake the expansion of terminal building (T1D and T1C), the airside and city side. The departure terminal (T1D) and arriving terminal (T1C) will be merged and expanded to accommodate 40 million passengers per annum. The work would involve;

a) Expansion of departures/arrival buildings with a new architectural façade on the city side, integrating with existing terminal buildings, demolition of some of the existing facilities to facilitate expansion of the terminal footprint and airside asset to meet passenger requirement as per the master plan forecast. The above expansion will increase the terminal area from the current 63,000 sq.m. to 1,93,000 sq.m. Various additional features will be added to the expanded terminal like;

- Increase of entry gates from 8 to 13.
- Hand baggage processing capacity (currently 160-180 bags per hour) to increase to 250-300 bags per hour.
- Arrival Baggage carousels to increase from 8 to 10 with claim length increased to 70 M.

- Construction of node building & pier with 22 Passenger Boarding Bridges (PBB) connected to departure and arrival halls.

b) All the additional features needed to be integrated with the existing systems. DIAL mentioned that Apron area for Terminal 1 needs to be reconstructed and realigned. This includes the construction of 82 aircraft parking stands, strengthening of the stands, provision of stand support facilities, AGL, floodlighting and drainage of areas. The overall detailed design for the airside shall incorporate fuel hydrant for all stands. Hydrant fuel design is to be provided by another agency (fuel concessionaires), but the EPC contractor is required to coordinate and interface to ensure that the entire work is carried out as per plan.

c) Revamping of existing grading and redesign of the existing drainage facility (including the main drainage system on the northern side which collects all the water from various drains within the airport area and channelizes the water outside the airport boundary) for both landside and airside areas falling on the northern part of the IGI airport to provide quick and efficient removal of the surface water taking into consideration the future expansion that may occur in the development of the surrounding areas. This drainage facility would also take into consideration all the future developments envisaged in the master plan including the increase in the surface water run-off due to construction of Eastern Cross Taxiway.

d) New landside facilities including landscaping works – the associated works at the landside including utility buildings, road network for connectivity to the terminals, security check points, landside drainage, water system, rain water harvesting, landscaping and revamping of the existing above systems.

e) Various electrical, mechanical and plumbing works including HVAC, lighting, sanitary, fire detection & prevention; and other facilities in the terminal & pier building – this includes new utilities / buildings and up-gradation of existing substations & other systems including complete re-design of MEP systems to meet the requirement of the new terminal building and its associated facilities which require 100% DG backup, UPS, SCADA, exterior illumination, fire detection / fire fighting, etc.

f) Special airport systems e.g. baggage handling system, X-ray security screening for passengers and baggage as per Bureau of Civil Aviation Security guidelines, passenger boarding bridges, VHT systems, visual docking system, flight information display system, public address system, etc.

g) All utility enhancements required due to expansion of the airport capacity.

Package 2

4.1.5 The proposed developments on Airfield would cover;

a) Construction of 4th runway & associated rapid exit taxiways – parallel to RWY 11/29, of the size 4375 m X 60 m plus 7.5 m wide shoulders, suitable for operation of A-380 /other equivalent Code F aircraft, in compliance with ICAO Standards & recommended practices / DGCA Civil aviation requirements, pavement designs based on LEDFAA design program and existing soil characteristics, RWY geometry / RET and other taxi links as per aircraft mix as defined in the Master Plan of IGI Airport.

b) The Runway will be designed with Cat 3B AGL & navigational aids at both ends. The Runway strip will be graded as per ICAO standards. Its drainage designs will be developed so as to integrate with the over-all drainage system of the airport, leading to the eventual outfall of the airport. This new Runway will be supported by an additional Aircraft Rescue and Fire Fighting (ARFF) station suitable for Cat 10 requirements as per ICAO standards as per Master Plan.

c) Construction of north parallel taxiway and related Rapid Exit Taxiways (RETs) (at north of runway 10-28) (approx. 4000m) with other taxi links equipped with CAT 3B Aeronautical Ground Lighting (AGL).

d) Complete rehabilitation of old runway 9/27 to extend its life.

e) All utility enhancements required due to expansion of the airfield systems.

Package 3

4.1.6 Landside/Connectivity works shall include;

a) T1 kerb widening

b) Widen northern access road to 5+5 lanes

c) Central spine road widening to 6+6 lanes

d) New access road (parallel to central spine) connecting to NH8

e) Underpasses for Radisson road

Package 4

4.1.7 The Eastern Parallel Cross Taxiways Package shall include;

a) New eastern parallel cross taxiways (A 2.4-km code F taxiway, which at certain locations will go above the airport approach roads with vehicular traffic underneath).

b) New taxiway in between TWY Y and TWY Z7 isolation bay; new TWY connection in between TWY P and RWY 28 end.

c) RETs on RWY 11L-29R.

d) Other taxiways associated with RWY 11L-29R.

Package 5

4.1.8 In order to accommodate increasing international transfer passenger through Terminal 3 (T3) and to further improve facilities at IGI Airport, DIAL proposed to undertake following works in Terminal 3;

a) Construction of additional transfer area for I-I (international to international) in Terminal 3. The floor plate at the arrival of pier A & B junction area will be increased for I-I transfer to the tune of 3000 sq.m. area;

b) Installation of the 7th check-in island along with its baggage handling & screening systems, additional arrival baggage carousels (2 Nos), increase in the number of emigration and immigration counters and other related IT & MEP works; installation of baggage carousals at the arrival with necessary IT & MEP works; creation of swing corridors to handle I-D & D-I passengers along with its related equipment & IT/MEP Systems.

Addition to RAB

4.1.9 DIAL had submitted the necessary details to AERA regarding Phase 3A Expansion Plan post which AERA had appointed M/s. KITCO to analyse the reasonableness of capex plan of DIAL and its recommendation of the capital cost. KITCO reviewed the Project Cost with all design and construction plan and submitted its recommendations to AERA.

4.1.10 DIAL, as part of the initial submission of the tariff proposal, had considered the capex as recommended by KITCO for the purpose of determination of tariff which has been revised to Rs. 9,782.15 Cr based on the contracts awarded through competitive bidding. The cost doesn't include Rs. 12 Cr pertaining to preliminary and relocation work which has already been capitalized as part of the asset additions in the Second Control Period. The segregation of the cost among the various packages is as shown in the table below;

Table 72: Capex Estimates submitted by DIAL for Phase 3 A Project as per MYTP

Capex for Expansion (Rs. Cr)	Categorization	Cost estimate as per Price Discovery
Package 1		
Terminal 1C	Common	352.60
Pier, Node & Balance Part	Common	2,781.65
Apron Phase 1	Aero	486.47
Apron Phase 2	Aero	310.34
Apron Phase 3	Aero	218.36
Package 2		
Runway 11L/29R	Aero	456.38
North side - Parallel Taxiways	Aero	150.90
North side - Echo-2 Taxiways	Aero	187.40
North side - Runway- 09	Aero	276.23
Other Taxiways & airside Works	Aero	2,228.46
Package 3		
Landside work	Aero	817.82
Package 4		
Eastern cross taxiway	Aero	1,364.23
Package 5		
Terminal 3 works	Common	151.32
Total		**9,782.15**

4.1.11 DIAL submitted that of the revised estimated cost of Rs. 9,782.15 Cr, Rs. 62.79 Cr had already been incurred in FY 2019 and was considered under CWIP in FY 2019. The phasing of the capex as submitted by DIAL is as shown in the table below;

Table 73: Capex Phasing submitted by DIAL for Phase 3 A Project as per MYTP

FY ending March 31 (Rs. Cr)	2019	2020	2021	2022	2023	Total
Aero - (a)	60.50	2,271.60	4,067.99	2,725.19	300.35	9,425.64
Non-Aero - (b)	2.29	93.40	155.18	105.64	-	356.51
Total (C) = (a) + (b)	62.79	2,365.00	4,223.17	2,830.83	300.35	9,782.15
Add: Financing allowance	3.45	136.98	419.76	575.88	289.65	1,425.73
Aeronautical asset (d)	*3.33*	*131.57*	*404.34*	*554.39*	*278.84*	1,372.47
Non-Aeronautical Asset (e)	*0.13*	*5.41*	*15.42*	*21.49*	*10.81*	53.26
Total (including Financing Allowance)	66.24	2,501.99	4,642.93	3,406.71	590.00	11,207.80
Total addition to aeronautical RAB (a+d)	**63.83**	**2,403.18**	**4,472.33**	**3,279.58**	**579.19**	**10,798.10**

4.1.12 DIAL in their tariff proposal had submitted that the expansion project is a highly capital intensive project and the Airport Operator had to invest its capital from the start of the project. Funding of such project cost would be done via debt and equity/internal accruals. Debt carries interest and the equity /internal accruals has its own opportunity cost. DIAL mentioned that such cost is being capitalized in the asset and accordingly requested that the same should be allowed as part of RAB. DIAL also mentioned that this concept is also being captured under tariff guidelines issued for airport operator as financing allowance. DIAL for the purpose of tariff determination has considered financing allowance in RAB and the cost considered for arriving at such financing allowance is the proposed cost of debt for Rupee Term Loan considered to fund the Expansion Capex i.e. 11%.

4.1.13 The segregation among aero and non-aero for the capital expenditure is as per the following principles;

- Under all the packages, the heads classified as Aeronautical assets has been allocated 100% into aero i.e. cost associated with runway, taxiways, aprons and landside works.
- Under all the packages, the items classified as Common Assets, has been allocated among Aeronautical assets and Non-Aeronautical Assets in the ratio of 89.15%:10.85%.
- Considering the above, of the total capex of Rs. 9,782.15 Cr, aeronautical asset constitutes 96.36% of the total capex with the balance 3.64% constituted by non-aero.

Details of General Capex

4.1.14 DIAL had completed the construction of the new airport and associated works in FY 2010. DIAL referred that the Terminal 3 building is now nine years old and hence requires high maintenance and major repairs. The highlights of the key works as submitted by DIAL are as follows;

a) Civil Works:

- Water proofing for terminal and node building: The water proofing to the terminal building and node building terrace was done during project implementation and it is getting damaged due to ageing factor. Generally the life of water proofing will be around 8 to 10 years. Hence, there is a need for water proofing. The estimated cost of the project is Rs. 50 Cr.
- Refurbishment of BBA and BMA flooring
- Strengthening of pump house at T2
- Refurbishment for creating security hold area for T2
- Refurbishment of staff and VIP toilets at T2

b) Electrical:

- LED Installation as part of energy conservation - As part of energy conservation LED fittings at Terminal-3 have been proposed at an estimated cost of Rs. 20 Cr.
- Installation of UPS at terminal and replacement of battery at an estimated cost of Rs. 10 Cr.

c) Mechanical:

- Additional chiller/cooling tower/pumps/replacement of AHU coils/fans/pipe/insulation in a phased manner.
- Replacement of smoke detector, cooling tower/chiller/pumps/piping/AHU coils/fans/split units in a phased manner.

d) Airport System

- Automated EBS is planned to manage peak volumes and optimize resources considerably.
- Improvement of BHS efficiency at Terminal 2.
- Integration of X-ray machines with BHS SCADA and matrix server for seamless transaction.

e) Airside

- LED type fixtures for the taxiways as part of operational efficiency improvements.
- ASDs are to be provided to monitor consecutive / adjacent lamp failures, for complying with regulatory requirements.
- CMS operating logics are to be upgraded as per the prevailing operational procedures for ensuring appropriate lighting and control of the systems.
- Additional VOR sign boards, replacement of old signs and new signs are to be provided as per the operational requirements.

Airports Economic Regulatory Authority of India

f) Security related expense (PSF)

- Due to various security compliances, PSF has to incur capital expenditure during Third Control Period.

4.1.15 DIAL mentioned that the General Capex also includes the following items which were added based on directive from BCAS/DGCA and other regulatory bodies.

- BCAS had directed all civil airports in India to install body scanners. As per this directive, DIAL estimated 123 body scanners to be installed at the Airport. The capex pertaining to this requirement was Rs. 154 Cr.
- DGCA had asked DIAL to procure aircraft recovery kit to meet exigencies at the airport. Expected cost of the kit was Rs. 19 Cr.
- To improve connectivity to the airport, NHAI had proposed an underpass at Shiv Murthy NH-8. MoCA had advised DIAL to contribute 50% of the total cost of this project (Rs. 300 Cr) amounting to Rs. 150 Cr.

4.1.16 The details of the above mentioned expenses and the phasing are in the table below;

Table 74: General Capex submitted by DIAL for Third Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
General Capex	**624.03**	**486.12**	**138.39**	**103.16**	**299.98**	**1,651.68**
Aeronautical Capex	572.59	452.17	123.37	91.97	267.43	1,507.54
Non-Aeronautical Capex	51.44	33.95	15.02	11.19	32.55	144.15

4.1.17 The allocation of General Capex had been considered in the asset ratio for FY 2018-19 i.e. 89.15% except for the capital expenditures considered under 4.1.15 which have been considered as 100% aeronautical.

4.1.18 The total aeronautical RAB addition proposed by DIAL in the Third Control Period was **Rs. 12,305.64 Cr** comprising of Rs. 10,798.10 Cr pertaining to Phase 3 A Expansion Capex as mentioned in Table 73 and the aeronautical portion of General Capex which had been estimated as Rs. 1,507.54 Cr as mentioned in Table 74.

<u>Means of Finance</u>

4.1.19 DIAL as part of the submission considered the following as the means of finance for funding the Project Cost including the General Capex;

Table 75: Project Cost and Means of Finance submitted by DIAL for Third Control Period as per MYTP

Particulars	**Rs. Cr**
Project Cost	
Phase 3A Expansion Capex	9782
Financing Allowance	1426
Total Expansion Capex	11208
General Capex	1652
Total Capex	**12860***
Means of Finance	
Cash accruals	3424
Debt- RTL Proposed	5866
Foreign Currency Bond-USD	2424

Particulars	Rs. Cr
RSD	1078
Total Means of Finance	**12793**

**includes Rs. 62.69 Cr already incurred in the Second Control Period and shown as CWIP which has been funded out of cash accruals. Further financing allowance pertaining to this is also captured under the Total Capex which brings the Total Capex already incurred in the Second Control Period shown as CWIP by DIAL to Rs 66.24 Cr.*

4.1.20 DIAL had also mentioned that the cash accruals have already been accumulated as on FY 2019 and the RSD envisaged as part of the means of finance shall be collected by FY 2020.

Depreciation

4.1.21 DIAL considered the depreciation for the assets based on the useful life of the assets as per the Companies Act or the concession period whichever is lower. DIAL had also submitted that the same is consistent with Authority's Order No. 35/2017-18 dated 12th January 2018 and amendment to Order No 35/2017-18 dated 9th April'2018.

4.1.22 The projected depreciation for the existing assets has been confirmed through auditor certificates submitted by DIAL.

4.1.23 In the case of expansion assets the average rate of depreciation for FY 2019 i.e. 5.92% has been considered.

Table 76: Depreciation submitted by DIAL for Third Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Depreciation on existing Assets	479.40	426.65	372.75	357.81	339.72
Expansion Asset	16.90	94.22	251.91	529.92	718.57
Total	**496.30**	**520.87**	**624.66**	**887.74**	**1,058.29**
Depreciation on Hypo RAB	24.48	22.60	21.73	22.85	23.15
Total (including Hypo RAB)	520.78	543.48	646.39	910.58	1,081.44

Regulatory Asset Base for Third Control Period

4.1.24 Considering the above, the Regulatory Asset Base for the Third Control Period as considered by DIAL is as shown in the table below;

Table 77: RAB and Depreciation submitted by DIAL for Third Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Opening RAB	4,782.11	5,016.25	6,532.32	9,192.75	14,418.53
Addition - Considered on Pro Rata basis	972.51	2,046.97	3,295.12	6,123.53	267.43
Pro Rata DF adjustment on account of ATC capitalisation	232.05	-	-	-	-
Depreciation	506.33	530.90	634.68	897.76	1,067.90
Closing RAB	**5,016.25**	**6,532.32**	**9,192.75**	**14,418.53**	**13,618.07**
HRAB					
Opening HRAB	218.61	194.13	171.53	149.79	126.94
Depreciation	24.48	22.60	21.73	22.85	23.15
Closing HRAB	**194.13**	**171.53**	**149.79**	**126.94**	**103.80**
Total Aeronautical RAB	5,210.38	6,703.84	9,342.55	14,545.47	13,721.86
Aero RAB considered for Tariff	**5,089.54**	**5,911.95**	**7,988.06**	**11,918.90**	**14,118.37**
Depreciation Considered for Tariff determination	**520.78**	**543.48**	**646.39**	**910.58**	**1,081.44**

4.2 Authority's Examination regarding RAB and Depreciation for Third Control Period

4.2.1 The Authority analysed DIAL's submissions and commissioned a separate independent study towards capital expenditure proposed by DIAL for Phase 3 A expansion of IGIA.

4.2.2 The independent study analysed the submissions by DIAL including the need for the proposed Project and its capacity including assessment of cost effective alternatives, examination of whether the building standards and designs are in line with IMG/IATA norms and analysis of the reasonableness of the proposed cost with reference to the tentative ceiling as decided by the Authority. The summary of the independent study is in Annexure 5. The detailed report is appended as Appendix 3. The recommended cost as per the independent study regarding Expansion Capex pertaining to Phase 3A Project of DIAL is in the table below;

Table 78: Phase 3A Expansion cost as recommended by the Independent study

Package	Capex for Expansion (Rs. Cr)	Recommended cost based on independent study
1	Expansion of Terminal 1	2,431.00
1,2&4	Airfield works including 4th Runway, Aprons & eastern parallel cross taxiways	4,318.45
3	Landside/connectivity works	366.17
5	Modification of Terminal 3	166.98
	Total	**7,282.60**
	Others	686.00
	Grand Total	**7,968.60**

As seen in the above table, the independent study recommended a cost of Rs. 7,968.80 Cr for Phase 3A expansion. The independent study also commented that DIAL's proposal for construction of new runway, parallel taxiway, cross taxiway and associated connection taxiways was justified.

4.2.3 The segregation of the cost submitted by DIAL among the various packages viz a viz the cost as assessed based on independent study is shown in the table below;

Table 79: Comparison of Capex Estimates between Independent Study and DIAL's submission

Capex for Expansion (Rs. Cr)	Categorization	Cost estimate as per Independent Study^	Cost estimate as submitted by DIAL
Package 1			
Terminal 1C	Common	299.25	352.60
Pier, Node & Balance Part	Common	2,360.74	2,781.65
Apron Phase 1	Aero	385.67	486.47
Apron Phase 2	Aero	246.03	310.34
Apron Phase 3	Aero	173.11	218.36
Package 2			
Runway 11L/29R	Aero	279.08	456.38
North side - Parallel Taxiways	Aero	150.84	150.90
North side - Echo-2 Taxiways	Aero	330.84	187.40
North side - Runway- 09	Aero	92.44	276.23
Other Taxiways & airside Works	Aero	1,938.02	2,228.46
Package 3			
Landside work	Aero	400.66	817.82

Capex for Expansion (Rs. Cr)	Categorization	Cost estimate as per Independent Study^	Cost estimate as submitted by DIAL
Package 4			
Eastern cross taxiway	Aero	1,129.20	1,364.23
Package 5			
Terminal 3 works	Common	182.71	151.32
Total		**7,968.60**	**9,782.15***

**doesn't include the Rs 12 Cr already capitalised as part of asset additions in the Second Control Period pertaining to preliminary and relocation work.*

^ for the purpose of comparison with the cost estimate as submitted by DIAL, the Others Item of Rs 686 Cr as shown under Table 78 has been proportionately allocated to all the individual items under the above table.

4.2.4 Authority had the view that the cost as per the independent study was reflective of the efficient costs associated with the activities mentioned under Phase 3 A Expansion and had hence requested DIAL to submit reasons for the escalation in price at the time of bidding out the EPC works. DIAL's response is as follows;

"The original estimates submitted to AERA/KITCO were based on preliminary BoQ and estimated per unit cost. The contract for Phase 3A expansion work was awarded on lump sum EPC (Engineering, Procurement and Construction) contract basis post international competitive bidding. The successful bidder i.e. L&T had estimated package wise payment mechanism for the decided lump sum cost.

The revised cost of the project, basis the works awarded till date is INR 9,794 Cr with an assumption of GST credit of Rs 450 Cr. The revised project cost include INR 9821 Cr EPC contract awarded to L&T which if we consider the expected GST credit of INR 450 Cr then it comes to INR 9371 Cr. In addition to which INR 423 Cr work awarded to others like design, PMC, preliminaries and insurance.

....

Accordingly we hereby submit the project cost now arrived is a result of price discovery done through international tendering process:

- *DIAL has followed an exhaustive International tendering process wherein reputed International Contractors with experience in similar projects had been shortlisted for tendering.*
- *The exhaustive process of tendering, evaluation, discussions and negotiations followed by DIAL has resulted in the discovery of the EPC cost for the Phase 3A works. The final prices were arrived after rigorous negotiations with the lowest bidder i.e. L&T which had almost quoted 6% lower price than the highest bidder initially.*

The estimate submitted by DIAL or as approved by KITCO for the costing cannot be compared to the final outcome of the bidding process. However, in order to understand the variations between the estimates submitted earlier and the actual amount the following points could have formed the reason for variation:

1. ***<u>Shift in the date of construction:</u>** The construction work could be commenced only in March 2019 (with certain preliminary works starting immediately after the award of works on February 07, 2019) instead of January 2018 leading to an additional probable inflation of one year on the estimates submitted to KITCO. The inflation impact was calculated on the basis of CPWD building cost index considered at the time of KITCO estimates versus April'2019. The impact of inflation in percentage terms comes to 6.31% which translates into INR. 586 Crores.*

2. ***Impact of GST:*** *In DIAL's submission to AERA in Sept'2017, impact of GST on civil works was around 5% to 7% and on some of the items we had not considered GST. Accordingly, if we consider additional 7% on the items which were based on Delhi Schedule Rate (DSR) as the VAT was already included in DSR and 18% GST for the items on which GST was not considered then the total additional impact estimated to be INR 1062 Crore out of which the expected GST credit is INR 407 Crore. The net impact on account of GST estimated to be INR 655 Cr.*
3. ***Construction risk factors:*** *The remaining difference is largely due to construction risks perceived by the tenderers which were not envisaged in the submission made to KITCO. Some of the factors can be summarized as under:*
   - *Evolving NGT guidelines and the restriction on construction activities in Delhi NCR.*
   - *Availability of construction material like aggregate and sand as far as 350 KMs*
   - *Requirement of Minimum impact on airport operations and maintenance of service levels during construction*
   - *Security restrictions leading to stoppage and delays due to various VIP movements."*

4.2.5 Authority examined DIAL's submission concerning the reasons for cost escalation and proposed to consider the inflationary impact associated with the shift in the date of construction and the impact of GST for arriving at the additions to RAB for the Third Control Period.

4.2.6 The Authority had considered the inflationary impact of 6.31% arrived at by considering the change in CPWD Rates during the time period between the initial cost estimates and the commencement of capex. The same worked out to an inflationary impact of Rs. 502.81 Cr on the KITCO cost estimate of Rs. 7968.60 Cr.

4.2.7 The Authority proposed to consider the cost for Phase 3 A expansion considering the inflationary impact due to shift in start date of construction along with impact of GST post net off from GST credit which had been estimated by DIAL as Rs. 655 Cr.

4.2.8 The Authority proposed to consider the above two items as part of the costs in addition to efficient costs as proposed by the independent study as shown in the table below;

Table 80: Impact of Inflation and GST on Project Cost of Phase 3 A Expansion proposed to be considered by the Authority

Capex for Expansion	**(Rs. Cr)**
Cost for Phase 3 A Expansion as per independent study	7,968.60
Inflation Impact (6.31%)	502.81
Impact of GST	655.00
Revised Project Cost for Phase 3 A Expansion	**9,126.42**

4.2.9 The Authority had the view that the cost thus assessed could be considered as the efficient cost for the Phase 3 A Expansion. Any increase in cost beyond this level would be considered at the time of tariff determination for the Fourth Control Period if the reasons for such escalation in cost are found justifiable with sufficient satisfactory evidence.

The details of the individual items in the cost considered for Phase 3 A expansion are in the table below;

Table 81: Phase 3 A Cost Comparisons amongst cost as per independent study, cost as per DIAL submission, cost proposed to be considered by AERA

Phase 3 A Expansion Cost (Rs Cr)	Cost estimated as per Independent Study	Cost estimated as per DIAL submission	Cost proposed to be considered by AERA*
Package 1			
Terminal 1C	299.25	352.60	342.73
Pier, Node & Balance Part	2,360.74	2,781.65	2,703.75
Apron Phase 1	385.67	486.47	441.70
Apron Phase 2	246.03	310.34	281.78
Apron Phase 3	173.11	218.36	198.27
Package 2			
Runway 11L/29R	279.08	456.38	319.63
North side - Parallel Taxiways	150.84	150.90	172.75
North side - Echo-2 Taxiways	330.84	187.40	378.90
North side - Runway- 09	92.44	276.23	105.87
Other Taxiways & airside Works	1,938.02	2,228.46	2,219.61
Package 3			
Landside work	400.66	817.82	458.88
Package 4			
Eastern cross taxiway	1,129.20	1,364.23	1,293.27
Package 5			
Terminal 3 works	182.71	151.32	209.26
Total	**7,968.60**	**9,782.15**	**9,126.42**

**has been arrived at by proportionately allocating the Inflationary Impact and the Impact of GST on the Cost estimated by the Independent Study*

General Capex

4.2.10 Authority had looked at the submission made by DIAL with regards to the General Capex and had looked at the supporting documents shared by DIAL with regards to the need and necessity for each of the General Capex items. Authority broadly felt that most of the capex proposed by DIAL was mandated due to regulatory and operational necessity and would consider the same subject to true up based on actuals. Authority had also noted that among the General Capex, the capex associated with the New Office Building under Special Projects might not be mandatory and had thus revised the General Capex incurred during FY 2020 downwards by Rs. 200 Cr (estimated cost of the new office building).

4.2.11 Authority had also noted that DIAL estimated a capex of Rs. 19 Cr towards procurement of aircraft recovery kit. Authority had considered the recent policy of MoCA mandating the airport operators in Delhi, Mumbai, Bangalore, Kolkata, Chennai and Guwahati to procure aircraft recovery kit by March 31, 2020. Authority had realized the necessity of such recovery kits and proposed to consider the same as part of General Capex.

Authority had also noted that any services provided towards safety of the airport are considered as aeronautical services as per Schedule 5 of the OMDA and had hence suggested DIAL to recover the cost from the airlines which make use of the aircraft recovery kit.

4.2.12 In the case of the cost pertaining to the underpass at Shiv Murthy NH 8 wherein DIAL was expected to incur a capex of Rs. 150 Cr, Authority had proposed to consider this cost as an enabling cost for Phase 3 A expansion and had proposed to capitalize the expenditure as part of General Capex.

The General Capex considered by Authority for addition to RAB for the Third Control Period is in the table below;

Table 82: General Capex proposed to be considered by the Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
General Capex	424.03	486.12	138.39	103.16	299.98	1,451.68
Aeronautical Capex	394.33	452.21	123.39	91.98	267.47	1,329.38
Non-Aeronautical Capex	29.70	33.91	15.00	11.18	32.51	122.31

4.2.13 The allocation ratio amongst General Capex was considered as 89.16% based on the independent study carried out by the Authority regarding cost allocation for the Second Control Period, except in the case of the capex pertaining to the following items which have been considered as 100% aeronautical.

- Capex pertaining to Body Scanners mandated by BCAS which was estimated as Rs. 154 Cr.
- Capex pertaining to procurement of aircraft recovery kit to meet exigencies at the airport whose estimated cost was Rs. 19 Cr.
- 50% of the cost pertaining to the proposed underpass at Shiv Murthy NH-8 amounting to Rs. 300 Cr i.e. Rs. 150 Cr.

4.2.14 The Authority also proposed to true up the asset addition including General Capex based on the actual date of capitalization at the time of tariff determination for the Fourth Control Period.

Financing Allowance

4.2.15 Authority has looked at DIAL's submission regarding consideration of financing allowance as part of the RAB and made the following observations.

The financing allowance had been calculated by DIAL considering a return equivalent to cost of debt during the gestation period of the assets which were still under CWIP irrespective of whether the same was funded by debt or equity.

Authority in the past had only considered Interest During Construction (IDC) as part of the aeronautical RAB for airport operators whose tariff determination methodology was prescribed as per the SSA. The SSA defines the RAB as below;

***"RB = regulatory base pertaining to Aeronautical Assets and any investments made for the performance of Reserved Activities,** etc. which are owned by the JVC, after incorporating efficient capital expenditure but does not include capital work in progress to the extent not capitalized in fixed assets."*

As per the SSA, DIAL should be given a return to the extent of efficient capital expenditure that has been capitalized. The Financing Allowance as per the understanding was a notional allowance and different from the actual investment incurred by DIAL which could include only the Interest during Construction amongst other costs. Authority hence proposed that only the IDC that gets capitalized would be considered as part of RAB.

Authority had hence proceeded to calculate the IDC that would be incurred by DIAL based on prudent means of financing the capex, wherein the internal accruals accumulated and the RSD raised would be first utilized to fund the capex post which debt instruments would be drawn. Amongst the debt instruments, the Bond Instrument already raised by DIAL would be utilized before additional RTL drawdown. The Interest during Construction (IDC) proposed to be considered by the Authority is in the table below;

Table 83: IDC proposed to be considered by the Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2021	2022	2023	Total
Total debt drawn towards funding Phase 3 A Capex	1,750.39	2,927.49	632.96	5,310.84
Cumulative debt drawn towards funding Phase 3 A Capex	1,750.39	4,677.88	5,310.84	
Cumulative Debt utilised towards capitalised assets	372.82	1,833.62	5,310.84	
Cumulative Balance debt utilised towards CWIP	1,377.57	2,844.26	-	
Interest Rate	9.92%	9.99%	10.00%	
IDC pertaining to assets capitalised in the year	18.49	72.99	316.07	407.56
IDC pertaining to CWIP	68.33	210.95	-	279.27
Total IDC	86.82	283.94	316.07	686.83

4.2.16 Authority also noted that DIAL had not considered any financing allowance or IDC for the capex proposed to be incurred under General Capex and hence proposed to calculate IDC only towards Phase 3 A Expansion Capex. The IDC proposed to be considered shall be trued up based on actuals at the time of true up for the Fourth Control Period.

4.2.17 Authority had considered the cost of debt towards RTL for calculation of IDC as 10% p.a. while the cost of debt for the bond instrument was considered as 9.92% consistent with the submission of DIAL.

The proposed cost of debt for RTL had been consistent with the cost of debt raised by DIAL in the past and given the movement in benchmark rates amongst banks/FIs, the proposed cost of debt could be considered reasonable as the proposed interest rate provides adequate spread vis a vis the benchmark rates. The cost of debt would be trued up based on actuals subject to an upper cap in spread of 50 bps.

4.2.18 Authority had considered the allocation ratio of 100% aeronautical for assets categorized as aeronautical and an allocation ratio of 89.16% for assets categorized as common assets. The allocation ratio for common assets was consistent with the outcome of the independent study carried out by the Authority towards asset segregation for the Second Control Period.

<u>Project Cost and Means of Finance</u>

4.2.19 Based on the above, the proposed project cost and means of finance considered by the Authority year wise are shown in the table below;

Table 84: Proposed Capex and Means of Finance proposed to be considered by Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2019	2020	2021	2022	2023	2024	Total
Project Cost							
Expansion Capex	62.79	2,164.33	3,938.86	2,643.55	316.89	-	9,126.42
IDC*	-	-	86.82	283.94	316.07	-	686.83
General Capex	-	424.03	486.12	138.39	103.16	299.98	1,451.68
Total Project Cost	**62.79**	**2,588.36**	**4,511.81**	**3,065.87**	**736.12**	**299.98**	**11,264.94**
Means of finance							-
Cash accruals	62.79	2,164.33	1,197.02	-	-	-	3,424.14

FY ending March 31 (Rs. Cr)	2019	2020	2021	2022	2023	2024	Total
Refundable Security Deposit	-	-	1,078.27	-	-	-	1,078.27
Debt Drawdown							
Rupee Term Loan towards Phase 3 A Expansion	-	-	-	2,677.46	632.96	-	3,310.42
Bond towards Phase 3 A Expansion	-	-	1,750.39	250.03	-	-	2,000.42
Rupee Term Loan towards General Capex	-	-	486.12	138.39	103.16	299.98	1,027.65
Bond towards General Capex	-	424.03	-	-	-	-	424.03
Total Means of Finance	**62.79**	**2,588.36**	**4,511.81**	**3,065.87**	**736.12**	**299.98**	**11,264.94**

**IDC had not been calculated for general capex as DIAL had not claimed any financing allowance/IDC towards the same. Hence IDC had been calculated only on Rupee Term Loan and Bond towards Phase 3 A Expansion which had been accumulated to Rs 5310.84 Cr as also arrived at as per Table 83.*

4.2.20 Authority had also noted based on independent study that the time period as estimated by DIAL for implementation of Phase 3 A Project as 42 months to be reasonable and justified. Authority hence considered the phasing as submitted by DIAL which had been adjusted for the Phase 3 A Cost proposed to be considered by Authority for the Third Control Period.

4.2.21 Authority had assumed that the General Capex proposed to be incurred in the first year of the Third Control Period shall be funded by the Bond Instrument which had already been raised by DIAL while the balance General Capex in the balance years shall be funded by the RTL. The proposed addition to RAB from the proposed capex towards Phase 3 A Expansion shall be as per the table below;

Table 85: Addition to RAB proposed to be considered by Authority with regards to Phase 3 A Project and General Capex

FY ending March 31 (Rs. Cr)	2019	2020	2021	2022	2023	2024	Total
Aero - (a)	60.50	2,071.68	3,783.48	2,541.00	316.89	-	8,773.55
Non-Aero - (b)	2.29	92.66	155.39	102.55	-	-	352.88
Total (C) = (a) + (b)	62.79	2,164.33	3,938.86	2,643.55	316.89	-	9,126.42
Add: IDC based on prudent means of finance	-	-	86.82	283.94	316.07	-	686.83
*Aeronautical asset (d)**	-	-	*83.39*	*272.92*	*303.81*	-	660.13
Non-Aeronautical Asset (e)	-	-	*3.42*	*11.01*	*12.26*	-	26.70
Total (including IDC)	62.79	2,164.33	4,025.68	2,927.49	632.96	-	9,813.25
Total addition to aeronautical assets from Phase 3 A Expansion (a+d)	**60.50**	**2,071.68**	**3,866.87**	**2,813.93**	**620.70**	-	**9,433.68**
Additions to aeronautical assets from General Capex	-	**394.33**	**452.21**	**123.39**	**91.98**	**267.47**	**1,329.38**
Total additions to aeronautical assets	60.50	2,466.00	4,319.08	2,937.31	712.68	267.47	10,763.05
Total additions to aeronautical RAB (capitalized aeronautical assets)	-	**394.33**	**1,800.02**	**2,424.20**	**5,877.04**	**267.47**	**10,763.05**

**IDC had been apportioned towards aeronautical and non-aeronautical in the same proportion as aeronautical CWIP for the relevant year*

4.2.22 The Authority proposed to true up the RAB based on actual additions subject to the assessment of justifications submitted by DIAL in the event the cost actually incurred exceeds the cost as proposed by the Authority in Table 81.

4.2.23 The Authority had also noticed that the cumulative additions to RAB proposed by it for the Third Control Period is Rs. 10,763.05 Cr against the requirement of Rs. 12,305.64 Cr requested by DIAL which primarily comprises of the capex associated with Phase 3 A Project.

Authority noting the quantum of the capex and its associated impact on the tariff to be levied on the passengers proposed that a penalty of 1% on the Phase 3A Project Cost would be levied at the time of true up for the Fourth Control Period if the proposed Phase 3 A Project was not completed and made available for the passengers before March 31, 2023. The penalty amount (if applicable) would be deducted from the RAB at the time of tariff determination for the Fourth Control Period.

Depreciation

4.2.24 Authority had looked at DIAL's submission with regards to depreciation amounts considered YoY for the Third Control Period. Authority had considered the depreciation amount for the existing assets as per the auditor's certificate shared by DIAL which had been adjusted considering the change in asset segregation ratios and consideration of accelerated depreciation associated with Baggage Screening Related Assets starting from FY 2019. The depreciation for Baggage Screening Related Assets had been accelerated to ensure that the Baggage Screening Related Assets get depreciated within their residual life available.

Authority had also noted the statement of the statutory auditors of DIAL in their annual report wherein they had stated that the depreciation rates had been aligned with the relevant AERA orders on depreciation.

4.2.25 Authority had also noted in the tariff submission that the depreciation rates considered by DIAL for the capex expansion is 5.90% which as per DIAL's submission is the weighted average depreciation rate for the assets existing as on FY 2019.

The Authority had the view that the capex expansion was primarily towards expansion of terminal and construction of runways/taxiways and aprons. Authority had considered depreciation for expansion assets by considering a weighted average of the depreciation rates for building and plant & machinery at a proportion of 65:35 respectively.

The weighted average depreciation rate determined by the Authority for the expansion assets worked out to 4.51% which would be trued up based on actual asset additions and depreciation.

The depreciation amounts for the Third Control Period had hence been revised against DIAL's submissions as per the table below;

Table 86: Depreciation proposed to be considered by the Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
Depreciation for existing assets as submitted by DIAL	479.40	426.65	372.75	357.81	339.72	1,976.33
Depreciation for existing assets as considered by AERA*	**486.40**	**434.68**	**381.10**	**366.87**	**348.52**	**2,017.57**
Depreciation on Hypo RAB as submitted by DIAL	24.48	22.60	21.73	22.85	23.15	114.81

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
Depreciation on Hypo RAB as considered by Authority	**24.24**	**21.64**	**19.58**	**19.55**	**19.35**	**104.36**
Depreciation as submitted by DIAL for Expansion Capex	16.90	94.22	251.91	529.92	718.57	1,611.51
Depreciation as considered by Authority for Expansion Capex#	**8.89**	**58.37**	**153.61**	**340.79**	**479.33**	**1,040.99**
Total Depreciation as submitted by DIAL	520.78	543.48	646.39	910.58	1,081.44	3,702.67
Total Depreciation as considered by Authority	**519.53**	**514.68**	**554.30**	**727.21**	**847.20**	**3,162.91**

** Depreciation for existing assets was higher than that submitted by DIAL on account of accelerated depreciation of Baggage Screening Related Assets which commenced only from FY 2019.*
 # Depreciation for Expansion Capex was considerably lower on account of adjustment in Expansion Capex estimate submitted by DIAL along with expected depreciation rates for the Expansion Capex

4.2.26 The Authority proposed to true up the depreciation considered based on actuals at the time of tariff determination for the Fourth Control Period subject to the same corresponding to the efficient capex considered by the Authority for the Third Control Period.

4.2.27 Based on the above, the revised aeronautical RAB proposed to be considered for tariff determination is shown in the table below;

Table 87: Aeronautical RAB proposed to be considered by the Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Opening RAB (A)	4,771.83	4,832.14	6,139.11	8,028.60	13,197.97
Addition Considered on Pro Rata basis (B)	787.65*	1,800.02	2,424.20	5,877.04	267.47
DF adjustment on pro rata basis on account of ATC capitalisation (C)	232.05*	-	-	-	-
Depreciation (D)	495.29	493.04	534.72	707.66	827.85
Closing RAB (E=A+B-C-D)	4,832.14	6,139.11	8,028.60	13,197.97	12,637.60
Average RAB (ARAB= (A+E)/2)	4,801.98	5,485.63	7,083.86	10,613.29	12,917.78
HRAB					
Opening HRAB	218.84	194.61	172.97	153.39	133.84
Depreciation HRAB (DHRAB)	24.24	21.64	19.58	19.55	19.35
Closing HRAB	194.61	172.97	153.39	133.84	114.49
Average HRAB (AHRAB)	206.72	183.79	163.18	143.61	124.16
Total RAB Considered for Tariff (ARAB+AHRAB)	5,008.71	5,669.41	7,247.04	10,756.90	13,041.95

**includes balance adjustment from FY 2019 on pro rata basis considering Rs. 393.20 Cr balance left out of asset addition and Rs 232.05 Cr left out of DF adjustment as mentioned in the footnote of Table 27.*
The figure of Rs. 787.65 Cr was arrived at by considering the pro rate balance of Rs 393.20 Cr and the addition of Rs 394.33 Cr mentioned under Table 85 for FY 2020.

4.3 Stakeholder comments regarding RAB and Depreciation for Third Control Period

4.3.1 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to Regulatory Asset Base and Depreciation for the Third Control Period. The comments by stakeholders are presented below;

DIAL's comments on Regulatory Asset Base and Depreciation for the Third Control Period

4.3.2 The comments from DIAL with regards to Project Cost for Phase 3A Expansion are as below;

"Authority had appointed independent consultant KITCO to review the project cost estimate submitted by DIAL. As per DIAL estimates the project cost was expected to be Rs 8632 Cr however as per KITCO estimate the project cost estimated to be Rs 7969 Cr. The observation of DIAL is attached herewith as Annexure-7.

The original estimates submitted to AERA/KITCO were based on preliminary BoQ and estimated per unit cost. The contract for Phase 3A expansion work was awarded on lump sum price and on EPC (Engineering, Procurement and Construction) contract basis post international competitive bidding. The successful EPC bidder i.e. L&T had estimated package wise payment mechanism for the decided lump sum cost.

Accordingly, we hereby submit that the project cost now arrived is a result of price discovery done through international tendering process:

- *DIAL has followed an exhaustive and transparent International tendering process wherein reputed International Contractors with experience in similar projects had been shortlisted for tendering.*
- *The exhaustive process of tendering, evaluation, discussion and negotiations followed by DIAL has resulted in the discovery of the reduced than initially tendered EPC cost for the Phase 3A works. The final prices were arrived after rigorous negotiations with the lowest bidder i.e. L&T which had almost 6% lower quoted price than the highest bidder initially.*
- *The final prices provided by the L2 bidder is around 2.3% higher than the lowest bidder and that provided by the L3 bidder is around 11.3% higher than the lowest bidder. This provides further confirmation that the final award price is reasonable and right price.*
- *It is an established rule of law that once the price is discovered through competitive bidding process it is sacrosanct and cannot be tampered with.*

In view of the above we request the Authority that though we have submitted our observations against the recommendations of KITCO for the reasons stated above, however AERA must consider only the project cost arrived based on the international competitive bidding and not to consider any reduction in the cost so arrived."

4.3.3 The comments from DIAL with regards to 1% adjustment proposed by Authority in the case of delay in completion of capex are as below.

"Authority in its consultation paper introduced a new concept of penalty on delay in execution of the proposed expansion plan of Phase 3A, which is not envisage anywhere in the concession agreement or AERA Act'2008. In this regard we would like to submit that it is in the interest of DIAL to complete the project within timelines and meet the customer satisfaction level. Though DIAL will endeavor to

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

complete the project within the timeline provided by the Authority, however there can be few extraneous factor which are not in control of DIAL. These circumstances coupled with the COVID related uncertainties cannot be gauged at this time of the project and the challenges that may come in the future are also unpredictable.

It may also be perused that the DIAL already works at very thin margin in a regulated environment and any further drag in its profitability will lead to unviability of the project. Any new charges/penalty which were not envisage at the time of initial biddings of the airports, concession agreement or it's own guidelines. In accordance with the SSA DIAL in its right to consider the investment made by DIAL in RAB for tariff determination and there is no such exclusion in the name of penalty from RAB. Following is the extract of the RB definition provided under SSA:

> *RB = regulatory base pertaining to Aeronautical Assets and any investments made for the performance of Reserved Activities etc. which are owned by the NC, after incorporating efficient capital expenditure but does not include capital work in progress to the extent not capitalised in fixed assets. It is further clarified that working capital shall not be included as part of regulatory base. It is further clarified that penalties and Liquidated Damages, if any, levied as per the provisions of the OMDA would not be allowed for capitalisation in the regulatory base. It is further clarified that the Upfront Fee and any pre-operative expenses incurred by the Successful Bidder towards bid preparation will not be allowed to be capitalised in the regulatory base.*

Given the situation of uncertainty and unforeseen circumstances, we request authority to not consider 1% penalty in case the phase 3a project is not completed till 31st March'2023."

4.3.4 With regards to Financing Allowance, the comments made by DIAL are as follows.

"The Authority in it's proposal has not considered the applicability of financing allowance to DIAL on the basis that it is a notional allowance. It is submitted that the Financing allowance consist of return on both debt and equity portion during the time of construction period. Authority agree and allows return on debt as IDC then in similar way Authority should also consider that the equity/internal accrual deployed in the project is also eligible for return. The equity/internal accrual also have carrying cost which need to be reimbursed. It may be perused that the Authority vide the Airport Guidelines i.e. Terms and Conditions for Determination of Tariff for Airport Operators Guidelines, 2011 dated 28th Feb'2011 at Para 5.2.7 considers financing allowance on CWIP which is reproduced below:

> *The Financing Allowance shall be calculated as follows*
>
> *Financing Allowance = Rd X (WIPA $_{t-1}$ + (Capex-SC-CA) / 2)*
>
> *Where Rd -is the cost of debt determined by the Authority accordingly to clause 5.1.4*
>
> *SC are capital receipts of the nature of contribution from stakeholders (including capital grants and subsidies) pertaining to the capital expenditure incurred in Tariff year t.*
>
> *CA are Commissioned Assets which pertain to the accumulated value of the WIPA attributable to all assets that have been put into effective operation during Tariff Year t.*

The SSA does not have a specific provision to the consideration of IDC or the Financing allowance. While it can be seen that the Authority has considered Financing allowance as a guiding principle for all other airports.

Authority in its order no case of tariff determination for second control period for Bangalore Airport vide order no 18/2018-19 dtd. 31st Aug'2018 following is the relevant extract:

9.2.22 The Authority noted that BIAL had considered Financing allowance for addition to RAB as provided in Direction 5 – Airport Guidelines, against Interest cost during construction which will be capitalized as cost of the assets. The Authority also understood that these estimates would vary considering the Debt/Equity mix in the funding for Airport Project, where the Projections made by BIAL considered substantial funding of the Project by Equity (which was estimated to be available considering BIAL's estimate of ARR for the second control period). (In doing the calculations in the Business Model submitted, the Authority has considered gearing of upto 75% and 70% respectively instead of lower gearing as considered by BIAL).

In case of Hyderabad Airport vide order no 34/2019-20 dtd. 27th March'2020 authority had allowed financing allowance. Following is the relevant extract (para 5.75) of the order:

Also, the Authority noted HIAL's submission to fund the expansion projects through debt and internal accruals in the ratio of 60:40. However, based on the Authority's Guidelines. The financing allowance has been computed for the entire project cost.

In view of the above provisions of the guidelines and similar application to the other airports, DIAL requests the Authority to consider the financing allowance."

4.3.5 The comments made by DIAL regarding Calculation of IDC are as follows;

"Without prejudice to our stand of financing allowance we would like to submit following on Authority's calculation of IDC.

Authority at para 4.2.15 has considered following funding flow for the capex:

Authority has hence proceeded to calculate the IDC that would be incurred by DIAL based on prudent means of financing the capex, wherein the internal accruals accumulated and the RSD raised shall be first utilized to fund the capex post which debt instruments shall be drawn. Amongst the debt instruments, the Bond Instrument already raised by DIAL shall be utilized before additional RTL drawdown.

In accordance with the OMDA DIAL had to initiate phase 3a expansion plans. In this regard DIAL had obtained in principle approval from AERA on 29th June'2018. Accordingly, DIAL had initiated its effort to raise debt to fund the said capex. DIAL had successfully raised USD bond of 350 Mn in June'2019. The bond had been raised exclusively for funding phase 3a expansion. Also as per the new ECB framework issued by RBI on 16th Jan'2019 such proceeds can be parked maximum for 12 month in term deposit. In other words the ECB should be utilized within 12 months for efficient cash management.

Authority in the consultation paper proposed that the internal accrual and RSD raised should be first utilized to fund the capex. However, in the given circumstances since the exclusive funding for phase 3a expansion already been done and same has restrictive usage and time it is prudent to use bond proceeds first to fund the capex. DIAL has followed the same approach.

Accordingly, we request authority to consider the capex funding on actual basis and allow IDC based on actual."

4.3.6 The comments made by DIAL with regards to Depreciation on Expansion Assets are as follows;

"Authority has considered the expansion asset into 65:35 building and plant & machinery to arrive at 4.51% of effective depreciation rate. Since as of today there is no clear bifurcation of asset available in expansion plan accordingly any apportionment of asset will be theoretical only. DIAL in its submission considered the effective depreciation rate as per DIAL books of account for FY'19 which is the closest relatable basis available as of today.

In any case the depreciation is subject to true up in next control period. The reduction in percentage will lead to tariff reduction and have adverse impact on DIAL cash flows.

Accordingly, we request authority to consider the effective rate of depreciation for FY'19."

Other Stakeholders' comments on Regulatory Asset Base and Depreciation for the Third Control Period

4.3.7 MIAL has commented that Authority should not subject an upper cap to the interest rate considered for Phase 3 A expansion.

MIAL states that the interest rate is determined by market factors and no cap should be imposed on the cost of debt which should be allowed at actuals. MIAL requests Authority to not impose an upper cap to the interest rate for Phase 3 A expansion.

4.3.8 MIAL also commented that the Authority should not ignore the cost arrived through price discovery process and allow the actual project cost for Phase 3 A expansion.

MIAL submitted that the project cost should not be considered merely on estimates by an independent consultant, but the cost arrived through price discovery process should also be given due weightage as it is the cost envisaged by tenderers for a particular project. MIAL indicated that the various risk factors differ from organization to organization and cannot be benchmarked by a single yardstick. MIAL requests Authority to not ignore cost arrived through price discovery process and allow the actual project cost.

4.3.9 Further, MIAL commented that the airport operator should not be imposed with a penalty for delay in implementation of the project.

MIAL states that there is no provision for such penalty in the concession agreement and it would burden the airport operator in the current scenario where the business environment is dynamic and various factors may be beyond the control of airport operator. MIAL also stated that there is no incentive for airport operator to delay the completion and any excess cost would be recovered with the appropriate carrying cost during the true up process in subsequent Control Periods. MIAL requests Authority to not impose any penalty for delay in project implementation.

4.3.10 APAO commented that the Authority should consider the project cost arrived through price discovery for Phase 3A expansion.

As per APAO, the project cost which has gone through test of market should not be reduced as it may lead to a cash flow deficit. Project Cost submitted by DIAL is arrived through competitive bidding process which makes it an efficient cost. Authority is requested to consider the cost submitted by DIAL for Phase 3A expansion.

4.3.11 Further, APAO commented that the airport operator should not be imposed with a penalty for time over-runs in implementation of the project.

APAO states that the covid-19 scenario has affected the industry at large and the impact on the industry is uncertain. Any delay in implementation would be reflected through true up process with adequate carrying cost in the subsequent Control Periods. Thus, APAO requests Authority to not impose any penalty for delay in project implementation.

4.3.12 IATA commented that Authority should impose a complete freeze and immediate review of the Expansion Capex.

IATA states that DIAL's Major Development Plan regarding Phase 3A expansion takes no account of the severe impact of covid-19, questioning the immediate need for capacity enhancing projects for the remainder of the Control Period. IATA does not consider DIAL's justification of Phase 3A expansion based on pre-covid level demand a relevant argument. IATA also points out that there is a complete lack of consultation from DIAL with the users regarding the Capex for Phase 3A expansion. IATA requests DIAL to undergo effective consultation with other users.

IATA also requests Authority to adopt a more aggressive position regarding project cost for Phase 3A project particularly with respect to inflation, as IATA considers the effects of inflation to be offset through DIAL's competitive tendering process and economies of scale, apart from imposing a complete freeze on capital investments for the Third Control Period. The detailed reasoning given by IATA for the above-mentioned comments is as follows;

"DIAL's capital investment proposal, referred to as the "Major Development Plan" otherwise known as Phase 3A expansion in Control Period 3 (CP3) takes no account of the severe impact of COVID-19 on traffic demand, that calls into question the immediate need for capacity enhancing projects for at least the next 1-2 years and the remainder of the control period. Similarly, AERA's assessment of DIAL's plan takes little account of acute COVID-19 impacts at this stage in lieu of stakeholder's comments.

IATA strongly recommends an immediate freeze on all Phase 3A capital investments pending a comprehensive review of traffic forecasts to determine a revised phasing plan for Phase 3A (and future phases of the master plan), in order to balance capacity with demand. A delay now is important given the considerable uncertainty and risks that continue to evolve and exist regarding the pace of traffic recovery noted by AERA in 9.2.4. At the time of this submission detailed traffic forecast scenarios are near impossible to provide in order to determine the timing and scale of investments for the control period. Instead, we propose a pause, status update and review in the new year when more certainty may exist, rather than to push ahead now to make investments that may not be necessary.

To be absolutely clear, DIAL's justification for Phase 3A projects based on pre-COVID levels of demand and airport saturation is not a relevant argument to justify CP3 investments, given the substantial impacts on traffic that may well have lasting effects. Notwithstanding a completed lack of consultation with users regarding investments to date, this is exactly why we require a CAPEX freeze and review now. In addition, the ability of airlines to service demand given COVID impacts needs to be carefully considered in close consultation with airlines.

As important is a review of all project business cases for CP3 in consultation with the Airport Users Consultative Committee (AUCC) to assess the need and return on investment for airlines given their dire financial circumstances. Effective consultation to enable well informed investment decisions with *clear outcomes working within the scope of AERA's Consultation Protocol is critical, however, it continues to be a major issue resulting from DIAL's unwillingness to cooperate meaningfully. We fundamentally disagree with point 4.1.2 of the CP3 control period document stating "DIAL has conducted consultation with various stakeholders..." This statement is simply untrue and misleading.*

'In keeping with AERA's protocol, consultation requires a willingness on DIAL's part to work collaboratively with stakeholders, to define their requirements and seek their inputs and feedback regarding passenger and operational needs. Development feasibility is an iterative process requiring regular, structured interaction to identify and select project concepts, options, and ultimately to select the most cost-effective solution to deliver valued benefits. A 'Business Case' with costs (CAPEX/OPEX), timeframes, risks, benefits and the overall return on investment should be openly discussed with the objective to working towards consensus – none of these steps has been followed by DIAL in creating its capital plans to date, and we fear this behaviour will continues unless AERA intervenes.

The reality is DIAL has formed predetermined plans and shared them at a high level with airlines on a one-off basis. Lip service has been paid to the airline community and efforts to engage with them have been ignored. Airlines cannot share feedback on plans that are not consulted upon, and it is therefore unreasonable to support the capital plan until these issues are resolved. What was a major issue pre-COVID, is now even more significant given the extreme financial position our airline members find themselves in resulting from COVID-19.

DIAL's disregard to consult with users can be demonstrated as only 1 AUCC meeting was held regarding Phase 3A plans on 27th September 2017 that is woefully inadequate:

- *AUCC called on very short notice for a non-consultative agenda with no opportunity for international airline or IATA subject matter experts to join – demonstrating a disregard for genuine consultation.*
- *Large amounts of high-level pre-aligned information shared at the meeting - airlines are unable to prepare or provide informed feedback.*
- *Pre-determined outcomes rather than options for review have been presented.*
- *No attempt made to seek airline requirements as an input into the consultation process.*
- *No attempt made to work towards consensus.*
- *No attempt made to share project costs, benefits, impact on airport charges, or Business Cases focusing on outcomes.*
- *No attempt to consult at key project stages during the design and development stages of projects.*
- *IATA and AOC attempts to address these issues have been completely ignored, for instance a joint IATA-AOC letter to DIAL CCO Aero) on 20th December 2017 requesting more project details regarding runway 4 remains unanswered (see Appendix 1).*

*We have the greatest respect for AERA's Consultation Protocol and cannot stress strongly enough our frustration about it not being adhered to by DIAL. We respectfully recommend AERA supports a **CAPEX freeze** and mandates DIAL to apply its protocol and the principles set out in this section of IATA's response. We also propose that subject to AUCC review, projects that fail to result in airline-*

airport consensus are disallowed from the regulated asset base, as a backstop to incentivise DIAL to behave rationally given its market power and abuse of dominant position. In context of the extreme cost sensitivity airlines face, we strongly recommend no investments proceed without the explicit approval of the airline community taking account of the financial impacts on user charges. We passionately believe these steps are in the best interests of users and consumers and are required to make a step-change in airport-airline community relationships and support industry restart activities.

To support effective consultation with users we recommend the following principles are applied to complement AERA's Consultation Protocol given the circumstances:

- *All projects in the design and development phases should stop with immediate effect. Projects in the delivery and construction phase should be stopped immediately or as soon as practically possible at the end of the existing project phase. A status update of all projects should be provided to AUCC as a matter of urgency.*
- *Sufficient time should be taken for a thorough assessment and rephasing of projects informed by traffic forecast scenario's and investment thresholds based on airlines willingness to fund them. A typical consultation process takes a minimum 6 months to form a 5-year capital investment plan. While we are already well into the control period, a pause provides the opportunity to reprioritize investments.*
- *IATA and ICAO recommend a comprehensive review of traffic forecasts at least every 5 years – even without the severe impact of COVID this is overdue as the last review we are aware of is in 2014 via DIAL's master plan consultant. Given the considerable uncertainty regarding the timing of traffic recovery, we reiterate the suggestion for a review in 2021 is an appropriate timeframe to work to.*
- *A review of Phase 3A Business Cases is essential to assess the viability of project costs, benefits and a positive return on investment for airlines funding them. Airline finances are simply unable afford non-essential investments. We recommend DIAL is obliged to demonstrate airline consensus to support projects via the AUCC as a pre-requisite for investment – this precedent is supported by the UK Civil Aviation Authority and applied at London's Heathrow Airport providing assurance for stakeholders and the airport operator. Refer to Appendix 2- IATA Position Paper regarding best practice airport infrastructure consultation reinforcing user's perspectives on airport investments.*
- *We recommend a review of the master plan and terminals strategy as an input to the investment plan to assess if the current phasing strategy remains fit-for-purpose, considering COVID-19 impacts and potential structural changes in the market. A review of existing terminals to ensure they are sufficiently resilient and flexible to accommodate different airline models is requested, including existing facilities used to their full potential with technology solutions where cost effective*
- *Essential Investments – Notwithstanding an immediate freeze on investments essential programmes and projects could proceed if they are strictly required to meet safety, security and regulatory compliance requirements. Projects should only proceed with the explicit support of the airline community recorded at AUCC meetings, following a review of the Business Case.*

- *Exceptions – Similarly, notwithstanding a freeze on capacity projects and essential investments the rationale may exist to support some investments on a case by case basis again subject to AUCC consultation and agreement i.e.:*

    - *Projects in the final stages of construction delivery i.e. 90%+completed.*

    - *Where the cost of stopping a project is greater than continuing with it to a natural break point in the program or project.*

Reflecting on the details in the consultation document and notwithstanding the comments above that take precedence over the comments which follow, we would appreciate AERA's consideration of the following comments:

- *Regarding AERA's conclusions, we again reiterate our strong desire for a project freeze. A high-level sum-up of capital phasing estimates 8000 crores of investment remains unspent in the control period, that is a significant amount of investment that could be reviewed and potentially deferred.*

- *IATA supports the principle of an independent consultant's review for the purposes of capital efficiency. Indications are that AERA's consultant has access to project details and costs well beyond what is shared with the AUCC – details should be shared with users in the first instance and then validated by AERA's representatives for assurance purposes – otherwise AERA and AERA's independent consultants are in effect bilaterally determining investment plans without users' involvement. While valuable, independent consultant's reports should not be viewed in any way as a replacement for core airport-stakeholders consultation via the AUCC, as only airlines can determine their own needs and willingness to fund investments given the direct cost relatedness with airport charges.*

- *We welcome AERA's scrutiny of capital costs against industry benchmarks and its conclusions to drive market efficiencies. We are however disappointed in Authority's position to allow additional costs for inflation and GST (table 74). The effects of inflation should be largely offset through DIAL's competitive tendering procurement processes and economies of scale. In a post-COVID environment, cost estimates should reflect market conditions expected to be favourable for clients given the associated economic effects. We suggest a more aggressive position is taken moving forwards particularly regarding inflation.*

- *We do not agree with DIAL's arguments to increase its original cost plan, for instance:*

    - *Lump sum contracts make significant allowances for risk and contingency and should not attract any increases in costs.*

    - *Maintaining service levels and avoiding operational disruption is obvious and should be included as standard in AERA's cost estimates. To retrospectively request increases is inappropriate reinforces a lack of consultation with users.*

- *Regarding specific project developments, as stated, IATA and the airline community have limited details. Again, no project business cases, costs, benefits or sufficient scope details have been shared, and we reiterate our request for a project freeze, immediate status update and review of all investments. Further, it is unclear from DIAL's submission which projects sit within each work* *package items, the dependencies and risks between them. In this context we are limited to making high level observations regarding specific projects:*

- *Package 1 - Terminal 1 developments – we recognize pre-COVID there was a need to expand T1 operations and apron to accommodate the growth in low cost carriers. Terminal concepts, options, and the preferred solution were not shared with the AUCC and we are therefore unable to comment on the specific details and approach to terminal sizing to date, design, costs etc. Very broadly and at a high level the norms regarding expansion sizing look in line with industry standards, however we request a status update on this project with further details shared including:*
    - *Retrospective review of design concept, options and costs*
    - *Passenger experience strategy*
    - *Capacity including peak hour planning ratio's, design day schedules*
    - *Layouts and designs*
    - *Current project status - % complete terminal, apron, surface access*
    - *Is the existing "old" terminal infrastructure still operable, and able to serve the apron*
    - *The status and capacity of the apron stands work is requested.*
    - *Surface access status - road and rail update - road widening*
- *Packages 2&4 - Runway 4 –*
    - *Reference joint IATA-AOC letter to DIAL dated December 2017, requests for information were made and remain unanswered, for instance the NATS study assessing the capacity of the DEL airspace system compared with best in class international airports (see Appendix 2).*
    - *ICAO standards now recommend a runway width of 45m is sufficient (for the reinforced section) not 60m per DIAL's plans including Code F (A380 & equivalent code aircraft), that could result in a significant cost saving.*
    - *In addition, we request confirmation if the project scope and costs include airfield ground lighting and pits and ducts that can be associated with runway works. Project dependencies are also unclear such as taxiway upgrades.*
    - *The trigger for construction of a 4th runway is indicatively above 75 movements around 620,000 movements per annum. IATA's high-level analysis indicates the threshold could be higher, at 650-660,000 movements, however more detailed discussion is required to define the baseline. Further, we have not been involved in DIAL's optioneering regarding the position of the 4th runway and the pros and cons of each one including capacity / efficiency, environmental sustainability and costs. We would usually expect more than 3 options to be presented and little knowledge of those referenced in DIAL's proposal to AERA. Considering COVID*

impact and 2019-20 traffic at around 450,000 aircraft movements, a key question is when this infrastructure will now be required. We are aware from activity on site works are underway, so this review is urgent.

- *Eastern parallel taxiway works – the costs, benefits and programme details have not been consulted upon with users and so we are unable to comment and request a full analysis of the project.*

- *Package 3 Landside connectivity – we have had no insight into the project analysis, assumptions and options determining T1 widening, or capacity and demand analysis regarding modal share and ratio's between cars and public transport.*

- *Package 5 - Terminal 3 developments – the scope of plans to expand T3 should be reviewed in consultation with the airline community to ensure facilities are fit for purpose in the medium-term considering airlines requirements and a review of airline occupancy.*

- *General CAPEX projects should not be excluded from further scrutiny – projects should be assessed to review whether they are essential via the AUCC. There continues to be a lack of transparency regarding these investments.*

In summary

- *A capital investment freeze is essential now to review the need for capacity enhancing projects given the substantial impacts of COVID-19 on demand.*
- *A detailed review of Traffic Forecasts (and Master Plan phasing strategy) is required in 2021 before informed investment decisions can be made.*
- *Pre-COVID demand levels / airport saturation is not a justification for Phase 3A investments now.*
- *Airlines ability and willingness to fund airport investments through charges needs to be reviewed.*
- *AUCC Consultation is essential yet has been completely ignored – this is unacceptable.*

We thank AERA for its consideration of these points in order to provide a balanced determination taking into account the needs of users and ultimately consumers."

4.3.13 IATA also commented that zero depreciation be considered for assets which are closed during covid-19 pandemic. The relevant extract is quoted verbatim below;

"We are generally in agreement with the depreciation rates utilized by AERA. The only point that we would like to make with respect to depreciation is that AERA may need to take into account when assessing the cost base on a "COVID scenario". For, instance it is our understanding that while the traffic levels have remained so low that a number of facilities have remained closed. In this respect, and since some of these facilities are not in use, then it may be prudent to assume a depreciation of "zero" for the time the asset remains closed.

Such an approach would be logical (Since users should only pay for the costs and facilities that are in use, and not those that are not), as well as helping alleviate the pressure from unit cost increases due to the lower level of traffic."

4.3.14 Airline Operators Committee (AOC) commented on the dire need of effective consultation prior to any major capex on airport infrastructure and reassessment of Expansion Capex.

AOC has put forth that the AUCC consultation for Phase 3A expansion of DIAL in 2017 was conducted on just a day's notice to the stakeholders. AOC considers the need for such capital investment is now in question due to the covid-19 crisis, necessitating a detailed analysis on the entire capital expenditure. Thus, AOC has requested Authority to do an urgent reassessment of capacity enhancement based on post-covid trends while putting a pause on packages 1-4 of Phase 3A project and prioritizing implementation of Package 5. AOC also requested that the additional expense on account of delay of 10 months to be reconsidered.

4.3.15 Business Aircraft Operators Association (BAOA) commented that expansion project should continue as envisaged before covid-19 pandemic.

As per BAOA, the additional and improved infrastructure at DIAL would be required soon after the covid-19 crisis is under control, and thus, the pace of infrastructure development should be hastened, not altered, now.

4.3.16 BAOA also commented on the lack of effective consultation regarding Master Development Plan of DIAL.

BAOA pointed out the lack of discussion of expansion plans by DIAL with other stakeholders. BAOA requests DIAL to discuss the master plan and its ongoing implementation with other stakeholders' at least once every six months for relevant inputs/suggestions.

4.3.17 FICCI commented that Authority should consider the project cost as submitted by DIAL for Phase 3 A expansion.

FICCI states that DIAL has set an example in successful implementation of a Project of such magnitude. FICCI has highlighted the importance of promoting private investment to improve infrastructure facility and asked the government to honor the terms of concession agreement and ensure the viability of the project. The Authority should bring in regulatory certainty by clearly bringing out the tariff approach to be followed by any airport operator.

As per FICCI, the cost submitted by DIAL using price discovery approach is the efficient cost and the airport operator should not be restricted while recovering such cost. Doing so would ensure that DIAL neither gets a return on investment nor recovers such investment. Thus, FICCI requests Authority to consider the project cost as submitted by DIAL for Phase 3A expansion.

4.3.18 FICCI also commented that the penalty of 1% for delay in implementation of project should not be imposed on DIAL.

FICCI states that it is never in the interest of the airport operator to delay the implementation of the project as it would defer the investment recovery. Further, due to the ongoing pandemic, there are expected to be further delays in implementation of the project. Thus, FICCI requests Authority to waive off the penalty imposed on DIAL for delay in implementation of the project.

4.3.19 PHDCCI commented that Authority should consider the project cost as submitted by DIAL for Phase 3A expansion.

As per PHDCCI, the cost submitted by DIAL using price discovery approach should be given due weightage and the risks associated with capital investment cannot be benchmarked at a yardstick. Thus, PHDCCI requests Authority to consider the project cost as submitted by DIAL for Phase 3A expansion.

4.3.20 PHDCCI also commented that the penalty of 1% for delay in implementation of project should not be imposed on DIAL.

PHDCCI states that it is never in the interest of the airport operator to delay the implementation of the project and the concession agreement of DIAL does not envisage such provision for penalty. Thus, PHDCCI requests Authority to waive off the penalty imposed on DIAL for delay in implementation of the project.

4.4 <u>DIAL's response to stakeholder comments regarding RAB and Depreciation for Third Control Period</u>

4.4.1 Subsequent to the Stakeholder Comments received by DIAL as part of Stakeholder Consultation Process, DIAL's response to the various stakeholder comments with respect to Regulatory Asset Base and Depreciation for the Third Control Period are presented below;

<u>DIAL's Response to IATA's comments on Regulatory Asset Base and Depreciation for the Third Control Period</u>

4.4.2 At the outset, DIAL stated that IATA's comments are lopsided towards the self-interest of airlines, while airport is an asset of national importance serving public interest.

4.4.3 IATA proposes to delay tariff determination process by atleast one year. To this, DIAL responds that the airport operates in a regulated environment subject to review by airport regulator on a periodic basis. DIAL states that such delays would bring more uncertainty which would lead to widespread impact on DIAL as the margins of airports are very thin, and it would also impact funding of Phase 3A capex. DIAL agreed with IATA that the tariff determined ought to be reviewed by the airport regulator if there is a substantial change in the assumptions considered while determining the tariff.

4.4.4 With regards to IATA's comments on a complete freeze on capex, DIAL states that it has to ready the airport well in advance in accordance with the Concession Agreement. DIAL, in accordance with OMDA, submitted expansion plans to Authority and awarded the Phase 3A expansion works to an EPC contractor on lump sum contract basis through an international competitive bidding process and after intense price negotiations. As per traffic estimates, DIAL expects to reach pre-covid level traffic by FY23-24 and there would be a need for additional terminal space then. According to DIAL, delaying the project would lead to additional cost/claims. DIAL's detailed response regarding the same is presented below;

"

1. <u>Background:</u>

Major Development Plan known as Phase 3A Expansion program has been conceptualized, prepared with the help of M/s AECOM and NACO, the world renowned Airport design consultants, considering present inadequate infrastructure at and around Terminal 1, the operational needs of domestic airlines operating therefrom, the standards of development and quality parameters subjected to DIAL under

OMDA, increasing passenger numbers and their needs & expectations form the airport, the environment conservation measures from the airport operations. Such Master Plan was finalized after conducting complete stakeholders consultation and which fact is not in question.

Once the preliminary development designs were ready, DIAL started the process of engaging with all stakeholders including IATA, AOC, BAoA, Airlines, and other stakeholders such as MoCA, DGCA, AAI, BCAS, CISF etc. DIAL has already submitted to the Authority evidence of the entire stakeholder consultation.

The main objectives of such engagement with all these stakeholders were:

a. *Explain the complete Phase 3A development requirement and its scope, and*
b. *Obtain and resolve the comments received from the stakeholders*

DIAL, through it's senior officials from the Project department, including Chief Development Officer, prepared a detailed presentation along with all the necessary technical details and presented the same to the stakeholders. All the meetings were interactive wherein details w.r.t comments given by the persons attended have been captured and to the extent, minutes of meeting were also prepared. In addition to this, many stakeholders have furhter communicated to DIAL with their observations, which were collected, adequately addressed and responded to appropriately.

Adequate time and opportunity were provided to all stakeholders to bring forth their inputs and feedback, prior to consolidation of all comments and inputs, well before the bidding process for Phase 3A Works was initiated. DIAL, with the extensive engagement of all stakeholders, received their comments and appropriately incorporated their inputs.

The Authority has deployed their techno-commercial experts, M/s KITCO as their consultant for review of the complete Phase 3A capital expenditure program including the Major Development Plan. KITCO, through their numerous visits to IGI Airport and meetings with DIAL, examined threadbare all the aspects, assumptions, technical specifications, cost details, timeline etc. and accordingly conveyed their recommendation to AERA. DIAL understands from AERA that other than certain cost reductions, which in the opinion of DIAL is incorrect, KITCO provided full acceptance of the complete Phase 3A plan. The report of M/s KITCO annexed to the consultation paper may be referred in this regard.

2. ***Cost discovery through bidding process:***

DIAL had undertaken an ICB (International Competitive Bidding) process for undertaking the phase 3A works on Engineering, Construction and Procurement ("EPC") basis on the lump-sum quoted price and pre-qualified four very reputed international construction leaders competing for this prestigious job.

DIAL in order to create a common understanding had shared an estimated BOQ prepared by DIAL consultant M/s AECOM with all the bidders for their reference and the technical and financial evaluation of the bidders. The meetings were conducted with all bidders to fully apprise them about the project, operational requirements and DIAL's expectations.

DIAL has as part of the bid documents for the EPC contract have clarified and informed the impediments of the project to the international bidders. However, the bidders being experienced in construction of such complex airports, their evaluation of the risks and accordingly cost involved may be varied/different from our consideration.

The actual cost arrived for phase 3A works is a result of price discovery through a transparent international competitive bid process and thus has its sanctity to be maintained by all. The cost arrived *is based on facts and does not necessarily match exactly with the estimation of DIAL and KITCO, as the costs associated to the risks perceived by each party is different. Therefore, it is absolutely clear that DIAL has taken all precautions and measures to ensure very open bidding process against clearly established tender documents, including Major Development Plan.*

3. Response to IATA's specific issues- Capital Expenditure (CAPEX) – Chapter 4:

Para 1:

It is of utmost surprise that IATA is relating the "Major Development Plan" of Phase 3A with Covid-19 situation prevailing in the country. IATA is fully aware of and were party towards finalization of Phase 3A Major Development Plan during the conceptualization and consultation stage of the project in the year 2017. Covid-19 is a very recent development, therefore provision of future pandemic in project development will be, in the opinion of DIAL, totally inappropriate and misplaced. Such idea of having a pandemic and thereby shelving projects will be against national interest, overall prosperity and progress of the country and its common citizens.

We would like to highlight that in terms of the OMDA, DIAL has to plan for adequate capacities based on the traffic triggers. In its projection of the traffic even in the post COVID scenario where the traffic would be reaching 74 mppa in the FY 2023-24, DIAL would have to be prepared before such trigger. Under such circumstances, all of us would be caught on the wrong footing if the project is not commissioned before such trigger.

Para 2:

IATA's recommendation of immediate freeze of Phase 3A capital investments due to Covid-19 is totally misplaced and does not consider: (A) the feasibility of such proposal for an ongoing project; (B) the cost implications of demobilization and mobilization of the works; (C) the claims of EPC contractor and other stakeholders; (D) the inconvenience and safety/ risk and other hazards, which the freeze of works may pose to the airport operations and the other stakeholders; and (E) the impact of freeze on national growth and prosperity. As stated above, IATA and all the stakeholders, including AERA must be aware of the efforts being taken by not only the Government of India, but also all major governments of the world wherein both prevention and cure are being developed. As it is well known to everybody that some of the prevention and cure possibilities are in advanced stages of development and in fact, in some places, mass manufacturing of such prevention measures has also begun. Therefore, the situation may improve drastically and stating to close all the projects, which are of national importance is totally wrong, against national interest.

Further we have also noted that CAPEX freeze has not been applied on other projects across the world. In fact, the reduction in aircraft movements and passengers has freed up time and space to enhance infrastructure at airports such as Amsterdam Schipol, Vienna Airport, unveiling of parallel runway and beginning of next phase of Brisbane Airport etc. Meanwhile, airports in Hong Kong, Norway, UK, Ecuador, Mexico etc. are using this time to trial and implement new technologies.

Para 3:

IATA's statement w.r.t Phase 3A Development on pre-COVID levels of demand is not applicable at present due to the Covid-19 situation, is incorrect and misplaced, as explained above in response to Paras 1 and 2. Herein, IATA has again reiterated on capital freeze, which in the opinion of DIAL is not only against the interest of the country, as we would be caught on the wrong foot when the demand picks up and also comes with additional cost. It is also required to be understood by IATA that

Economic Regulatory Authority of India

deferment of projects, which are in progress and have attained progress of the order of 25% will have high cost impact as there will be large scale demobilization and remobilization of manpower, machinery and other resources. Such a recommendation of IATA appears to have been taken without understanding of how the construction industry works and various impediments posed due to stoppage of works in-between and restarted after a certain gap of time. If such a decision is taken, there will be huge cost impact w.r.t goods and equipment that have already been manufactures, delivered to site, in-transit or under fabrication at various plants across the world.

DIAL therefore completely rejects such idea wherein, the country at large, and Airlines in particular will be suffering.

Para 4:

IATA indicated the requirement of AUCC. It appears that IATA has complete disregard to the process of consultation that DIAL has taken before going for project bidding with all stakeholders, records of which have been already submitted to Authority. In the opinion of DIAL, such statement of IATA w.r.t inadequate consultation is completely incorrect and misleading.

Multiple stakeholder consultation sessions were held on 27th September, 2017, 28th September, 2017 and 3rd October, 2017, each having representation from IATA, AOC, Airlines and other Airport Users. The MDP was developed further to finalization of the Master Plan 2016 in consultation with stakeholders such as Ministry, AAI, other Government entities, IATA, Airlines etc. It is further stated in the minutes that the objective of the meeting was to present the MDP and take stakeholders' inputs before finalization, which is in direct contravention of IATA's claim that the session was conducted with a non-consultative agenda.

DIAL has carried out multiple rounds of discussions with representatives of IATA as well as Airlines and Passenger Associations. ***In fact, the meeting held on 3rd October 2017 was held at the specific request of IATA and Indigo, wherein the MDP was presented to IATA and Indigo representatives.*** *Further, upon IATA's request, another session was organized on 30th October, 2017 for presentation of MDP to Assistant Director, Airport Development, APCS, IATA. This clearly demonstrates the baselessness of IATA's allegation that DIAL demonstrated disregard for genuine consultation.*

It may also be seen that specific queries raised by IATA and Airlines and their responses by DIAL include, but are not limited to the following which were culminated to the minutes of meeting:

Query Raised	***DIAL response***
Adequacy of number of CUSS machines	*Originally 40 CUSS machines were planned, same can be increased to 108 nos. including 36 nos. SBD*
Airlines' request for adequate office space	*DIAL conveyed the availability of the same*
Airlines' request for bigger and more FIDS	*DIAL agreed to examine the same*
Adequate queuing area for passengers	*DIAL agreed to incorporate the same*
Provisioning of GPU and PCA	*DIAL conveyed the availability of the same*
Inter-terminal mobility due to increased domestic passenger traffic	*DIAL conveyed that there is a provision for Automatic People Mover (APM) between T1 and T3, which would be taken up in a future phase of*

	expansion, subject to project feasibility and approval by competent authorities
IATA's query regarding traffic projection	*DIAL conveyed that traffic had increased at a higher rate than that projected in the Master Plan report but was expected to taper off and balance out with forecast figures. Considering traffic growth and stakeholder inputs, DIAL designed T1 considering 35-40 MPPA against Master Plan recommendation of 30 MPPA*
Rationale for demolition of T1C	*DIAL conveyed that demolition of T1C was necessary due to the building's age and quality of concrete used (M20). IATA agreed that it would be cheaper and faster to demolish and re-construct a modernized building than refurbish and strengthen the existing building.*
IATA stated that there should be no columns between baggage belts in Arrivals	*DIAL clarified that it would be factored in the design*
IATA's suggestion to consider Body Scanners	*DIAL agreed to consider it during project implementation stage*
IATA's query on capital costs of Phase 3A	*DIAL clarified that MDP, BOQs and cost have been submitted to AERA. Further details to be shared by AERA for stakeholder consultation.*
International best practice – formation of working committee for project phasing	*Flights Operation and Planning Committee (FOPC) formed under guidance of MoCA, chaired by CEO-DIAL and co-chaired by AAI with members from various airlines operating out of Delhi*

It is evident from the above that sufficient discussions were held with IATA, details of MDP were provided and queries were responded. Besides the above queries IATA members had also given some suggestions on separate emails which were also duly considered. However, their claim of having sent further queries vide letter dated 20th Dec 2017 is totally denied. DIAL never received such letter from IATA or AOC. The level of detail of discussion was definitely not on a superficial or lip service. DIAL takes strong objection to such comments. The presentation itself was meticulously detailed, and included all technical details, tentative phasing and schedule etc. and clarifications were provided both in MDP document as well as Q&A session with the stakeholders. Clearly, the various sessions that were conducted were interactive in nature, with all available and relevant details shared and all feedback suitably recorded and addressed by DIAL.

Para 5:

IATA's comment on adhering to AERA's protocol vis-à-vis DIAL's willingness to work collaboratively with stakeholders, DIAL would like to clarify and put it on record that required consultation process *has been followed as explained above. DIAL has systematically taken everybody along the path of project development, described the project CAPEX to AERA, process of project cost discovery along with various project impediments to the consultant appointed by AERA in a very transparent and open manner. Statement of IATA that DIAL has not carried out structured interaction is totally incorrect and has no basis.*

Need for re-development of terminal 1 and airside facilities has been explained and dealt in detail during almost entire year of 2017, in the deliberations amongst DIAL, airlines operating from Terminal 1 and the Ministry of Civil Aviation, when the proposal of shifting of airlines operating from Terminal 1 to Terminal 2 was being contested by them and also during the proceedings before the court in the writ petition preferred by Indigo Airlines in Oct, 2017 to challenge the decision to shift the airlines from T1 to T2. The commencement of entire phase 3A development works got extended by almost one year to resolve this issue, but for which the developments would have been at much advanced stage of completion.

Para 6, 7 & 8:

IATA's statement w.r.t submission of pre-determined plans and sharing of only high level information to airlines once again establishes IATA's intention of working against the interest of the country at large as the statement is totally a figment of someone's imagination.

Accordingly, IATA's statement of DIAL's disregard to consultation is totally baseless as there were numerous meetings, sharing of data and personal meeting with senior representatives of DIAL to understand the project requirements, which have already been established by DIAL. DIAL therefore totally rejects the baseless allegations of IATA regarding inadequate consultation, only high level data sharing with the airlines, pre-determined outcomes, not seeking airline's requirements, not building consensus, not sharing project cost, no attempt to consult at key project stages etc. This has already been clarified in the above stated paras.

DIAL's response to IATA's recommendations:

IATA's recommendations on the following points such as immediate stoppage of projects, sufficient time for thorough assessment of projects, comprehensive traffic forecast, Phase 3A business cases w.r.t viability of project cost etc., review of Master Plan, review of essential investments, selective investment are actually based on complete derailment of the country's self—sufficiency towards meeting aviation growth. If such a recommendation is even considered for review, it will be totally disastrous and set IGI Airport back to 2013-14 when the Master Planning exercise was commenced. It appears that IATA has not given a thought to the progress of the country at large and how IGI Airport can work as a growth engine supporting airlines.

Even considering the COVID-19 situation, it may be perused that the primary areas of expansion stand to benefit domestic aircraft and passenger movements (expansion of domestic terminal and its apron, enhancement of runway and taxiway network for aircraft circulation improvements, enhancement of road network serving various terminals). Domestic flight operations have already begun and expected to steadily rise. Phase 3A Works completion will overlap the expected traffic trigger, thereby keeping DIAL ideally placed to tackle the aircraft and passenger traffic. Conversely, delay in resumption of the project would leave DIAL and airlines scrambling to meet capacity demands in a complex operating airport environment

The whole process started long back and each and every stakeholder was taken into confidence at appropriate stages and in a timely manner. Therefore, AERA is requested to totally reject such misplaced ideas and recommendations of IATA.

DIAL's response to IATA's comments on consultation documentations:

With regard to IATA's recommendations on the total project fees, deployment of Independent Consultant for capital efficiency, scrutiny of capital cost, not agreeing to lump sum contract, maintaining service levels and operational disruption in AERA's cost estimate, allegation w.r.t limited details of project, not sharing of Terminal concepts and options, details of 4th Runway, reduction of runway width to 45m, confirmation of inclusion of AGL pits and ducts, questioning the requirement of 4th Runway, raising questions on Eastern Cross Taxiway wrt cost, benefit etc. having no insight of Landside connectivity, review of Terminal 3 along with airlines and lastly review of CAPEX projects through AUCC, DIAL would like to finally put the clarifications for the kind perusal of AERA:

i. The way IATA has structured their response, it appears that their approach is somehow to stop the readiness of IGI Airport to meet the future demand of passenger growth, country's economic advancement, not considering the fact of technical consultations carried out by DIAL with all the stakeholders, including Ministry of Civil Aviation, wherein airlines representatives and other User organizations were also present.

ii. Systematically, the observations and stakeholders were noted and clarified.

iii. Details of project development in phases and interfaces with operating systems were explained to all the concerned parties.

iv. Comprehensive interactions with AERA's appointed consultant, detailed review by them, numerous correspondences w.r.t technical parameters, development of framework of the IGI Airport expansion, basis of expansion, limit of expansion, cost of expansion have been discussed and analyzed to the extent possible.

v. In the scenario that the Covid-19 pandemic had not disrupted not only the expansion works but also the world's day-to-day functioning, DIAL would have completed a few of the key project milestones.

vi. IGI Airport being a highly complex operating environment, DIAL believes that during this time, there is an opportunity to fast-track the expansion works so that once pre-COVID levels of traffic and passenger movement are achieved, IGI Airport would be fully equipped to handle the operations as well as be future-ready.

Further, the letter referred to by IATA dated 20th December 2017 has never been received by DIAL. However, the entire concerns have already been addressed and there remains no doubt that adequate consultation has been done in case of DIAL."

4.4.5 DIAL also pointed out IATA's suggestion of considering zero depreciation on assets which are closed during Covid-19 pandemic as baseless. The detailed reasoning of DIAL is as follows;

"The suggestion provided by IATA are baseless and doesn't have any sound logic. The regulatory principles are enshrined under the OMDA for calculation of each building block which do not allow any such treatment of a depreciation pause. In an attempt to reduce tariff by any means IATA's response lacks merit. It may also be perused that no asset has come to a complete halt for the entire useful life.

Airports Economic Regulatory Authority of India

Further, depreciation in regulatory building block is for recovery of investment made. Any deferment will lead to delay of recovery and higher tariff in future. Current practice is in line with the tariff principal laid down in the concession agreement hence should not be deviated."

DIAL's Response to AOC's comments on Regulatory Asset Base and Depreciation for the Third Control Period

4.4.6 DIAL responded to AOC's comments by stating that multiple stakeholder consultation sessions were held with representation from several airport users before going for project bidding. DIAL also mentioned that putting a freeze on packages 1-4 of Phase 3A expansion would put the project on jeopardy as implementation of the project is already in progress.

With regards to AOC's comment on reconsidering the cost incurred due to delay of 10 months, DIAL responded that Phase 3A project is highly complex and was awarded by DIAL to the EPC Contractors by following international bidding. Thus, the cost arrived at by DIAL ought to be considered by the Authority.

The detailed response by DIAL in this regard is as follows;

"i. AOC indicated the requirement of AUCC. It appears that AOC has complete disregard to the process of consultation that DIAL has taken before going for project bidding with all stakeholders. In the opinion of DIAL, such statement of AOC with respect to the inadequate consultation is completely incorrect, misleading and against the best interest of airlines and passengers.

Multiple stakeholder consultation sessions were held on 27th September, 2017, 28th September, 2017 and 3rd October, 2017, each having representation from IATA, AOC, Airlines and other Airport Users. The MDP was developed further to finalization of the Master Plan 2016 in consultation with stakeholders such as Ministry, AAI, other Government entities, IATA, Airlines etc. It is further stated in the minutes that the objective of the meeting was to present the MDP and take stakeholders' inputs before finalization, which is in direct contravention of AOC's claim that the session was conducted with a non-consultative agenda.

DIAL has carried out multiple rounds of discussions with representatives of AOC, IATA as well as Airlines and Passenger Associations. This clearly demonstrates the baselessness of AOC's allegation that DIAL demonstrated disregard for genuine consultation.

Adequacy of number of CUSS machines	*Originally 40 CUSS machines were planned, same can be increased to 108 nos. including 36 nos. SBD*
Airlines' request for adequate office space	*DIAL conveyed the availability of the same*
Airlines' request for bigger and more FIDS	*DIAL agreed to examine the same*
Adequate queuing area for passengers	*DIAL agreed to incorporate the same*
Provisioning of GPU and PCA	*DIAL conveyed the availability of the same*
Inter-terminal mobility due to increased domestic passenger traffic	*DIAL conveyed that there is a provision for Automatic People Mover (APM) between T1 and T3, which would be taken up in a future phase of expansion, subject to project feasibility and approval by competent authorities*

IATA's query regarding traffic projection	DIAL conveyed that traffic had increased at a higher rate than that projected in the Master Plan report but was expected to taper off and balance out with forecast figures. Considering traffic growth and stakeholder inputs, DIAL designed T1 considering 35-40 MPPA against Master Plan recommendation of 30 MPPA
Rationale for demolition of T1C	DIAL conveyed that demolition of T1C was necessary due to the building's age and quality of concrete used (M20). IATA agreed that it would be cheaper and faster to demolish and re-construct a modernized building than refurbish and strengthen the existing building.
IATA stated that there should be no columns between baggage belts in Arrivals	DIAL clarified that it would be factored in the design
IATA's suggestion to consider Body Scanners	DIAL agreed to consider it during project implementation stage
IATA's query on capital costs of Phase 3A	DIAL clarified that MDP, BOQs and cost have been submitted to AERA post stakeholder consultation. Further details to be shared by AERA for stakeholder consultation.
International best practice – formation of working committee for project phasing	Flights Operation and Planning Committee (FOPC) formed under guidance of MoCA, chaired by CEO-DIAL and co-chaired by AAI with members from various airlines operating out of Delhi

It may also be seen that specific queries raised by all stakeholders and their responses by DIAL include, but are not limited to the following which were culminated to the minutes of meeting:

It is evident from the above examples that the level of detail of discussion was definitely not on a superficial or high level. The presentation itself was meticulously detailed, and included all technical details, tentative phasing and schedule etc. and clarifications were provided both in MDP document as well as Q&A session with the stakeholders. Clearly, the various sessions that were conducted were interactive in nature, with all available and relevant details shared and all feedback suitably recorded and addressed by DIAL.

As regards to the suggestion of curtailment of project it is stated that such curtailment would not only jeopardize the capacity enhancement of IGI Airport, which should be ahead of demand, notwithstanding the delay due to Covid-19, but also increase the cost of project as the whole project implementation is in full swing. Any reduction in scope due to fear of Covid-19 would require compensation to the Contractors, sub-contractors, manufacturers etc. and their remobilization at a later date to meet the enhanced capacity would also come at a cost. Therefore, any knee-jerk reaction to put the project works on freeze would be totally inappropriate, against the interest of country's progress and ability to meet enhanced demand by IGI Airport, incurring unnecessary cost due to demobilization and remobilization of various resources, putting burden on the stakeholders, end users and mainly on airport operator.

ii. The overall project is based on certain sequencing against a fixed timeline, which has again been determined after extensive consultation with various stakeholders and approvals from statutory and regulatory authorities to ensure appropriate steps of meeting passenger requirements. Therefore,

Economic Regulatory Authority of India

stoppage of Package 1-4 works would only put the whole project in jeopardy considering that construction work has been taken up at all fronts. Further, as explained above, such stoppage would not only increase the costs but also cause huge inconvenience to the airlines and passengers.

iii. Please see comment ii) above.

iv. The process of any project development takes time, more so in the case of Phase 3A, which is a highly complex project with multiple interfaces and stakeholders in an operating airport. DIAL has awarded phase 3a project following international bidding, accordingly the cost arrived at actual should be considered by the Authority.

Further, need for re-development of terminal 1 and airside facilities has been explained and dealt in detail during almost entire year of 2017, in the deliberations amongst DIAL, airlines operating from Terminal 1 and the Ministry of Civil Aviation, when the proposal of shifting of airlines operating from Terminal 1 to Terminal 2 was being contested by them and also during the proceedings before the court in the writ petition preferred by Indigo Airlines in Oct, 2017 to challenge the decision to shift the airlines from T1 to T2. The commencement of entire phase 3A development works got extended by almost one year to resolve this issue, but for which the developments would have been at much advanced stage of completion."

DIAL's Response to BAOA's comments on Regulatory Asset Base and Depreciation for the Third Control Period

4.4.7 DIAL's response to BAOA's comment regarding Phase 3A Expansion project is as follows;

"BAoA has supported the phase 3a development plan of DIAL. BAoA categorically mentioned that,

> *"..there should be no let up in the pace of development and expansion of infrastructure at DIAL due to COVID-19 situation. The additional and improved infrastructure being created at DIAL would be required soon after the COVID-19 situation gets under control with availability of vaccine, hopefully by mid of next year. Therefore, it would be advisable to use the present lean period of flying to accelerate the pace of infrastructural development at DIAL as per the approved master plan"*

We are in fully agreement with BAoA on this suggestion. Worldwide many airport are taking this pandemic time to improve their infrastructure and capacity so that they are ready for the recovery period and to fuel the economic growth."

4.4.8 DIAL's response to BAOA's comment regarding discussion of Master Development Plan is as follows;

"In the context of discussion on master plan of DIAL we would like to submit that DIAL is a responsible airport operator and every time as part of expansion plan DIAL has followed the terms of the concession agreement and put forth the proposed plan for stakeholder comments and followed the process laid down in the concession agreement. Also, the inputs received from various stakeholders have been taken in to account and suitably incorporated in the respective master plan."

4.5 Authority's Examination on Stakeholder Comments regarding issues on RAB and Depreciation for Third Control Period

4.5.1 Authority has taken note of DIAL's revised MYTP submission regarding delay in project completion, which is as follows;

"The pandemic has a severe impact on the construction activities undergoing for Phase-3A expansion, and has faced major challenges during lockdown imposed for almost 2 months as summarized as under:

- *Strict lockdown imposed in phases by GoI from 22nd Mar'20 to 17th May'20 resulting in complete stoppage of construction work*
- *In the 4th phase of lockdown from 18th May'20 to 31st May'20 work was permitted up to 7 PM only every day with workmen residing on site. During this phase workmen were permitted to return to their native places by GoI. As most of the skilled/unskilled labours deployed are migrant workers from various states like U.P, Bihar, Orissa, Maharashtra, Tamil Nadu, etc. nearly 75% of workmen have left for their native places.*
- *Present strength is around 1200 against the peak strength of 4800 prior to COVID situation.*
- *In addition to lock down time, it is expected that it would take another 2 to 3 months' time for re-mobilization of workmen presuming there is no further deterioration in the pandemic situation.*
- *Further loss of productivity is expected due to strict enforcement of social distancing norms and various other restrictive measures being undertaken to curb the spread of the epidemic.*
- *Severe Impact of Covid-19 Pandemic and its effects are continuing.*
- *Frequent closure of Delhi state borders with neighbouring states affecting availability of engineering and supervising staff.*
- *Delivery of long lead items are impacted and there is difficulty in the availability and/or delivery of construction materials and other resources.*

Apart from COVID-19 the project schedule also impacted due to unprecedented ban by NGT on construction work. During 2019 the construction activities in Delhi NCR were banned from 26th Oct 2019 to 10th Dec 2019. Also the logistic and operational challenges also impacted the project schedule.

At the present stage we have a terminal capacity of 66 mppa. The capacity would need a correction due to constraints imposed as an outcome of the COVID and associated social distancing norms. However, as our traffic would reach 73 Mn in the year 2023-24 we would still require to complete the project in advance to cater to the traffic and OMDA covenants.

Accordingly, DIAL has conducted extensive discussions with the EPC contractor and considering the current scenario we have revised the project timeline for phase 3a. The EPC contractor indicated the time extension claim on this account however same is yet to be ascertained and will be informed to the Authority in due course of time.

The capitalization plans have therefore been postponed by one year and the corresponding impact on the RAB has been made in the revised submission attached herewith. "

4.5.2 Authority has also examined the comments made by IATA, AOC, BAOA and the response to their comments by DIAL regarding the freeze and review of Expansion Capex. In this regard, Authority is in agreement with DIAL and BAOA that the expansion of airport should not be put on hold as the traffic for the airport is expected to reach the pre-COVID levels within the next two years and post the same is expected to follow the past growth trajectory which would require the presence of the added capacity expansion facilities for efficient and effective handling of traffic. Authority is of the view that the current Covid-19 pandemic which has resulted in a massive drop in traffic could be utilized to expedite the construction activities in the airport.

4.5.3 Authority is of the view that capex projects being long term in nature should not be withheld or suspended due to temporary phenomenon including the pandemic which is expected to not have a consistent long-lasting impact on the traffic in the long-term future. The necessity for capex for Phase 3A could be questioned if there is enough justification that the traffic handled pre-COVID shall never be achieved. However, such a prediction could mean that economic growth will also come to a halt in the future and will never be able to achieve the earlier achieved levels. As such a prediction cannot be justified, Authority considers that the capex schedule for Phase 3A expansion has to be considered with the necessary delays due to Covid-19 as submitted by the airport operator.

Authority would like to add that given the magnitude of the capex that is being undertaken by DIAL, mandating a complete freeze on all capex activities could indeed lead to a much higher escalation in costs associated with delay and could in the end lead to a much higher cost burden being passed on to the passengers. Authority has hence decided to consider the timelines as submitted by DIAL for the capex for Phase 3A expansion which have been assessed post impact of COVID pandemic.

4.5.4 Authority has looked at IATA's comments on consideration of Inflation and GST components and would like to clarify that inflation and GST components have been allowed only over the cost estimate assessed by the independent study to account for the timing of commencement of capex incurrence and mandatory GST outgo and no additional benefit has been provided to DIAL regarding the same. Authority would also like to state that it had considered the inflationary impact of 6.31% on Project Cost by considering the change in CPWD rates at the time of initial cost estimates by KITCO (CPWD cost index is 111 as on 01/04/2017) and the commencement of Capex (CPWD cost index is 118 as on 01/04/2019).

4.5.5 Authority has carefully examined the comments of various stakeholders including DIAL, MIAL, APAO, FICCI, and PHDCCI pertaining to consideration of Phase 3 A project cost submitted by DIAL. Authority has noted that despite the Covid-19 pandemic, DIAL has not revised the cost it would incur due to the delays caused in implementation of the expansion plans on account of the Covid-19 pandemic. However, DIAL has revised the capex phasing for the Phase 3 A expansion cost shown in the table below;

Table 88: Revised Capex Phasing submitted by DIAL for Phase 3 A Project

FY ending March 31 (Rs. Cr)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
Aero - (a)	60.50	1,711.21	1,901.49	2,305.01	2,526.82	920.60	9,425.64
Non-Aero - (b)	2.29	64.72	45.22	89.85	79.44	74.99	356.51
Total (c) = (a) + (b)	62.79	1,775.93	1,946.71	2,394.86	2,606.26	995.59	9,782.15
Add: Financing allowance	3.45	104.58	309.33	459.80	432.32	180.72	1,490.20
Aeronautical asset (d)	*3.33*	*100.77*	*302.14*	*442.55*	*416.10*	*167.11*	1,432.00
Non-Aeronautical Asset (e)	*0.13*	*3.81*	*7.19*	*17.25*	*16.22*	*13.61*	58.21
Total (including Financing Allowance)	66.24	1,880.51	2,256.04	2,854.66	3,038.58	1,176.31	11,272.35
Aeronautical Portion of Capex Phasing (a+d)	**63.83**	**1,811.98**	**2,203.64**	**2,747.56**	**2,942.92**	**1,087.71**	**10,857.64**

Authority considers the cost proposed for Phase 3A expansion in Consultation Paper No. 15/2020-21 to be the efficient cost and would consider the same for the project cost proposed, taking into consideration the revised phasing as submitted by DIAL based on which there is a shift in capex and capitalization of the assets by a year. Authority is of the view that the costs considered by the independent study adjusted for inflation and GST components to be the efficient cost unless DIAL is able to substantiate based on actuals and with proper justification if the cost incurred is higher than the cost considered by the Authority. Authority would like to submit that such consideration will be looked at the time of true up for the Third Control Period while determining tariff for Fourth Control Period. Considering a higher cost, not justified currently based on independent assessment at the time of tariff determination for the Third Control Period, would unnecessarily burden the passengers utilizing the airport during the Third Control Period.

Thus, Authority has decided to consider the total cost for Phase 3A expansion as Rs. 9,126.42 Cr. Consistent with its proposal in Consultation Paper No. 15/2020-21, any increase in cost beyond this level would be considered at the time of tariff determination for the Fourth Control Period if the Authority finds the reasons for such increase to be justifiable with adequate evidence. The package-wise cost for Phase 3A expansion can be seen in Table 81 of this Tariff Order.

4.5.6 With regards to General Capex, Authority has observed that DIAL has deducted Rs. 200 Cr incurred on the new office building in its revised submissions. Authority has also noted that on account of the ongoing pandemic, DIAL has revised the year-wise phasing for the General Capex in the table below;

Table 89: General Capex submitted by DIAL for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
General Capex	**229.92**	**292.12**	**526.49**	**103.16**	**299.98**	**1451.68**
Aeronautical Capex	220.18	262.51	511.46	91.97	267.43	1353.56
Non-Aeronautical Capex	9.74	29.61	15.03	11.19	32.55	98.12

4.5.7 Authority has examined the above submission by DIAL and has decided to consider the same as it is consistent with Authority's proposals in the Consultation Paper with only the phasing adjusted on account of the COVID pandemic. The General Capex also includes the capex of Rs. 19 Cr towards procurement of aircraft recovery kit, Capex pertaining to Body Scanners mandated by BCAS which was estimated as Rs. 154 Cr, the cost of Rs. 150 Cr pertaining to the underpass at Shiv Murthy NH 8 (as an enabling cost for Phase 3A Expansion which is 50% of the total cost of Rs. 300 Cr) as considered in the Consultation Paper for the Third Control Period.

4.5.8 The allocation ratio amongst General Capex has been considered as per the proposal in the Consultation Paper. The revised General Capex decided by the Authority is shown in the table below;

Table 90: General Capex decided to be considered by Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
General Capex	**229.92**	**292.12**	**526.49**	**103.16**	**299.98**	**1,451.68**
Aeronautical Capex	220.18	260.46	488.20	91.97	267.43	1,328.24
Non-Aeronautical Capex	9.74	31.66	38.29	11.19	32.55	123.43

Consistent with Consultation Paper No. 15/2020-21, Authority has also decided to true up the asset addition to RAB including General Capex based on actuals during tariff determination for Fourth Control Period.

4.5.9 Authority has considered the comments made by DIAL pertaining to allowance of Financing Allowance as per AERA Tariff guidelines. Authority has noted that the financing allowance considered by DIAL has considered the CWIP which is being funded by both debt and equity while calculating

Airports Economic Regulatory Authority of India

financing allowance. Authority is of the view that only Interest During Construction (IDC) should be considered as part of aeronautical RAB for airport operators whose tariff determination methodology is prescribed as per the SSA.

As per the SSA, Regulatory Base pertaining to aeronautical assets should not include CWIP to the extent not capitalized in fixed assets. As stated in Consultation Paper No. 15/2020-21, Financing Allowance is a notional allowance and doesn't form part of actual investment undertaken by DIAL. Hence, only the actual IDC can be considered as part of RAB. This decision is also consistent with the past decisions taken by the Authority concerning airport operators of Delhi and Mumbai.

Consistent with the proposal in Consultation Paper No. 15/2020-21, Authority has calculated the IDC incurred by DIAL on prudent means of financing the capex, wherein the internal accruals and RSD raised shall be utilized to fund the capex initially post which the debt instruments shall be drawn. The bond instrument of USD 350 Mn raised by DIAL in June 2019 and the additional bond instrument worth USD 150 Mn raised in February 2020 shall be utilized prior to drawdown of fresh RTL debt. Thus, the Interest During Construction decided to be considered by Authority is shown in the table below;

Table 91: IDC decided to be considered by the Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2022	2023	2024	Total
Total debt drawn towards funding Phase 3 A Capex	892.26	2,687.05	1,064.15	4,643.46
Cumulative debt drawn towards funding Phase 3 A Capex	892.26	3,579.31	4,643.46	
Cumulative Debt utilised towards capitalised assets	214.74	2,292.71	4,643.46	
Cumulative Balance debt utilised towards CWIP	677.52	1,286.60	-	
Interest Rate	9.92%	9.95%	10.00%	
IDC pertaining to assets capitalised in the year	10.65	103.42	181.87	295.94
IDC pertaining to CWIP	33.60	97.76	-	131.36
Total IDC	**44.26**	**201.18**	**181.87**	**427.31**

Authority, consistent with its proposal in Consultation Paper No. 15/2020-21, has decided to not consider any IDC for the General Capex incurred. Authority has decided that the IDC considered towards RAB would be only towards Expansion Capex.

4.5.10 Authority has observed that DIAL has raised an additional Bond instrument worth USD 150 Mn towards funding the capex during Third Control Period. Authority has considered the cost of debt for the USD 150 Mn bond as 10.60% consistent with DIAL's submission. For the already availed Bond instrument and Rupee Term Loan, the cost of debt considered by Authority are 9.92% and 10.00% respectively consistent with Authority's proposal in Consultation Paper No. 15/2020-21. Authority has also noted that the cost of debt for the additional USD 150 Mn bond is 10.60% which is greater than the effective cost of debt considered for DIAL in the past. In this regard, Authority would like to state that DIAL has to raise funds efficiently by considering cheaper sources of funding and the same shall be examined by the Authority at the time of true up for the Third Control Period while determining tariff for the Fourth Control Period.

4.5.11 Authority has noted the comments made by MIAL pertaining to the removal of upper cap of 50 bps on the true up of cost of debt in subsequent Control Periods. In this regard, Authority would like to state that the upper cap on the effective cost of debt would incentivize DIAL to look at low-cost sources of funding thereby keeping cost of debt at lower levels while at the same time reducing the burden on

Economic Regulatory Authority of India

airport users. Hence Authority, has decided to retain the upper cap of 50 bps while truing up the cost of debt on actuals during the subsequent Control Periods subject to assessment of efficiency of the same.

4.5.12 Authority has also decided to consider the allocation ratio of 89.16% towards aeronautical portion of Common Assets based on the recommendations of the independent study, consistent with Authority's stand in Consultation Paper No. 15/2020-21.

4.5.13 The revised means of finance considered by DIAL for funding the project cost including General Capex is in the table below;

Table 92: Revised Means of Finance submitted by DIAL for Third Control Period

Particulars	Rs. Cr
Project Cost	
Phase 3A Expansion Capex	9,782.15
Financing Allowance	1,490.20
Total Expansion Capex	11,272.35
General Capex	1,451.68
Total Capex	**12,724.03***
Means of Finance	
Internal Accrual and RESD**	4,910.00
Debt - RTL Proposed	4,315.21
Foreign Currency Bond - USD 350 Mn	2,424.45
Foreign Currency Bond – USD 150 Mn	1,075.35
Total Means of Finance	**12,724.03**

**includes Rs. 62.69 Cr already incurred in the Second Control Period and shown as CWIP which has been funded out of cash accruals. Further financing allowance pertaining to this is also captured under the Total Capex which brings the Total Capex already incurred in the Second Control Period shown as CWIP by DIAL to Rs 66.24 Cr.*
***includes Rs. 3472 Cr of cash accruals and Rs. 1438 Cr of funds from Refundable Security Deposits*

4.5.14 Authority has carefully analyzed DIAL's submissions pertaining to Means of Finance of Capex for the Third Control Period and has considered the actual cost incurred by DIAL for both Expansion Capex and General Capex in FY20. The phasing of Expansion Capex for the years beyond FY20 has been considered in proportion to the phasing of capex considered by DIAL in Table 88, while the cost has been considered consistent with the Authority's proposal as per the Consultation Paper for the Third Control Period. The revised phasing of capex and means of finance considered by Authority for the Third Control Period is shown in the table below;

Table 93: Revised Phasing of Capex and Means of Finance decided to be considered by Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2019	2020	2021	2022	2023	2024	Total
Project Cost							
Expansion Capex	62.79	1,775.93	1,748.90	2,170.65	2,485.86	882.29	9,126.42
IDC*	-	-	-	44.26	201.18	181.87	427.31
General Capex	-	229.92	292.12	526.49	103.16	299.98	1,451.68
Total Project Cost	**62.79**	**2,005.85**	**2,041.02**	**2,741.40**	**2,790.21**	**1,364.14**	**11,005.40**
Means of finance							-
Cash accruals	62.79	1,775.93	1,633.28	-	-	-	3,472.00
Refundable Security Deposit**	-	-	115.62	1,322.65	-	-	1,438.27
Debt Drawdown							
Rupee Term Loan towards Phase 3A Expansion			-	-	1,154.86	1,064.15	2,219.01

FY ending March 31 (Rs. Cr)	2019	2020	2021	2022	2023	2024	Total
USD 350 Mn Bond towards Phase 3A Expansion			-	892.26	1,532.19	-	2,424.45
Rupee Term Loan towards General Capex	-	-	-	-	76.34	299.98	376.33
USD 150 Mn Bond towards General Capex	-	229.92	292.12	526.49	26.82	-	1,075.35
Total Means of Finance	**62.79**	**2,005.85**	**2,041.02**	**2,741.40**	**2,790.21**	**1,364.14**	**11,005.40**

**IDC has not been calculated for General Capex as DIAL has not claimed any financing allowance/IDC towards the same. Hence IDC has been calculated only on Rupee Term Loan and Bond towards Phase 3 A Expansion which has been accumulated to Rs 4643.46 Cr as also arrived at as per Table 91.*

***DIAL has considered Refundable Security Deposit of Rs. 360 Cr in FY20 and Rs. 1078 Cr in FY22 as per their revised submissions.*

4.5.15 Authority has assumed that the debt availed by DIAL would only be utilized after the available funds (including RSD) are exhausted for funding Expansion Capex and the IDC pertaining to the debt. Authority has assumed that the General Capex would be funded by the bond instrument worth USD 150 Mn entirely with the remaining General Capex in FY23 and FY24 to be funded by Rupee Term Loan. Authority has noted DIAL's comments on the cost incurred on account of raising the USD Bond Facility and the regulatory guidelines which mandate that the same be utilized prior to other sources. Authority is of the view that given the information available and the necessity to fund the capex, DIAL should endeavor to utilize the means of finance such that the cheaper sources of funds are utilized first. However given the practical issues the operator might face in utilizing the cheapest source of financing prior to resorting to a higher cost of financing, Authority shall decide to consider the IDC incurred based on actuals subject to submission of documentary evidence pertaining to the same, at the time of truing up for the Third Control Period as part of tariff determination for the Fourth Control Period.

4.5.16 Based on the above, the addition to RAB on account of the Expansion Capex and the General Capex considered by the Authority is shown in the table below;

Table 94: Addition to RAB decided to be considered by Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2019	2020	2021	2022	2023	2024	Total
Aero (a)	60.50	1,711.28	1,703.04	2,081.75	2,407.01	809.96	8,773.55
Non-Aero (b)	2.29	64.65	45.86	88.90	78.86	72.32	352.88
Total (c) = (a) + (b)	**62.79**	**1,775.93**	**1,748.90**	**2,170.65**	**2,485.86**	**882.29**	**9,126.42**
Add: IDC based on prudent means of finance	-	-	-	44.26	201.18	181.87	427.31
*Aeronautical asset (d)**	-	-	-	42.44	192.94	166.96	402.35
Non-Aeronautical Asset (e)	-	-	-	1.81	8.24	14.91	24.96
Total (including IDC)	62.79	1,775.93	1,748.90	2,214.91	2,687.05	1,064.15	9,553.73
Total addition to aeronautical assets from Phase 3A Expansion (a+d)	**60.50**	**1,711.28**	**1,703.04**	**2,124.20**	**2,599.95**	**976.92**	**9,175.89**
Additions to aeronautical assets from General Capex	-	**220.18**	**260.46**	**488.20**	**91.97**	**267.43**	**1,328.24**
Total additions to aeronautical assets	**60.50**	**1,931.46**	**1,963.50**	**2,612.40**	**2,691.92**	**1,244.35**	**10,504.13**
Total additions to aeronautical RAB (capitalized aeronautical assets)	-	**220.18**	**260.46**	**1,898.76**	**4,141.76**	**3,982.98**	**10,504.13**

**IDC has been apportioned towards aeronautical and non-aeronautical in the same proportion as aeronautical CWIP for the relevant year*

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

4.5.17 The Authority would like to bring to notice that the cumulative additions to RAB decided by Authority for the Third Control Period is Rs. 10,504.13 Cr against the requirement of Rs. 10,763.05 Cr proposed by Authority in Consultation Paper No. 15/2020-21. The major reason for the decrease has been on account of decrease in IDC due to the revised phasing as considered by the Authority in this Tariff Order, and the delayed commencement of the utilization of debt instruments consistent with the revised phasing, given the surplus cash accruals and RSDs available.

4.5.18 Authority has carefully examined the comments made by various stakeholders regarding the adjustment of 1% on the Phase 3A Project Cost at the time of true up during tariff determination for Fourth Control Period if the proposed Phase 3A project is not completed and made available to passengers before March 31, 2023. In this regard, Authority has considered DIAL's submissions, pertaining to the revised Phase 3A Project Cost phasing and postponing their capitalization plans by an year considering the current scenario, and has extended the expected date of completion for Phase 3A Project Cost by a year to March 31, 2024.

Authority would like to state that the airport users pay a considerable price to avail services at the airport and any delay beyond the extended date of completion of Phase 3A Project i.e. March 31, 2024 would result in the airport operator getting an undue advantage at the expense of the airport user as the airport operator would be able to recover the cost of investments without the investments happening in the first place or investment not culminating in asset capitalization. In this regard, Authority has decided to consider a provision for an adjustment to the extent of 1% on the Phase 3A Project Cost, while determining RAB in the case of any delay in capitalization of the project beyond March 31, 2024. Authority considers that such a provision would ensure that efficiency standards are maintained by the airport operator and dis-incentivize DIAL from allowing the Project getting delayed beyond the committed timelines for implementation of the Project thereby ensuring efficiency in the cost incurrence. The same is a balancing exercise which ensures that the airport operator meets the commitment to complete the Project as per the schedule submitted. Authority has also decided to monitor the status of implementation of Phase 3A Project and relook at the above provision at its discretion at the time of true up for the Third Control Period.

Authority has also decided to allow the IDC for consideration towards RAB pertaining to only capex for Phase 3A Expansion incurred until March 31, 2024 and not to consider any additional IDC in the event the capex extends beyond March 31, 2024, for reasons unjustifiable.

Authority is of the view that the above clauses are necessary to dis-incentivize the airport operator from delaying the Project and to implement the execution of the Project in a timely manner. The above treatment shall ensure efficiency in implementation of the Project and reduce the overall cost for the Project which could benefit all the stakeholders including the airport operator.

4.5.19 Authority, consistent with its proposal in Consultation Paper No. 15/2020-21, has decided to consider depreciation for expansion assets by considering a weighted average for depreciation for building and plant & machinery at a proportion of 65:35 respectively. The depreciation rate arrived at by the Authority is 4.51%. The depreciation decided to be considered for the Third Control Period has been revised from Authority's proposal in Consultation Paper No. 15/2020-21 concurrent with the revision in phasing and capitalization of capex and is shown in the table below;

Table 95: Depreciation decided to be considered by Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
Revised Depreciation for existing assets as submitted by DIAL	491.29	426.65	372.75	357.81	339.72	1,988.21
Revised Depreciation for existing assets as considered by Authority*	**496.74**	**443.35**	**388.40**	**373.58**	**354.93**	**2,057.00**
Revised Depreciation on HRAB as submitted by DIAL	24.73	22.04	20.40	21.63	22.64	111.44
Revised Depreciation on HRAB as considered by Authority	**24.57**	**21.71**	**19.25**	**19.15**	**19.09**	**103.77**
Revised Depreciation as submitted by DIAL for Expansion Capex	-	20.75	96.89	299.88	577.68	995.20
Revised Depreciation as considered by Authority for Expansion Capex#	**-**	**5.87**	**54.56**	**190.76**	**373.95**	**625.14**
Total Depreciation as submitted by DIAL as part of stakeholder consultation process	516.02	469.44	490.04	679.31	940.04	3,094.85
Total Depreciation as decided to be considered by Authority	**521.31**	**470.93**	**462.21**	**583.48**	**747.98**	**2,785.91**

** Depreciation for existing assets are higher than the ones submitted by DIAL on account of accelerated depreciation of Baggage Screening Related Assets which commenced only from FY 2019.*
 # Depreciation for Expansion Capex is considerably lower on account of adjustment in Expansion Capex estimate submitted by DIAL along with lower expected depreciation rates for the Expansion Capex

4.5.20 The Authority decides to true up the depreciation considered based on actuals at the time of tariff determination for the Fourth Control Period subject to the same corresponding to the efficient capex considered by the Authority for the Third Control Period. Authority has looked at DIAL's comments with regards to consideration of depreciation rate for FY 2019 as the depreciation rate for assets added in the Third Control Period and is of the view that the asset composition and the associated depreciation for FY 2019 may not be right indicator for the Expansion Assets proposed by DIAL in the Third Control Period. Since assets proposed to be added by DIAL in the Third Control Period are majorly on the aero side which has a lower depreciation rate on account of higher useful life, Authority doesn't see any merit in using the FY 2019 depreciation rate. Authority would also like to inform that the asset segregation ratios considered in the Third Control Period also have been updated considering the higher percentage of aeronautical assets proposed to be added in the Third Control Period, as proposed in the Consultation Paper.

4.5.21 Authority has also looked at IATA's comments on considering depreciation rates as nil for the assets not utilized by DIAL/temporarily shut down by DIAL in the Third Control Period and is of the view that such treatment would be unfair on the airport operator. The assets that are temporarily shut down will need to be maintained by the airport operator with the costs including debt servicing costs incurred by the airport operator and hence the depreciation rates as normally incurred pertaining to these assets have to be considered.

4.5.22 Authority has noted comments from stakeholders IATA, AOC and BAOA regarding lack of effective consultation with regards to Phase 3A Expansion by DIAL and has also noted DIAL's response to them regarding the same. In this regard, Authority has looked at DIAL's submission that DIAL had undertaken effective consultation with the stakeholders for Phase 3A Expansion and is also of the view that DIAL would initiate proper stakeholder consultation process whenever required in the future in the spirit of the detailed AERA guidelines.

4.5.23 Apart from the above, Authority has decided to continue with its proposals in Consultation Paper No. 15/2020-21 for RAB and Depreciation for Third Control Period. The revised Aeronautical RAB decided to be considered for tariff determination for Third Control Period by the Authority is in the table below;

Table 96: Aeronautical RAB decided to be considered by Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
Opening RAB (A)	4,771.83	4,640.92	4,452.16	5,907.96	9,485.38	
Addition Considered (B)	613.50*	260.46	1,898.76	4,141.76	3,982.98	10,897.45
Deletions (C)	15.62	-	-	-	-	15.62
DF adjustment on pro rata basis on account of ATC capitalisation (D)	232.05	-	-	-	-	232.05
Depreciation (E)	496.74	449.22	442.96	564.33	728.88	2,682.14
Closing RAB (F=A+B-C-D-E)	4,640.92	4,452.16	5,907.96	9,485.38	12,739.48	
Average RAB (ARAB= (A+F)/2)	**4,706.37**	**4,546.54**	**5,180.06**	**7,696.67**	**11,112.43**	**33,242.09**
HRAB						
Opening HRAB	218.84	194.27	172.56	153.31	134.16	
Depreciation HRAB (DHRAB)	24.57	21.71	19.25	19.15	19.09	103.77
Closing HRAB	194.27	172.56	153.31	134.16	115.07	
Average HRAB (AHRAB)	**206.56**	**183.42**	**162.94**	**143.74**	**124.62**	**821.26**
Total RAB Considered for Tariff (ARAB+AHRAB)	**4,912.93**	**4,729.96**	**5,342.99**	**7,840.41**	**11,237.05**	**34,063.35**

**The figure of Rs. 613.50 Cr in FY 2020 has been arrived at by considering the pro rate balance of Rs 393.32 Cr from FY 2019 and the general capex additions of Rs 220.18 Cr in FY 2020.Deducting the Rs 393.32 Cr from Rs 10,897.45 Cr would lead to Rs 10,504.13 Cr which is the actual asset addition pertaining to Phase 3 A Capex and General Capex.*

4.5.24 Based on the above, Authority has decided to consider RAB for tariff determination for Third Control Period by considering the Average RAB for each year of the Control Period. Authority has also decided to consider RAB, based on actual pro-rata additions during true up for Third Control Period (for which data is currently available only for the first year of the Third Control Period) while determining tariff for the Fourth Control Period, similar to the treatment carried out in the First and Second Control Period, subject to DIAL providing adequate justifications for any escalation in cost beyond the efficient cost considered by Authority for Phase 3A Expansion and General Capex.

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

4.6 Authority's Decisions regarding RAB and Depreciation for Third Control Period

Based on the material before it and based on its analysis, the Authority has decided the following with regards to Regulatory Asset Base and Depreciation for the Third Control Period;

4.6.1 Authority decides to consider the cost for Phase 3A expansion as Rs. 9126.42 Cr and shall consider any further escalation if submitted with reasons deemed justifiable at the time of tariff determination for the Fourth Control Period (Table 81). The phasing for the incurrence of the mentioned capex has been revised on account of COVID-19 pandemic with the project proposed to be completed by March 31, 2024.

4.6.2 Authority decides to consider only IDC incurred on account of financing Expansion Capex during Third Control Period based on prudent means of finance for funding the capex (Table 91). The same shall be trued up based on actuals subject to justifications provided at the time of tariff determination for the Fourth Control Period.

4.6.3 Authority decides to consider the cost of debt for the proposed Rupee Term Loan at 10.00% p.a. while the cost of debt with regards to the USD 350 Mn Bond instrument raised in June 2019 is considered at 9.92% towards calculation of IDC for Phase 3 A Expansion Project. The cost of debt shall be trued up on actuals subject to an upper cap of 50 bps on the weighted average effective cost of debt allowed for the Third Control Period post assessment of efficiency at the time of tariff determination for the Fourth Control Period.

4.6.4 Authority decides to consider General Capex as per the proposal in the Consultation Paper for the Third Control Period which includes the capex of Rs. 19 Cr towards procurement of aircraft recovery kit, Capex pertaining to Body Scanners mandated by BCAS which was estimated as Rs. 154 Cr, and the cost of Rs 150 Cr pertaining to the underpass at Shiv Murthy NH 8 as an enabling cost for Phase 3A Expansion (which is 50% of the total cost of Rs 300 Cr) (Table 90).

4.6.5 Authority decides to consider asset allocation ratio of 89.16% as aero for Common Assets (Para 4.5.12) and General Capex (Para 4.5.8) excluding aircraft recovery kit, body scanners mandated by BCAS and underpass at Shiv Murthy NH 8 (which have been considered as 100% aeronautical assets).

4.6.6 Authority decides to consider depreciation rate for Expansion Capex as 4.51% which shall be trued up based on actual depreciation (Para 4.5.19).

4.6.7 Authority decides to consider a provision for adjustment towards RAB to the extent of 1% of the Phase 3A Project Cost at the time of tariff determination for the Fourth Control Period if the proposed Phase 3A Project has not been completed and made available for the passengers before March 31, 2024. Authority shall also consider IDC incurred by the airport operator only till March 31, 2024 with additional IDC beyond March 31, 2024 considered only based on justification for the delay in completion of the Project beyond March 31, 2024. Authority has also decided to monitor the status of the Project and relook at the provision for adjustment on Phase 3A Project Cost at their discretion at the time of tariff determination for the Fourth Control Period (Para 4.5.18).

4.6.8 Authority decides to consider Average RAB while calculating RAB for tariff determination for Third Control Period (Table 96). Authority shall true up RAB and depreciation at the time of determination of tariff for the Fourth Control Period based on actual additions to RAB on a pro rata basis similar to the exercise carried out with regards to the true up of RAB for the First and Second Control Period. The above true up shall be subject to the reasonable justifications for any escalation in cost beyond the efficient cost as considered by AERA for Phase 3A expansion project.

Airports Economic Regulatory Authority of India

CHAPTER 5. WEIGHTED AVERAGE COST OF CAPITAL (WACC) FOR THIRD CONTROL PERIOD

5.1 DIAL's Submissions regarding Weighted Average Cost of Capital for the Third Control Period

Cost of Equity

5.1.1 DIAL submitted that the equity investment of Rs. 2,450 Cr towards the initial project cost shall continue and there are no plans of any additional equity investment from the promoters into DIAL.

5.1.2 DIAL submitted that in consonance with the requests under the First Control Period and the Second Control Period, cost of equity of 22.8% to be provided by grossing up a tax rate of 30% on the cost of equity of 16%.

5.1.3 DIAL indicated that the equity portion for the project cost associated with expansion activities shall be met through surplus funds available and hence there will not be any increase in the external equity investment. DIAL had accumulated internal accruals to the extent of Rs. 3,424 Cr till FY 2019 which shall be used to fund the Expansion Capex.

5.1.4 DIAL as part of the tariff submission for the Third Control Period had projected the equity base including the expected reserves and surplus in the table below;

Table 97: Equity Base submitted by DIAL for Third Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Book Value of Equity	2,450.0	2,450.0	2,450.0	2,450.0	2,450.0
Reserves and Surplus if positive	1,907.6	3,698.9	5,520.6	7,084.4	8,592.1
Total Equity	4,357.6	6,148.9	7,970.6	9,534.4	11,042.1

Cost of RSD

5.1.5 DIAL had raised RSD to the extent of Rs. 1,371.11 Cr as part of Phase I in which they had monetized 45 acres and had invested the money raised through non-transfer assets into the airport expansion project. DIAL mentioned that these assets were outside the regulatory till and it was not mandated for DIAL to use this funding for financing the project cost. Given the fact that these funds had been utilized for financing the project, DIAL insisted that they should be provided a fair return on these funds which had opportunity cost. DIAL also mentioned that these funds were quasi-equity by nature given their super long tenor and were being culled out from a bottom-line impacting revenue stream. The relevant portion of the tariff proposal is reproduced below;

"AERA in order no 3/2011-12 for first control period had allowed zero return over the money invested via RSD. DIAL had filed an appeal against the AERA order for first control period. The Appellate tribunal TDSAT on 23rd April'2018 has upheld that the RSD is eligible for return. The relevant extract of the para 106 of the order dated 23.04.2018 relating to the return on RSD is reproduced below:

"Clearly, in our opinion, this money has wrongly been treated as debt at zero cost. The well accepted commercial practices and norms need to be respected by the Authority and therefore, return on RSD amount should be re-determined by it for the reasons indicated above. Instead of interfering with the impugned tariff determination we direct that the amount due to DIAL under this head should be worked out and made available to DIAL through appropriate fiscal exercises which should be undertaken when the exercise of redetermination of tariff for IGI Airport, Delhi is next undertaken in due course.

Appellate tribunal has not quantified the quantum of return to be allowed on RSD."

5.1.6 DIAL requested, based on the rationales as mentioned in the earlier chapters as part of the true up for the First and Second Control Periods, a return of 16% on the RSD portion utilized to fund the Project. DIAL also indicated that an additional RSD of Rs. 1,078 Cr had been raised in FY 2020 which would be utilised to fund the Expansion Capex. The details of RSD portion considered by DIAL as part of the tariff proposal are in the table below;

Table 98: RSD submitted by DIAL towards calculation of WACC for Third Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Opening RSD	1,732.54	2,810.81	2,810.81	2,810.81	2,810.81
Additions/(Deletions) to RSD	1,078.27	-	-	-	-
Closing RSD	2,810.81	2,810.81	2,810.81	2,810.81	2,810.81

Cost of Debt

5.1.7 DIAL indicated that the existing bond of USD 288.75 Mn would be repaid in FY 2022. The bond instrument had been hedged through call spread options and the effective cost including the cost of hedge comes to 10.15%. DIAL had taken call spread options for USD 80 Mn at the rate of Rs. 68.00 in Jan'2017 and balance USD 208.75 Mn was hedged at the rate of Rs. 63.80 per USD in Jan'2018. The call spread option covers hedge risk upto Rs. 85.00 per USD till maturity of the bond, any risk beyond this level has to be borne by DIAL.

5.1.8 DIAL claimed that they have minimized the foreign exchange risk against the principal outstanding. However risk towards the unhedged currency portion still remained i.e. exchange rate at which the loan was hedged versus the rate at which the loan had been drawn. DIAL had indicated that the repayment of this bond was due in FY'22 and accordingly there will be expected forex loss to DIAL to the extent of unhedged currency portion.

5.1.9 The existing Bond instrument of USD 522.60 Mn would remain outstanding throughout the Third Control Period. The effective cost of this instrument including the cost of hedging came to 10.02%.

5.1.10 Further, DIAL considered 11% as the cost of debt for a Rupee Term Loan amount of Rs. 5,866.46 Cr proposed to fund the Expansion Capex. DIAL also submitted that they had raised a foreign currency bond of USD 350 Mn (Rupee equivalent of Rs. 2,424 Cr) of which the entire amount has been drawn as on June 2019. DIAL also indicated that this instrument had been hedged towards both principal and interest payments and the effective cost of debt including the cost of hedging is 9.92% p.a. The details of the debt outstanding along with the cost of debt as submitted by DIAL are in the table below;

Table 99: Details of Debt Outstanding along with Cost of Debt submitted by DIAL for Third Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Long Term Debt	5,746.74	6,520.99	7,231.99	11,485.02	11,198.36
Interest	760.92	878.13	1,112.67	1,174.49	1,197.19
Average Debt	6,823.11	8,699.44	10,137.67	11,258.38	11,461.63
Cost of Debt	10.59%	10.59%	10.59%	10.59%	10.59%

Weighted Average Cost of Capital

5.1.11 Considering the above, DIAL arrived at a WACC of 16.42%, the details of which are in the following table.

Table 100: WACC submitted by DIAL for Third Control Period as per MYTP

FY ending March 31	2020	2021	2022	2023	2024
Cost of funds					
Cost of Equity	22.86%	22.86%	22.86%	22.86%	22.86%
Cost of RSD	16.00%	16.00%	16.00%	16.00%	16.00%
Effective cost of debt	10.59%	10.59%	10.59%	10.59%	10.59%
Gearing					
Equity Gearing	40.98%	40.98%	40.98%	40.98%	40.98%
RSD Gearing	14.75%	14.75%	14.75%	14.75%	14.75%
Debt Gearing	44.27%	44.27%	44.27%	44.27%	44.27%
WACC for CP III	**16.42%**	**16.42%**	**16.42%**	**16.42%**	**16.42%**

5.2 Authority's Examination regarding Weighted Average Cost of Capital for the Third Control Period

Cost of Equity

5.2.1 As per Hon'ble TDSAT order dated April 23, 2018 in the matter of issues raised by DIAL with regards to decisions taken by AERA in the First Control Period, AERA had commissioned a separate independent study for evaluation of cost of capital for DIAL for the Third Control Period and the study was entrusted to IIM Bangalore.

The independent study had drawn from the international experience of airports having comparability to IGIA in terms of revenue till, ownership structure and scale of operations and had also studied the regulatory framework of other regulators for the study. The summary of the independent study is given at Annexure 6. The detailed report is appended as Appendix 4. The independent study had recommended the Cost of Equity of 15.41% which was arrived at in the table below;

Table 101: Computation of Cost of Equity as per the Independent Study

Variables	Gearing based on Target Gearing ratio
Asset Beta	0.591199
Gearing Ratio (D/E)	0.9231
Gearing Ratio (D/D+E)	48.00%
Equity Beta	0.9732
Risk Free Rate	7.56%
Equity Risk Premium	8.06%
Cost of Equity	**15.41%**

The independent study had computed the Cost of Equity at 15.41% by using Capital Asset Pricing Model and using a notional Debt : Equity ratio of 48%:52%. While the study used a nominal debt rate of 9.97% for illustrative purposes to arrive at the Weighted Average Cost of Capital, Authority proposed to use the actual cost of debt for the purpose of calculation of WACC for tariff determination.

Authority proposed to adopt the recommendations of the independent study in the tariff determination for the Third Control Period.

Cost of Debt

5.2.2 Authority had looked at the submission made by DIAL with regards to Cost of Debt. Authority had reworked the weighted average cost of debt considering the cost of debt for the proposed RTL facility at 10% as already discussed (Para 4.2.17) and considering the cost of the Bond Instrument that had been raised at 9.92% (Effective Cost including cost of hedge as already submitted by DIAL) along with the bond instruments already outstanding at the beginning of the Third Control Period along with their respective costs as submitted by DIAL. The Cost of Debt calculated is seen in the table below;

Table 102: Effective Cost of Debt proposed to be considered by the Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Rupee Interest Payment	-	24.31	189.40	367.00	397.12
Bond Interest Payment	760.92	805.08	771.59	600.30	600.65
Interest	**760.92**	**829.39**	**960.99**	**967.30**	**997.76**
Rupee Term Loan					
Opening Balance	-	-	486.12	3,301.97	4,038.09
Closing Balance	-	486.12	3,301.97	4,038.09	3,904.27
Average Outstanding for the year	-	243.06	1,894.05	3,670.03	3,971.18
Bond					
Opening Balance	5,610.89	8,035.34	8,035.34	6,038.49	6,038.49
Closing Balance	8,035.34	8,035.34	6,038.49	6,038.49	6,038.49
Average Outstanding for the year*	**7,631.26**	8,035.34	7,702.53	6,038.49	6,038.49
Average Debt	**7,631.26**	**8,278.40**	**9,596.58**	**9,708.52**	**10,009.67**
Effective Cost of Debt	**9.99%**				

**includes adjustment based on the months outstanding for the Bond Instrument of USD 350 Mn (Rs. 2424.45 Cr) raised in June 2019 and adjustment towards the Bond Instrument of USD 288.75 Mn (Rs. 1778.70 Cr) proposed to be repaid in Feb 2022.*

5.2.3 The Authority was of the view that the above cost of debt was efficient and achievable given the market scenario and the MCLRs of major PSU banks. Further DIAL's cost of debt from foreign sources of funding including the hedged cost comes to 9.92% which was consistent with the cost of debt proposed to be considered by the Authority for the Third Control Period. The Authority proposed to true up the above cost of debt for the RTL based on actuals subject to a ceiling of 50 bps.

5.2.4 The Authority had proposed to consider WACC as 12.81% for the Third Control Period based on the above mentioned cost of debt and cost of equity of 15.41% as suggested by the independent study and considering a notional gearing ratio of 48%: 52% as suggested by the independent study.

Treatment Proposed for RSD

5.2.5 Authority had adopted the notional gearing ratio for calculating the WACC and the cost of debt was applied across the total debt irrespective of the source, whether debt funds or RSD. Thus, no separate treatment of RSD was required effective from Third Control Period. Authority also understands that some stakeholders had taken the matter regarding decision of Hon'ble TDSAT on treatment of RSD to higher courts for adjudication and any decision taken by the Authority with regards to RSD in the Tariff Order would be subject to the final outcome of such adjudication.

5.3 Stakeholder comments regarding Weighted Average Cost of Capital for the Third Control Period

5.3.1 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper with respect to determination of Weighted Average Cost of Capital for the Third Control Period. The comments by stakeholders are presented below;

DIAL's comments on Weighted Average Cost of Capital for the Third Control Period

5.3.2 DIAL has requested that there should not be any cap on the cost of debt as the overall financial market is very volatile in the current scenario with the airport business being the worst affected due to this pandemic and this will have bearing on its cash flow. DIAL, even though shall endeavor to manage the cost of debt at the lowest possible rate, requests the Authority to consider the cost of debt at actual while truing up Third Control Period.

DIAL also informed that in order to reduce the stress of debt on the Company they are exploring avenues to fund movable assets through lease financing.

5.3.3 DIAL mentioned that pursuant to the Hon'ble TDSAT order they have also appointed CRISIL for an independent study. In the following extract, DIAL provided their views on the independent study conducted by AERA, on various aspects such as Risk-Free Rate, Asset Beta, Equity Risk Premium and impact of COVID-19 on Asset Beta and Equity Risk Premium.

"Risk Free Rate:

IIM B has considered risk free rate (Rf) of 7.56% whereas the Rf considered by CRISIL is 7.74%. CRISIL in order to arrive Rf has considered 10-Year GOI bonds monthly averaged over 10 years whereas IIM considered 10-Year GOI bonds daily averaged over 18 years.

In a typical calculation of CAPM methodology the period used is of 10 years. Worldwide other regulator and industry also uses 10 years for calculation of risk free rate:

Country/sector	***Regulator***	***Term for risk free rate***
UK	*The UK civil aviation authority*	*10*
Australia	*All jurisdictional regulators*	*10*
New Zealand	*Civil Aviation Authority*	*Review period – 5 years*
India – Ports	*TAMP*	*10*
India-Power	*CERC*	*8*

Also, the interest rates in any economy is highly impacted due to recession, economic downturn and timing of recovery. Accordingly, while considering the period of interest rate one should consider the full economic cycle i.e. recession to recovery. India has witnessed two economic crisis one in 1991 and another in 2008. The correct approach is to consider period either starting from FY'09 to FY'19 or in case of long term then it should be FY'09 to FY'19 which will include both economic cycle in full. IIM-B considered interest rate from 2001 which was the time when the interest rates were fairly low and hence the Rf arrived by IIM-B does not reflect true risk free rate.

Accordingly, we would like to submit that Authority should consider the period of full economic cycle and considering the industry practice the Authority should consider the period of FY'09 to FY'19 to calculate risk free rate.

Asset Beta from Comparable Airports:

IIM B in its study considered 12 international airports. Out of total 12 airports only two airports belongs to developing countries. Airports in developing markets are exposed to each of these risks differently when compared to developed markets. CRISIL in its report mentioned following risks which the airport airports in developing market have to witness:

Demand Risk – Apart from the economic conditions which affect demand, demand for air travel is also highly elastic with respect to air fare in India and other developing economies. Any increase or decrease in air fare due to fuel prices or other input costs results in relatively higher traffic volatility.

Counterparty Risk – Airports in developing countries typically derive a major part of their revenue from aeronautical services, as against the developed markers where non-aeronautical revenue is higher.

Regulatory Risk – Regulations in developing countries are still evolving and are not stable.

Asset beta of airports in developing countries is consistently higher than the asset beta of airports in developed economies. This can be demonstrated by the data provided by IIM B also, at table 3.1 of the study the asset beta for Sydney airport is 0.40 whereas the asset beta for AoT is 0.86. This shows the quantum of variation in risk perception between developed and developing countries.

We would also like to highlight the business risk associated with airports undergoing major expansion. All airports considered in IIM B report are matured in terms of expansion phase. This is very relevant for determining risk level of DIAL's business as it is undergoing major expansion projects

IIM B determined the equally weighted average asset beta and then applied a proximity score to arrive at airport specific beta. In this regard we would like to submit that the airport for comparison itself should be considered the airport which are most similar. When there are already similar airport are available to compare then there is no need to further apply a factor which is arrived on theoretical basis.

CRISIL in its report considered beta from both developed and developing countries. CRISIL had considered 11 airports from developed countries and 11 airports from developing countries for determining asset beta. The average asset beta of developing countries comes to 0.64 and for developed countries it is 0.57. Since the risk of Delhi Airport can be compared to similar economies and similarly placed airports, CRISIL suggested to consider Beta for developing country for DIAL i.e. 0.64.

Further, we would like to draw Authority's attention on the calculation of Beta. In the formula of Beta calculation consider reduction of tax because it is assumed that interest paid on debt will be allowed as deduction as per respective countries Income tax Acts and thereby Income tax paid/payable will come down to that extent. Therefore, the benefit of tax should be factored while calculating the beta of Equity.

The above conventional approach is considered by IIM in the study report and has also relied upon the publications/articles published by various reputed Professors/Firms including Mr. Damodaran.

However, an article published by Mr Damodaran has clearly mentioned that when Debt creates a tax benefit and is reflected as asset on asset side of Balance sheet only then the (1-Tc) is to be considered. Refer sl.no 5 of below mentioned link.

The same can be represented as follows:

Liabilities	***Value***	***Assets***	***Value***
Equity (Levered Beta)	*Balancing figure*	*Business/Assets (Asset Beta/ Unlevered Beta)*	*XX*
Debt	*XX*	*Tax Benefit of Debt*	*XX*

Source: http://people.stern.nyu.edu/adamodar/New_Home_Page/AppldCF/derivn/ch4deriv.html

Further, and another article published by Mr Damodaran has mentioned that in conventional approach in some versions, the tax effect is ignored and there is no (1-t) in the equation. Refer page 84 of below link.

Source: http://stern.nyu.edu/~adamodar/podcasts/valspr15/valsession6.pdf

From the above it can be clearly understood that the intention or the purpose of calculating the Levered Beta is to adjust the Asset Beta with the financial leverage of the Company i.e., the portion of the Debt (that bear no market risk) and resultant tax benefit from the Debt instruments.

In the given scenario for DIAL, the Independent Study considered the Marginal Tax @ 30% and factored the same for arriving at the Equity Beta. In case there is no aeronautical tax liability arises to DIAL during the third control period as part of tariff determination by Authority and thereby there is no tax benefit being accrued to the DIAL by virtue of Debt.

Accordingly, it will be unfair to factor the tax benefit which is not accrued to DIAL and compute Beta of Equity, therefore Beta of Equity should be considered excluding tax benefit due to Debt.

Equity risk premium

IIM B has considered simple average of ERP determined by four studies. It considered the study done by Anshuman (2019) an estimate of 7.78%, estimation done by Damodaran's estimation for India based on CDS is 7.87%, a report by Grant Thorton considering ERP as 8% and Damodaran's 2019 based on bond rating is 8.6%, the authority took the average of these four to arrive at the value of 8.06% ERP.

The market return can be calculated based on available indices from the Indian stock exchange data which are available for a fairly long period to establish the movements. The reliability of the data depends on the time horizon of the data, the data for longer time horizon is more reliable as it will be bereft of short term volatilities and provide stable market return. CRISIL used BSE being the oldest and having high liquidity considered as a proxy for market return. The geometric mean was considered from 1998 and the dividend yield calculated by the average annual dividend yield provided by the BSE Sensex. BSE sensex may be a good representative of the market return in the Indian context.

CRISIL concluded to use the geometric mean which resulted into market returns at 17.06% comprising of 15.57% and 1.49% corresponding to dividend yield.

Further, without prejudice to above, It is submitted that IIM B report ought to have considered the latest Damodaran's estimation for of ERP 8.46% for India based on CDS instead of 7.87% and accordingly re-calculated cost of equity. We request that Authority to consider ERP of 8.6% as per Damodaran based on bond ratings as Rf is also considered based on bonds rather than CDS.

Further, the Authority has proposed to consider 15.41% as cost of equity-based on IIM B report. The IIM B report has considered infrastructure comparable companies i.e., Real Estate and EPC (Refer Table 3.7 of IIM B report) for the purpose of determination of cost of debt. However, the Authority's proposal of 15.41% is also lower than the sector cost of equity for Indian infrastructure companies i.e., EPC (16.8%) and Real Estate (17.8%) as mentioned in Fig 3.3: CoE by Sector in the IIM B report

Impact of COVID-19 on Beta and ERP:

In the wake of the Coronavirus outbreak, lockdown of cities, border closures and many other health measures have already been implemented across the globe, which should eventually slow and stop the pandemic. However, these policies will also lead to economic depressions around the world, and quickly spreading to financial markets.

The US' policies may introduce further uncertainty into the global markets and create trouble for emerging economies. For example, the US Quantitative Easing after the 2008 global financial crisis contributed significantly to the increased systemic risk at the time.

The great uncertainty of the pandemic and its associated economic losses has caused markets to become highly volatile and unpredictable. Pandemic-induced demand shocks which will translate into lower current and expected earnings, which induce a negative shock to the market value of the firm's assets.

NCBI data for top 10 countries by confirmed cases as on March shows the risk levels of all the countries has increased substantially, from an average of 0.0071 in February to 0.0196 in March. (Standard deviation of market returns).

One measure of an equity risk premium is regularly provided by Duff & Phelps. On March 25, 2020, Duff & Phelps increased its US ERP estimate from 5% to 6%, an increase of 20%. The rise in the Duff & Phelps ERP reflects some of the additional economic and financial risks of COVID-19 to investors. This will be further reviewed periodically and much higher escalations are envisaged.

Many established agencies are suggesting a significant increase in the values of Asset Beta and ERP in the post covid era. Deloitte, valuation firms like Valuesque have reported about 2% absolute value increase in ERP for European markets. Higher volatilities can be expected in emerging markets.

We understand that there has not been any established values for Indian market yet due to extremely volatile situation. In light of the same, our proposal to the authority is provide a suitable premium on these values for CP3 in the order for calculation of cost of equity.

We request Authority's consideration towards various aspect mentioned above on the calculation of Return on Equity for DIAL to consider the ERP methodology provided by CRISIL as it is more relevant in Indian context and also re-establish the values of Asset Beta and ERP incorporating the COVID impact as highlighted above."

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

Other Stakeholder's comments on Weighted Average Cost of Capital for the Third Control Period

5.3.4 MIAL commented that the Authority should consider beta of airports from developing countries to arrive at the appropriate risk to be considered while arriving at WACC for the Third Control Period.

MIAL commented that the Authority majorly considered the beta associated with airports in developed economies whereas risk factors associated with developing economies are completely different. MIAL considers that while determining the cost of capital for an unlisted company like DIAL, a risk premium of atleast 1-2% should be considered and thus, requests Authority to reconsider the current approach by the independent study.

5.3.5 MIAL commented that the Authority should consider Return on RSD at WACC instead of cost of debt.

MIAL states that amount collected from RSD is mainly utilized for funding aeronautical projects and in its absence, project would be funded by a mix of debt and internal accruals. Thus, MIAL requests Authority to consider rate of return on RSD at WACC.

5.3.6 APAO commented that the Authority should allow Return on Equity requested by DIAL.

APAO mentioned that a study conducted by MoCA indicated that optimal rate of return for the airport operator considering all risks should be 18.5%-20.5%. Authority has considered lesser returns across all the control periods for DIAL. Further, the airports considered in the independent study are from developed countries. To arrive at the appropriate risk while determining Cost of Equity, the study should have considered beta of developing countries like India.

5.3.7 IATA commented that the Cost of Equity considered for DIAL should be significantly lower than that proposed by the Authority.

IATA considers that the beta used for determining cost of equity should be adjusted downwards as the risks faced by comparator groups are much higher than DIAL as the demand risk faced by the airport can be eliminated via implementation of true ups. As per IATA, none of the comparator airports have 100% true up of demand. IATA states that the risk-free rate considered by independent study is significantly overrated as it double counts sovereign risk by considering both Damodaran approach in equity risk premium and Indian sovereign bond yield as the basis for risk-free rate. The detailed reasoning provided by IATA for the above-mentioned comments is seen below;

"We see that AERA is proposing a WACC of 12.81% based on cost of debt of 9.99% and cost of equity of 15.41%, notional debt equity ratio of 48%:52% (based on the CoE study carried out by IIMB). While the proposed value is indeed lower than that proposed by DIAL, we believe that the WACC should be even lower. This is explained below:

Beta

Firstly, we note a series of methodological errors in the study, starting with the criteria used for choosing the "proximity" airports. In order to determine an appropriate Beta (which is a reflection of the risk the airport faces vis a vis the market), it should have first started by understanding what are the risks faced by DIAL (regulatory, demand, supply risks) and then how these risks relate to those faced by airports where financial/regulatory information is available. And it is in the "understanding for DIAL risks" where the study fails the most.

The regulatory regime of DIAL is close to a "rate of return" regulation. At the end of the regulatory period, AERA "trues up" most of the components that underpin the calculation of charges. There are true ups on traffic, non-aeronautical revenues, OPEX, CAPEX (with certain disallowances), taxes and the WACC (with the exception of cost of debt ceiling). So, in practical terms, DIAL is shielded from a series of risks that many of the other regulated airports face.

One of the biggest business risks upfronted by an airport is demand risk and this has been made evident by the pandemic. If the demand risk is eliminated via the implementation of true ups, then risks borne by this airport would tend to be closer to that of water or electricity companies rather than other airports. As far as we understand, none of the comparator airports is under a regulatory regime in which there is a 100% true up of demand.

With this in mind, we strongly request AERA to reconsider the calculation of the Beta for DIAL, by making a significant <u>downwards</u> adjustment of the Beta calculated in the report since the risks faced by the comparator group are much higher than those faced by DIAL (at least to somewhere around or below 0.4). This downwards adjustment should be informed by Betas applied by regulators for utilities companies.

On a separate note:

- *Table 2.17 is out of date in relation to the determination of the Beta for Dublin airport. The table makes reference to the 2014-19 determination, when 2020-24 determination has already been made and can be downloaded from <u>here</u> (And the supporting study from <u>here</u>). The allowed asset beta for Dublin airport is 0.50 (noting that traffic risk is faced by the airport, and therefore DIALs beta should arguable be lower than that). We also do not see what the study references as "complicated"*

- *Only Beta decisions or studies commissioned by the UK CAA should be included in table 2.15. This table makes a reference to a study that has not been commissioned by the regulator.*

- *We note that the study calculates equity betas from Bloomberg. We would appreciate for AERA to confirm whether the consultants have used the "raw" or "adjusted" Beta from Bloomberg. The problem is that the adjusted based (aka Blume adjustment) assumes that Beta tends to the value of 1 over time, which is fundamentally wrong in the context of determining a Beta of a regulated company.*

<u>Gearing</u>

We support the usage of a notional gearing, as the regulated companies should be encouraged to implement the most efficient capital structure. While the study presents some comparisons of gearing at certain airports and Indian infrastructure companies, there is no assessment of whether the calculated average is the "efficient" level of capital structure.

Further insights are necessary as to what would be the adequate level of gearing for a company with an acceptable credit rating. For instance, we are not convinced on why the notional level of gearing cannot be higher at DIAL (e.g. 60%) or if the cost of debt would be affected by such level of gearing.

<u>Equity Risk premium</u>

From what we have seen for regulatory decisions, the most accepted and used method for calculating the ERP is based on historic information (and the longer in time the dataset, the better).

Models based on predicted future ERP (e.g. dividend growth model) are much less reliable as they are constructed on the basis of a number of assumptions and introduce certain optimism bias, and therefore we would request AERA not to consider it.

There is also an inconsistency issue in the ERP comparators and the other Return on Equity assumptions. While the study introduces the Damodaran approximations for an Indian ERP by adding a sovereign risk estimate (based on CDS and sovereign bond ratings) on top of the ERP of a mature market, it then double counts the same risk by using Indian government bond yields as the basis for the Risk Free Rate (which by definition, as it is not a AAA rated bond, its yield already includes a sovereign risk). In fact, as highlighted by Damodaran in its paper "Country Risk: Determinants, Measures and Implications – The 2020 Edition", (Table 30: Risk free rates in Currencies with non-AAA Rated government issuers), calculates the risk free for India as of 1 July 2020 (Government bond rate: 5.82%, Rating Moody's Baa2, Default spread 2.23% with the consequent "risk free rate" of 3.59% (5.82%-2.23%).

So, while the approximation done by Damodaran for an Indian ERP is perfectly valid, and to be taken into account when assessing the ERP for DIAL, the study should then make the necessary adjustments in the Risk Free rate to avoid any "double counting" of risk.

Risk free rate:

We believe that the risk-free rate is significantly overestimated. We have two major concerns in relation to the calculation of the risk-free rate:

- *As highlighted in the previous section the study includes sovereign risk in the calculation of the ERP (for the Damodaran approaches) and but then double counts the same risk when using the Indian sovereign government bond yield as the basis for the risk-free rate. We do not contend the use of the Indian 10-year Government bond yield in itself, but its value should be properly adjusted.*
- *There is no justification as to why an 18-year average has been used for the calculation of the government bond. On one side, since this average is on nominal yields, it picks up inflation expectation from more than a decade which may not be the same as nowadays. More generally the worldwide situation is completely different from more than decade ago. We recommend AERA to consider a much shorter period (somewhere between 1 and 5 years).*

In summary, below are the recommendations with respect to the Return on Equity:

- *Acknowledge that DIAL is shielded from demand risk and therefore use a lower asset beta relative to any other comparator airport (or even consider using betas of utilities), as well as take into account comments regarding the data used for the calculations.*
- *Consider carrying out further analysis on the optimal level of gearing on the basis of credit rating analysis.*
- *Ensure that there is consistency between the ERP assumption and the Risk free rate to avoid "double counting" of risks.*
- *Consider dropping the forward-looking analysis on ERP.*

Airports Economic Regulatory Authority of India

- *In addition to adjusting the Risk free rate to avoid double counting, consider a much shorter time frame for calculating the average of the 10-year government bond yield.*

We are convinced that, once the recommendations above are taken into account, the Return on Equity would be significantly lower than that proposed by AERA. "

5.3.8 IATA agrees with the Authority on considering return on RSD equivalent to the cost of debt as seen below;

"IATA is alarmed with the deviation by AERA from previously established notion of treating RSD as a means of finance at zero cost as it had been received by DIAL without any cost i.e. what is received without any cost by DIAL cannot be charged to users. In addition, given that RSD is in essence a security deposit, the fund should not be used by DIAL to earn a return for its own benefit. Any such benefits of the 'temporary" utilization of the fund should be to the benefit of the aviation community rather than to prop up DIAL's profit.

However, we understand that this issue comes out from a recommendation from the TDSAT. In this regard, given the two alternatives consulted by AERA on the matter, we suggest AERA to use the alternative that remunerates these funds with a rate equivalent to the cost of debt."

5.3.9 FICCI commented that the Cost of Equity for Third Control Period should be higher than that proposed by the Authority.

FICCI points out the expansion phase of DIAL and cash outlay of more than Rs. 100 bn along with the additional stress due to covid-19. As per FICCI, these factors contribute to a higher risk for DIAL thereby requiring an increase in the cost of equity proposed by the Authority. Thus, FICCI requests Authority to consider cost of equity in the range of 18.5%-20.5% for the Third Control Period as per the study conducted by MoCA.

5.3.10 ASSOCHAM comments that the Authority should allow Return on Equity as requested by DIAL.

ASSOCHAM states that regulator should provide adequate returns on the investment made and points out that at the time of bidding, AAI had indicated 22.86% as the return on equity for Delhi Airport. ASSOCHAM mentions that the clarification during the bid process plays a vital role for any investor while bidding and over one decade of its operation Delhi Airport could not provide adequate returns to the investor. Thus, ASSOCHAM requests Authority to consider 22.86% as return on equity for DIAL.

5.3.11 AAI commented that the Authority has incorporated the Cost of Equity from the independent consultant as directed by Hon'ble TDSAT.

AAI states that Hon'ble TDSAT, in the matter raised by DIAL on Tariff Order for First Control Period, had directed the Authority to redo the exercise through a scientific and objective approach independently of any observations. Accordingly, the Authority commissioned an independent study for evaluation of cost of capital for DIAL and incorporated the same in the Consultation Paper.

5.4 DIAL's counter-comments and response to stakeholder comments regarding Weighted Average Cost of Capital for the Third Control Period

5.4.1 Subsequent to the Stakeholder Comments received by DIAL as part of Stakeholder Consultation Process, DIAL's response to the various stakeholder comments with respect to Weighted Average Cost of Capital for the Third Control Period are presented below;

DIAL's Response to IATA's comments on Weighted Average Cost of Capital for the Third Control Period

5.4.2 DIAL mostly disagreed with IATA's recommendations pertaining to determination of Cost of Equity. As per DIAL, it carries significant risks in terms of non-aeronautical and non-airport revenue which are not protected in a regulatory regime. DIAL also stated that gearing considered by the independent consultant is not baseless as presented by IATA. On the other hand, DIAL agreed with IATA on determining Equity Risk Premium based on historical information and considering risk free rate on a 10-year horizon. DIAL's detailed response to IATA pertaining to determination of Cost of Equity is quoted verbatim below;

*"**Beta** - Authority consider true up of all building block in regulatory tariff determination however any loss of non-aero revenue has not been made good. DIAL has to face brunt of non-aero revenue reduction. Accordingly DIAL carries significant risk in terms of non-aeronautical and non-airport revenue which are not protected in a regulatory regime.*

Further, IATA has not considered various external risk like regulatory uncertainty, economic risk, risks due to current pandemic situation like COVID, demand risk etc. Even in terms of aeronautical revenues the regulatory intervention can cover the risk only when there is traffic. In such time when there is no predictability of traffic which has been acknowledged by IATA also, the true up process would not help recover the losses incurred by DIAL in near term. Accordingly DIAL still carries significant unsystematic risk which are required to be considered while considering Beta. Further, in case of DIAL the beta should be considered from like to like economies. Accordingly while considering beta for DIAL AERA should consider beta of airport from similar developing countries. Dublin Airport is part of developed countries hence same is not comparable to Delhi Airport.

Gearing

IATA has indicated that the study for the cost of equity presents no assessment of whether the calculated average of gearing is the 'efficient' level. The issue may be responded by Authority as the study has been conducted by the consultants appointed by the Authority. It may though be pointed out that the inference of the gearing is not on assumption basis as has been presented by IATA. The gearing considered by the consultant of the Authority is based on benchmarks of airports and industry bodies. Hence, an arbitrary figure presented by the IATA is uncalled for in the given circumstances.

Equity Risk Premium

In case of ERP we are in agreement with IATA that the AERA should choose most accepted and used method for calculating the ERP is based on historic information. Since the historic data is more reliable it remove the uncertainty which the predicted ERP carries.

In this regard DIAL has already submitted the CRISIL report on return on equity for Delhi Airport. In this report CRISIL has determined the ERP based on most reliable Indian market index i.e. sensex and also the period which they have considered is of 40 year which takes care short term volatility and *make the ERP so arrived most reliable. Also, since it is derived from the Indian market it is more reliable in Indian context vis a vis the ERP derived basis some study.*

Risk Free Rate

IATA in its submission for risk free rate completely ignored the CAPM methodology used for determining return on equity. It is a fundamental concept of any financial acumen that the risk free rate and ERP are two different concept altogether. ERP is a premium which is factored in for the market risk company carries over and above the risk free rate. Accordingly, IATA apprehension of double counting of risk is illogical and frivolous observation.

Further, we agree with IATA that AERA should not consider 18 year horizon in case of risk free rate as worldwide situation was very different from more than a decade. Hence, we would like to submit that AERA should consider 10 year horizon for GOI bonds in line with our response to the consultation paper."

5.4.3 DIAL stated that the Return on RSD should be equivalent to Cost of Equity as RSD exhibits equity like features. The detailed response of DIAL in this regard is seen below;

"The issue of RSD being eligible for return or not was the matter of contention in the appeal filed by DIAL against the AERA order no 3/2011-12 filed before the Hon'ble Tribunal. The matter had been adjudicated by the Hon'ble Appellate tribunal. The Appellate tribunal in this matter pronounce an order mentioning that the RSD is eligible for some return and the quantum of return can be decided by AERA.

In this regard we would like to submit that RSD has equity like features such as long duration of availability of funds and also it has no restriction of usage of this fund. These features are available for equity funding accordingly a return equivalent to equity should be provided to DIAL on RSD. DIAL as part of its response already submitted the expert report of KPMG and CARE which supports DIAL contention of return on RSD should be equivalent to return on Equity."

5.5 Authority's Examination on Stakeholder Comments regarding issues on Weighted Average Cost of Capital for the Third Control Period

5.5.1 Authority has examined the comments made by DIAL, MIAL, APAO, IATA, FICCI, ASSOCHAM, and AAI regarding Cost of Equity and DIAL's counter comments to the same and the responses to the stakeholders are as follows.

5.5.2 Authority took note of DIAL's comment that the risk-free rate should have been considered by taking 10-year average of risk-free rate rather than 18-year average as considered by the independent study. Authority is of the view that for asset pricing studies, it is good practice to use as much data as possible. Hence the independent study considered an 18-year average as there were significant structural reforms carried out beyond the considered time period.

Authority has looked at DIAL's comment stating that developed market risk is lesser than the developing market risk and, in this regard, higher risk should have been considered by the independent study. Authority considers the above claim to be unsubstantial as the benefit provided by Authority on account of true up of traffic risk and operating expenses is not provided elsewhere leading to significantly lesser risk than other developing country airports and also amongst developed countries. Hence the risk is not understated for determining asset beta.

Authority has analyzed DIAL's comment on the riskiness of non-aeronautical revenue. Authority is of the view that DIAL must have/should have accounted for the riskiness of non-aeronautical assets at the time of bidding. Further, the cost of equity is applied on investments in aeronautical assets as per the hybrid till agreement and the airport users are bearing the risk on account of the fact that 30% of non-aeronautical revenues are being considered to subsidize Target Revenue. The aeronautical revenues based on this Target Revenue go towards meeting the risk return requirements of the airport operator for the airport operations, while the non-aeronautical upside for the airport operator from the balance 70% of the non-aeronautical revenues has always been substantial in the past.

Authority has taken note of DIAL's comment that highlighted the business risk associated with airports undergoing major expansion. Authority would like to point out that any investment towards expansion would be compensated at the fair rate of return determined during Third Control Period and thus sees no merit in DIAL's argument that airport expansion would increase the risk considered while determining cost of equity.

Authority has examined DIAL's comment that while comparing similar airports, only equally weighted average asset beta ought to be considered for computing beta. In this regard, Authority is of the view that proximity score weighted average beta accounts for differences in airport operations between DIAL and comparator airports while ensuring that more weight is given to beta of airports similar to DIAL. Thus, a proximity score is applied to equally weighted average asset beta while computing asset beta for DIAL.

Authority has considered DIAL's comment that the benefit of tax should have been factored in while calculating the beta of equity. Authority would like to indicate that the approach under the independent study is the same as used in NIPFP approach (2011-12) and thereby doesn't merit any revision to the approach considered by the independent study.

Authority has noted DIAL's comment on considering ERP estimates on BSE Sensex data from 1998. Authority states that the average of ERP estimates from four different approaches was considered to avoid biases in any of the approaches which is favorable than giving full weight to any single approach. Authority also noted DIAL's comment that Authority should have considered Damodaran's latest ERP of 8.46% as on July 2020 while computing cost of equity. Authority would like to indicate that the independent study used all relevant information, as available prior to April 2019, as required for determining the ERP for the Third Control Period. Authority considers that the correct procedure is to base ERP estimates on the information available at the beginning of the Control Period and is of the view that the ERP estimates cannot be considered based on hindsight. Thus, Authority has not considered any revision to the ERP used to determine cost of equity.

Authority has also taken note of DIAL's comments that the EPC sector average of 16.8% should have been used for Cost of Equity. Authority does not find merit in DIAL's argument as EPC industry estimate is an average estimate as it necessarily implies that some infrastructure firms will have a cost of capital lower than 16.8% and others greater than 16.8%. DIAL's Cost of Equity can be lower than the infrastructure industry average. Authority has also taken note of DIAL's comment on impact of Covid-19 on beta and ERP. Authority considers it to be too early to scientifically assess the impact on beta and ERP over the entire Control Period.

5.5.3 Authority has taken note of MIAL's comments that the comparator airports must be from developing countries because developed market airport risks are different. Authority has also taken note of APAO's comments that the cost of equity should be higher because beta is higher in developing countries. Authority has analyzed the above comments and is of the view that the above arguments do not hold any merit as the benefit provided by Authority on account of true up of traffic risk and operating expenses is not provided elsewhere leading to significantly lesser risk than other developing country airports and also even certain developed countries. Thus, Authority considers that the risk considered for determining asset beta has not been understated.

5.5.4 Authority has noted IATA's comments that the cost of equity should be lower as DIAL faces less risk than in developed country airports. Authority agrees with IATA that 100% true up implies no traffic risk but it would be inadvisable to consider no demand risk for DIAL. Authority has considered a conservative approach while determining demand risk by giving more weightage to airports which are similar to DIAL operationally.

Authority has considered IATA's comment that the gearing ratio should be determined from a customized study. In this regard, Authority agrees with DIAL's response to IATA and has stated that the gearing ratio considered was based on the average gearing ratio of international airports. Also, Indian infrastructure firms employ, on average, a market gearing ratio of 47.86% which is reasonably close to the gearing ratio considered in the independent study.

Authority has taken note of IATA's comment that forward-looking ERP estimate ought to be dropped as it is less reliable. Authority has also taken note of DIAL's agreement with IATA regarding the same. Authority is of the view that forward looking estimate can be considered as it contains relevant information. Authority also points out that out of the four different approaches considered by the independent study, only one considers forward looking ERP estimate which accounts for only 25% weightage on outcome. Based on this, Authority considers no revision to the ERP estimate used by the independent study while determining cost of equity.

Authority, with regards to IATA's comment that risk-free rate is significantly overestimated and should be net of sovereign risk, has stated that the independent study had considered the same procedure as in NIPFP (2011-12) which employs the same risk exposure to country risk as to market risk thereby adding country risk premium to mature market ERP. Authority also indicates that if infrastructure investments carry greater exposure to country risk than any other sector, a higher risk premium should be considered and thereby nominal risk-free rate has been considered. IATA also commented that a much shorter period of 1-5 years should be considered for estimating risk-free rate. In this regard, Authority has considered a longer period as the risk-free rate is volatile in emerging markets and thus an average of the risk-free rate during a long historical period provides a better proxy for the future risk-free rate.

5.5.5 Authority has looked at FICCI's comment that the cost of equity should be 18.5%-20.5% due to higher risk of airport's expansion plans. Authority considers that any investment towards expansion would be compensated at the fair rate of return determined during Third Control Period and sees no merit in FICCI's argument that airport expansion would increase the risk considered while determining cost of equity.

5.5.6 Authority has taken note of ASSOCHAM's comment that AAI had indicated the return of equity of 22.86% at the time of bidding for Delhi Airport and the same has to be provided by the Authority. Authority, consistent with their stance for true up of WACC for First Control Period in this Tariff Order, would again like to indicate that the pre-bid clarifications by AAI clearly showcase that the calculation of WACC was only to ensure consistency between Business Plans submitted by Bidders as part of their offer. Thus, the pre-bid clarification by AAI cannot be considered as the basis for cost of equity to be considered as part of tariff determination, as the purpose as defined in the pre-bid clarification is restricted to have uniformity in the business plan amongst the bidders.

5.5.7 Based on the above, Authority sees no merit in revising the Cost of Equity arrived at by the independent study after an extensive analysis of comparative airports. Thus, Authority has decided to consider the Cost of Equity as 15.41% for the Third Control Period consistent with its proposal in Consultation Paper No. 15/2020-21.

5.5.8 Authority has noted that DIAL raised a new Bond instrument of USD 150 Mn in Feb 2020 to fund the capex for the Third Control Period and has considered refinancing the existing Bond Instrument of USD 288.75 Mn in Feb 2022. Authority has reworked the weighted average cost of debt for Third Control Period considering the cost of debt for the proposed RTL as 10.00%, cost of debt for the existing bond instrument of USD 350 Mn as 9.92% and USD 150 Mn as 10.60% as submitted by DIAL. The existing Bond instruments along with their respective costs have also been considered consistent with the submissions made by DIAL. The cost for the instrument which is proposed to refinance the Existing Bond Instrument of USD 288.75 Mn is considered at 10.00%. The revised effective cost of debt considered by Authority is as shown in the table below;

Table 103: Effective Cost of Debt decided to be considered by Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Rupee Interest Payment	-	-	-	61.56	178.35
Bond Interest Payment	784.67	943.64	938.61	914.52	896.11
Interest	**784.67**	**943.64**	**938.61**	**976.08**	**1,074.46**
Rupee Term Loan					
Opening Balance	-	-	-	-	1,231.20
Closing Balance	-	-	-	1,231.20	2,335.80
Average Outstanding for the year	-	-	-	**615.60**	**1,783.50**
Bond					
Opening Balance	5,610.89	9,638.88	9,638.88	9,329.87	9,142.29
Closing Balance	9,638.88	9,638.88	9,329.87#	9,142.29**	8,954.71**
Average Outstanding for the year*	7,984.97	9,638.88	9,484.38	9,236.08	9,048.50
Average Debt	**7,984.97**	**9,638.88**	**9,484.38**	**9,851.68**	**10,832.00**
Effective Cost of Debt	**9.87%**				

**includes adjustment based on the months outstanding for the Bond Instrument of USD 350 Mn (Rs. 2424.45 Cr) raised in June 2019, adjustment based on the months outstanding for the Bond Instrument of USD 150 mn (Rs. 1075.35 Cr) raised in February 2020, adjustment towards the Bond Instrument of USD 288.75 Mn which is proposed to be refinanced in Feb 2022.*

#decrease of Rs 309 Cr is on account of forex adjustment due to refinancing of USD 288.75 Mn Bond in Feb 2022

***decrease in Closing Balance is due to repayment of the debt instrument replacing the USD 288.75 Mn Bond commencing in FY23 consistent with DIAL's submission*

5.5.9 Authority examined DIAL's comments regarding non-consideration of a cap on the cost of debt for the Third Control Period. Authority has also noted that DIAL, in order to reduce the stress of debt, is exploring lease-based financing to fund moveable assets. In this regard, Authority would like to state that it appreciates DIAL's endeavor of keeping interest rate at the lowest possible level and considers a cap on the cost of debt would further incentivize DIAL to look at low-cost options of funding. Thus, Authority has decided to consider true up of cost of debt considered for Third Control Period based on actuals subject to a ceiling of 50 bps. Authority's decision is based on the principles as stated in the

SSA which stipulates encouragement of economic efficiency as one of the principles of tariff determination and the ceiling proposed shall ensure such efficiency.

5.5.10 Authority examined the comments made by stakeholders MIAL, IATA and DIAL's response to IATA's comments on Return on RSD to be considered for Third Control Period. Authority noted that IATA agreed with Authority's proposal in Consultation Paper No.15/2020-21 for Return on RSD whereas MIAL has requested Authority to consider Return on RSD equivalent to WACC determined for the Third Control Period. DIAL, on the other hand, has requested Authority to consider Return on RSD equivalent to Cost of Equity as it considers RSD to be a quasi-equity instrument. Consistent with its stand for true up of First Control Period and Second Control Period in this Tariff Order, based on well explained reasons in the respective chapters pertaining to the First and Second Control Period, Authority sees no merit in considering RSD as an equity/quasi equity instrument. Authority is consistent with its view that DIAL would have incurred the actual cost of debt if they would have raised the amount equivalent to RSD from the market. Thus, Authority sees no merit in both DIAL's and MIAL's arguments. The airport operator always has the opportunity to invest the RSD in other investments if they are of the view that the return realized is not adequate.

Authority, in Consultation Paper No. 15/2020-21, had not considered separate treatment of RSD for the Third Control Period as it had adopted the notional gearing ratio for Debt and Equity, and the cost of debt was applied to the total debt irrespective of its source, be it borrowed funds or RSD. Authority also understands that some stakeholders have taken the matter regarding decision of Hon'ble TDSAT on treatment of RSD to higher courts for adjudication. Thus, Authority has decided to consider RSD as part of notional debt to arrive at WACC for Third Control Period subject to the final outcome of the adjudication.

5.5.11 Apart from the above, Authority has decided to continue with its proposals in Consultation Paper No. 15/2020-21 for WACC for Third Control Period.

5.5.12 Thus, Authority has decided to consider the WACC at 12.75% with the revised cost of debt as 9.87%, cost of equity as 15.41% and the gearing ratio of 48:52 consistent with the proposal in Consultation Paper No. 15/2020-21.

भा.वि.आ.वि.प्रा.
AERA

5.6 Authority's Decisions regarding Weighted Average Cost of Capital for the Third Control Period

Based on the material before it and based on its analysis, the Authority has decided the following regarding Weighted Average Cost of Capital;

5.6.1 Authority decides to consider cost of equity as 15.41% as per the outcome of the independent study commissioned (Table 101).

5.6.2 Authority decides to consider cost of debt as 9.87% based on its assessment of the cost of Rupee Term Loan and the effective cost of the existing bonds, which shall be trued up on actuals subject to a ceiling of additional 50 bps on the cost of debt considered for the Third Control Period.(Table 103).

5.6.3 Authority decides to consider a notional debt equity ratio of 48%:52% as suggested by the independent study.

5.6.4 Authority decides to consider the treatment of RSD as part of the notional debt to arrive at WACC which shall be subject to the final outcome of the adjudication in higher courts.

5.6.5 Authority decides to consider the Weighted Average Cost of Capital as 12.75% for the Third Control Period based on the above-mentioned Cost of Equity and Cost of Debt and considering the notional gearing ratio of debt to equity ratio as suggested by the Independent Study.

भा.वि.आ.वि.प्रा.
AERA

CHAPTER 6. OPERATING EXPENSES FOR THIRD CONTROL PERIOD

6.1 DIAL's Submissions regarding Operating Expenses for the Third Control Period

Operating Expenses Considerations by DIAL for the Third Control Period

6.1.1 DIAL submitted that in accordance with the principles laid down as per the SSA, Efficient O&M Costs had been considered and submitted as part of the tariff proposal for the Third Control Period. DIAL submitted that the following points had been considered for estimation of efficient operating expenses;

- Upcoming expansion at IGI Airport: As IGIA Airport would go ahead with the expansion of Terminal 1, the overall Terminal area would increase by 1,28,845 sq.m. This translates to an increase of 19.26% in area. Accordingly, there will be corresponding increase in cost to service area such as repair and maintenance of building and P&M, housekeeping, etc. Also, due to increase in Terminal capacity there will be increase in related costs such as administrative cost, manpower related cost and IT maintenance, etc. Due to expansion the terminal capacity will increase by 27% i.e. 86 MPPA from current capacity of 66 MPPA.
- Increase in minimum wages: Historically there was normal increase of 5% p.a. in minimum wages; however, recently on 1st Jan'2017 the minimum wages were increased by 40% and another 6% increase had been provided w.e.f 1st April'2017 which effectively resulted in more than 46% increase in minimum wages against 5%-6% normal increase. It resulted in an increase in all manpower related cost such as manpower hire charges, security, maintenance, etc.
- Inflationary increase: DIAL considered inflationary increase towards expenses. The CPI inflation rate of 4.5% for Third Control Period is considered based on the results of 52nd round of professional forecasters on macroeconomic indicators by RBI.
- Real increase: Considering the past trend, current economic scenario and upcoming expansion, DIAL considered real increase of 10%.
- Base Year: In order to form a basis of forecasting expense for Third Control Period, DIAL had considered FY'18 as base year and applied growth percentage over it.
- Asset life: The assets that had been created by DIAL post-handover of the airport on execution of OMDA are almost ten years old which requires additional upkeep and repair & maintenance.
- Service level: In order to maintain service level and ASQ level, DIAL had to maintain certain standards of service which results into additional operating expense and the same was necessary to be incurred.

आ.वि.आ.वि.प्रा.
AERA

Details of Head wise Operating Costs as submitted by DIAL

6.1.2 Manpower Costs: DIAL indicated that there was high attrition due to new upcoming airports and expansion works. Accordingly in order to retain talent, upcoming expansion and passenger growth, DIAL had considered real increase of 10% in manpower cost with an inflationary increase of CPI of 4.5%. Additionally, DIAL also considered an increase on account of expansion in line with the capacity enhancement towards additional runway as well as passenger terminal building and associated facilities.

6.1.3 Administrative and General Expense: Administrative and General Expense as submitted by DIAL consist of various expenses of which the key expenses include professional and consultancy, travelling and conveyance, advertising and sale promotion and head office cost. These expenses were expected to grow by real increase of 10%, with an inflationary increase of CPI at 4.5%. DIAL submitted that in order to cater to the increased requirement due to the expansion at the terminal, the expense would be

Airports Economic Regulatory Authority of India
सत्यमेव जयते

considered to increase in proportion to the additional area / capacity. Accordingly, DIAL considered a one time increase in admin. & general expenses in the year the expanded terminal would be made operational. The increase in FY22 & FY23 was considered in line with the increased area.

6.1.4 DIAL submitted that the power demand at Delhi Airport is expected to rise due to increase of passengers, and expansion. DIAL projected expected demand in next control period based on the internal estimates due to expansion and other factors. DIAL estimated the consumption from grid to increase from 247 Million Units in FY 2019 to 372 Million Units in FY 2024.

6.1.5 DIAL during the tariff filing of First as well as Second Control Period had submitted to consider the forex loss as per AS-11 with adjustment to RAB. DIAL stated that in terms of repayment and interest payment it had incurred actual foreign exchange losses which should be reimbursed in tariff. DIAL considered the actual cash outgo relating to foreign exchange variation in the repayment and interest payment for loans in foreign currency as an expense.

An expected forex loss in Third Control Period was on account of repayment of USD 288.75 Mn in FY'22. The bond refinancing of USD 288.75 Mn was done on 3rd Feb'2015 when prevailing exchange rate was Rs. 61.60 per USD. Further as part of hedge strategy DIAL had purchased call options for USD 80 Mn at the rate of Rs. 67.21 in Jan 2017 and balance USD 208.75 Mn was at the rate of Rs. 63.72 per USD in Jan'2018. Accordingly, DIAL mentioned that it still carries risk to the extent of difference between the exchange rate at the time of repayment of loan and the original exchange rate at the time of borrowing i.e. Rs. 61.60 per USD. Such difference could be minimized by the call option purchased by DIAL appropriately.

Currently for the proposed projection DIAL considered exchange rate as on 30th Sept'2018 i.e. Rs. 72.49 per USD. Since the expected exchange rate in FY'22 i.e. year of repayment is expected to be higher than the call option, DIAL would exercise its call option. However, DIAL will still have a forex loss to the extent of call option rate and actual borrowing rate. DIAL hence requested Authority to consider the same for tariff determination purpose.

6.1.6 Operating Expense: The key assets of DIAL are almost ten years old which requires heavy maintenance cost. Also due to increased labour and material cost, the estimation tends to increase. Repair & Maintenance towards Building, and Plant & Machinery had been escalated with real growth, inflation and area expansion. Maintenance cost related to IT and others had been escalated on account of real growth, inflation and passenger handling capacity.

6.1.7 Increase in minimum wages had significantly increased the housekeeping cost in FY 2018. Also, since the existing terminals were getting older, the upkeep and maintenance cost of the terminal would be expected to increase. Going forward, DIAL considered growth in housekeeping expense by real growth of 10% and inflation. Also, due to induction of new Terminal 1 the housekeeping expense will grow in consonance with increase in terminal area.

6.1.8 The cost towards insurance premium had seen a decline for past five years however, same trend won't continue for future as it had tested the bottom levels. In line with market trend the insurance premium for future was expected to cover at least the inflation and would definitely increase in proportion to capacity expansion. Accordingly, DIAL considered growth equivalent to inflation and passenger handling capacity of the Airport.

6.1.9 DIAL expected Consumables to grow by inflation and passenger handling capacity of the Airport.

6.1.10 Manpower hire charges and security expenses were expected to grow in line with the manpower cost plus inflation and passenger handling capacity.

6.1.11 Airport Operator Fee: In line with the Authority' decision no. 15.c of the Order No. 40/2015-16 dtd. 8th Dec'2015, DIAL considered 3% fee on aeronautical revenue as an aeronautical expense to be treated in the Target Revenue.

6.1.12 Property Tax: DIAL's forecasts towards property tax is seen in the table below;

Table 104: Property Tax submitted by DIAL for Third Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Aeronautical Tax	7.12	7.11	7.12	8.49	8.48
Non-Aeronautical Tax	0.73	0.73	0.73	0.86	0.87
Total	**7.84**	**7.84**	**7.84**	**9.35**	**9.35**

6.1.13 AAI VRS had been capitalized in DIAL books as an intangible asset. The Authority, vide decision no. 7.a of Order No. 03/2012-13, decided to expense out VRS based on actual payment made by DIAL. During the Third Control Period, DIAL made Rs. 1.22 Cr payment as per pre-decided payment plan.

6.1.14 Based on the above, DIAL projected the Efficient Operating Costs for the Third Control Period. DIAL had considered the allocation among aeronautical and non-aeronautical based on the allocation as per FY 2019.

Table 105: Operating Expense submitted by DIAL for Third Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Manpower Costs	192.77	221.58	267.45	390.44	448.81
Admin & General Expense	241.15	281.43	347.23	496.53	561.76
Utility Expense	142.98	162.06	213.80	281.13	304.71
Operating Expense	391.11	447.22	522.56	733.19	839.72
Airport Operator Fee	29.63	144.27	158.40	173.30	188.86
Property Tax	7.12	7.11	7.12	8.49	8.48
AAI VRS	1.22	-	-	-	-
Forex	19.54	19.54	104.16	6.94	6.94
Total Aeronautical Expense	**1,025.52**	**1,283.22**	**1,620.70**	**2,090.02**	**2,359.28**

6.2 Authority's Examination regarding Operating Expenses for the Third Control Period

The Authority had carefully examined DIAL's submissions regarding Operating Expenses for the Third Control Period and made the following observations;

Manpower Expenses:

6.2.1 The Authority had assessed that the effective CAGR considered by DIAL for projecting manpower expenses for the Third Control Period is 21.76% which included real increase of 10%, CPI Inflation of 4.5% and also increase on account of expansion consistent with the capacity enhancement towards additional runway as well as passenger terminal building and associated facilities. Authority had looked at the reasons enumerated by DIAL including retention of talent and passenger growth in DIAL. Authority looked at the passenger growth rate in DIAL for the Second Control Period including both domestic and international traffic which had grown at a CAGR of around 13.42% while the projected passenger traffic growth rate as shown by DIAL in the Third Control Period was only around 6%.

Authority had the view that if passenger traffic growth and employee retention were the reasons for the expected growth in manpower costs, then the same should have resulted in manpower cost growth in the past five years in which the passenger traffic growth rate clocked 13.42%.

Authority noted the past five year CAGR under the heads related to manpower expenses (including salaries, wages and bonuses) for DIAL was 9.06% while the past five year CAGR for manpower expenses concerning staff welfare funds was 0.61%. Authority had hence proposed to consider the past five year CAGR for the Third Control Period for manpower costs. The growth rate for the total manpower expenses including the salaries, wages, bonuses and staff welfare funds were considered at 9% consistent with the past five year CAGR for the manpower expense heads which would be trued up at actuals.

Admin and General Expenses:

6.2.2 The Authority looked at the growth rate submitted by DIAL regarding Admin and General Expenses and was of the view that the same was very aggressive as majority of the items had been projected to grow at a CAGR of 21.76% over the five year period. Authority had looked at each of the individual heads under Admin and General Expenses and had the following examinations considering the past five-year trend for each of these items:

- The Authority was of the view that in the case of items such as rents, Rates and Taxes, Professional and Consultancy expenses and other stationery costs in which no specific trend could be seen as there were fluctuations in these expenses over the years, the past five year average of these items could be considered constantly over the next five years in the Third Control Period. Accordingly, the past five-year average of these items were calculated and projected as a constant expense in the five years of the Third Control Period. The same would be trued up based on actuals at the time of tariff determination for the Fourth Control Period. The details are in the table below;

Table 106: Authority's Proposal with regards to Rents, Rates & Taxes, Professional and Consultancy Expenses and Printing and Stationery for the Third Control Period

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Past 5 year average	Proposed to be considered YoY for the Third Control Period
Rent	7.41	9.68	9.44	10.10	7.58	8.84	8.84
Rates & Taxes	2.3[illegible]	2.[illegible]5	1.25	1.10	1.25	1.68	1.68
Professional and Consultancy Expenses	50.27	48.76	47.19	73.06	57.02	55.26	55.26
Printing and Stationery	1.19	1.33	0.98	1.51	2.38	1.48	1.48

- The Authority formed the view that in the case of expenses such as travelling and conveyance, communication, advertising, costs allocated towards corporate overheads, other admin and general expenses, there was a clear trend in the past and hence the past five year CAGR which varied from 4.30% in the case of communication expense to 22.27% in the case of advertising and sales promotions was proposed to be considered. The growth rates proposed for each of these items are in Table 107.

Table 107: Growth Rates proposed to be considered by Authority for Travelling and Conveyance, Communication, Advertising and Sales Promotion, Corporate Cost Allocation and Other Admin and General Expenses during Third Control Period

Admin & General Expense	Growth Rate considered by the Authority
Travelling and Conveyance	12.49%
Communication	4.30%
Advertising and Sales Promotion	22.27%
Corporate Cost Allocation	21.18%
Other Admin & General Expenses	13.81%

- The Authority noted that Bank Charges had been projected by DIAL, cumulatively, to be Rs. 47.73 Cr over the five years in the Third Control Period. The Authority formed the view that given the adjustments in the Project Cost as proposed by the Authority with regards to efficient cost requirement, similar adjustment was to be considered for the Bank Charges as the Debt requirement to fund the efficient cost reduces proportionately. Hence Authority proposed to recalculate the Bank Charges for the Third Control Period as seen in the table below by a reduction factor of 0.82 (arrived by considering the Proposed debt of Rs. 6762 Cr as assessed by Authority to fund the Efficient Capex against the debt of Rs. 8290 Cr considered by DIAL to fund the capex estimate submitted in its MYTP). The details are in the table below;

Table 108: Bank Charges proposed to be considered by the Authority for the Third Control Period

FY ending March 31 (Rs Cr)	2020	2021	2022	2023	2024	Total
Bank Charges as submitted by DIAL	12.23	12.23	11.27	6.00	6.00	47.73
Bank Charges proposed to be considered by Authority	9.98	9.98	9.19	4.89	4.89	38.93

The Bank Charges as considered above would be trued up subject to the same meeting the test of efficiency as determined by the Authority at the time of tariff determination for the Fourth Control Period.

- The Authority had also excluded CSR expenses from the head under Admin and General Expenses as the same could not be treated as an Operating Expense in line with the detailed justifications mentioned under the true up for the Second Control Period in 3.5.14.
- The Authority formed the view that as the effective cost of debt including hedge costs had already been considered in the cost of debt, there was no requirement to provide for forex losses for the Third Control Period. The Authority would assess the cost efficiency of the funding means finally utilized by the operator towards funding the capex activities in the Third Control Period at the time of true up and, based on the same, would consider admitting certain forex losses incurred at actuals provided that the effective cost of debt doesn't exceed the cost of debt considered as per the Tariff Order for the Third Control Period.

The Admin and General Expenses were segregated as Efficient based on the Efficient Cost allocation percentage pertaining to Admin and General Expenses (86.57%) as mentioned under the Independent Study for Efficient O&M Cost segregation for the Second Control Period in Table 44. The details of the various heads under the Efficient Admin and General Expenses considered by the Authority are in the table below;

Table 109: Efficient Admin and General Expenses proposed to be considered by the Authority for the Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Admin and General Expenses					
Rent	7.66	7.66	7.66	7.66	7.66
Rates & Taxes	1.45	1.45	1.45	1.45	1.45
Professional and Consultancy Expenses	47.84	47.84	47.84	47.84	47.84
Printing and Stationery	1.28	1.28	1.28	1.28	1.28
Travelling and Conveyance	24.74	27.83	31.31	35.22	39.62
Communication Costs	2.14	2.23	2.33	2.43	2.53
Advertising and Sales Promotion	14.69	17.96	21.96	26.85	32.83
Corporate cost allocation	95.96	116.29	140.92	170.78	206.95
CSR	-	-	-	-	-
Bank Charges	8.64	8.64	7.96	4.24	4.24
Other Admin Expenses	17.19	19.57	22.27	25.34	28.84
Foreign exchange rate variation	-	-	-	-	-
Total Admin and General Expenses	**221.60**	**250.75**	**284.98**	**323.08**	**373.24**

Utility Expenses:

6.2.3 Authority had looked at the submission made by DIAL with regards to the utility expenses. Authority felt there is merit in the argument put forth by DIAL that increase in floor area for the first time post completion of the initial project in FY 2011 (which was during the First Control Period) should lead to an increase in utility related expenses. Authority had also noted as part of DIAL submission that solar panels had been installed by the cargo service provider and DIAL had also initiated power saving measures including installation of LED lights phase-wise. Authority hence had considered the submission made by DIAL with regards to utility expenses of which 100% has been considered as part of Efficient Cost towards tariff determination. Authority also proposed to true up the same based on actuals.

Operating Expenses:

6.2.4 The Authority had examined the submissions made by DIAL with regards to Operating Expenses and made the following observations;

- Authority formed the view that the growth rate of 21.76% over the projected five year period was very aggressive given the fact that DIAL was also incurring/ projected to incur General Capex towards upkeep of the assets.
- Authority formed the view that the Operating Expenses should follow the past trend and had hence considered the past five year CAGR while projecting the head wise expenses for the Third Control Period. Exceptions were made for certain expense heads such as R&M for Building and Insurance wherein a linear trend could not be established. In such a case, average of the past five year expense had been projected as a constant expense in the Third Control Period. In certain cases such as R&M for Other Assets and Consumables, Authority had proposed to consider the growth rate as projected by DIAL.

The growth rates considered by the Authority for expense heads under Operating Expenses are in the table below;

Table 110: Growth Rates proposed to be considered by the Authority for Operating Expenses for Third Control Period

Operating Expenses	Growth Rates considered by the Authority
Repair & Maintenance	
Plant & Machinery	*12.34%*
IT	*19.02%*
Others	*21.76%*
Housekeeping Expense	13.79%
Manpower Hire Charges	8.54%
Consumables	10.69%
Security	20.52%

The total Operating Expenses considered by the Authority for the Third Control Period would be trued up based on actuals at the time of tariff determination for the Fourth Control Period.

Airport Operator Fee

6.2.5 The Authority consistent with its proposal to calculate Airport Operator Fee as 3% of the Aeronautical Revenues of the previous year for the past Control Periods has proceeded to calculate Airport Operator Fee as 3% of the Projected Aeronautical Revenues for the previous year. The same would be trued up based on actuals at the time of tariff determination for the Fourth Control Period.

Property Tax

6.2.6 The Authority had examined DIAL's submissions regarding Property Tax and had proceeded to consider the same which would be trued up based on actuals at the time of tariff determination for the Fourth Control Period.

VRS Payment

6.2.7 The Authority had noted that DIAL expensed out VRS in FY 2020 on the basis of AERA's decision no. 7.a of Order 03/2012-13 (Tariff Order for the First Control Period) and the same had been considered.

Efficient Cost Segregation

6.2.8 The Authority had also proceeded to consider the cost segregation ratios determined based on the adjustment carried out by the independent study towards efficient operating expenses for the Second Control Period. The cost segregation percentages are in the table below;

Table 111: Operating Cost segregation percentages proposed to be considered by the Authority for Third Control Period

Operating Expenses	Cost allocation % as considered by Authority in the Third Control Period
Staff Cost	88.98%
AAI- VRS Payment	88.98%
Administrative and General Expenses	86.57%
Electricity and Water Charges	100%
Operating Expenses	87.76%
Property Tax	88.19%

6.2.9 Considering the above, Authority had revised the submission made by DIAL and considered the revised estimates for the Third Control Period as seen in the table below which would be trued up based on actuals.

Table 112: Efficient Operating Expenses proposed to be considered by the Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Manpower Cost	180.87	196.89	214.35	233.39	254.16
Admin & General Expense	221.60	250.75	284.98	323.08	373.24
Utility expense	142.98	162.06	213.80	281.13	304.71
Operating Expense	382.52	430.09	486.77	563.04	636.82
Airport Operator Fee	29.63	31.69	33.73	35.75	37.74
Property tax	7.01	7.01	7.03	8.41	8.40
AAI VRS	1.21	-	-	-	-
Total Aeronautical Expense	**965.83**	**1,078.49**	**1,240.65**	**1,444.81**	**1,615.07**

6.3 Stakeholder comments regarding Operating Expenses for the Third Control Period

6.3.1 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to determination of Operating Expenses for the Third Control Period. The comments by stakeholders are presented below;

DIAL's comments on Operating Expenses for the Third Control Period

6.3.2 DIAL has mentioned that the growth rate considered by Authority based on past 5-year CAGR doesn't reflect the serious iteration seen by DIAL in the employee strength. DIAL has not been able to replace the staff and the salary increase in DIAL has been less than the market standards. DIAL also requests the Authority to consider the expansion plan in which the terminal space is proposed to be increased by almost 20% from existing 669068 sqm to 797913 sqm, additional increase in airside space by 21.52 lakh sqm and the increase in capacity from 66 mppa terminal to 84 mppa terminal (a 27% increase).

DIAL has hence requested the Authority to consider the real increase of 10% and increase in manpower on expansion at 5% in the year of airside expansion and 27% in the year of completion of terminal expansion.

6.3.3 DIAL has indicated that the Professional and Consultancy Cost has been restricted by AERA to the average of last 5 years. However, on account of an increase in capacity and advisory requirements from industry experts, financial and legal advisors, at least an inflationary increase is to be provided for the Third Control Period.

DIAL has also requested for an annual increase in rentals to the extent of inflation as there is an inbuilt contract mechanism in these contracts.

DIAL has also requested Bank charges to be considered as per the submission as the same is based on contractual agreement with Lenders, with the charges being amortized over the bond period.

DIAL has also requested Authority to consider CSR expense for the purpose of tariff determination

6.3.4 DIAL has requested AERA to consider expansion factor while allowing Operating Expense as the operating expense is directly linked with operational area. Since there is significant increase in both terminal area as well as airside capacity there will be additional cost on account of expansion. The overall terminal area at IGI Airport including T1, T2 and T3 is 669068 sqm which with the expansion of Terminal 1 will increase by 128845 sqm. This translates in to increase of 19.26% in area.

Further, the Existing Assets of DIAL are more than 10 years old and due for major maintenance. Increase in minimum wages also resulted into significant increase in cost which will lead to overall increase in operating cost.

DIAL has also mentioned that the disallowance of the cost by the Authority will lead to day to day cash flow issues for DIAL and it may even face challenges to manage routine upkeep and maintenance of the Airport, which will ultimately impact the service levels.

Other Stakeholder's comments on Operating Expenses for the Third Control Period

6.3.5 MIAL commented that for projecting certain operating expenses like Rent, and Rates and Taxes, Authority should have considered DIAL's submissions for Third Control Period.

As per MIAL, expenses like Rent, and Rates and Taxes are governed by their respective agreements wherein escalation of expenses is applicable as per circulars/rules of relevant authorities. The Authority's approach to consider the average of past 5 years for such expenses are considered incorrect by MIAL and it requests the Authority to consider the projections submitted by DIAL.

6.3.6 IATA commented that a thorough review of operating expenses is to be carried out in the light of the pandemic.

IATA states that the current projections of operating expenses are not feasible due to the advent of covid-19 pandemic. IATA requests DIAL to undertake cost optimization measures in response to the pandemic to reduce cost below the levels of DIAL's initial submission. The detailed reasoning given by IATA is seen below;

"IATA would expect DIAL to rationalize its expenses (including staffing level) to correspond to its operation in degraded capacity mode during the pandemic and the subsequent recovery period. There is a need for airport to optimize its operation and reduce costs (without compromising safety) in light of the crisis. A year-to-year projected increase is simply not acceptable and unjustifiable under current environment. IATA is keen to learn more about any cost optimization measures by DIAL in response to the pandemic as practiced by other major airport operators in the region and the reduction in OPEX compared to DIAL's initial submission to AERA. AERA should then determine a level of efficient OPEX that is aligned with the current level of traffic. A number of airports around the world have been taking measures to minimize costs and DIAL should be no exception.

Separately, we noted that AERA has heavily relied on the usage of historic CAGR for determining the percentage growth of many of the OPEX subcomponents. Leaving aside the COVID-19 effect, there are a number of OPEX lines that deserve a much higher level of scrutiny. Just as an illustration, some comments that can be made from the assumptions taken in General Expenses:

- *Corporate cost overheads double from Rs. 79 Cr in 2019 to Rs 207 Cr. without any major explanation on what is driving those increases*
- *There is little rationale as to why advertising and sales promotion of the airport is needed. People use the airport because they want to fly to Delhi not because they want to use the airport itself*
- *There is no major explanation with regards to consultancy services*

The above is just an illustration. We see similar issues with many of OPEX subcomponents highlighted in table 94 of the CP, which have almost doubled over the period. In addition, any necessary delays in

CAPEX (as highlighted in the section above) should also be accompanied by delays in any related OPEX increase.

We would like to raise the issue again of the existence of the Airport Operator Fee, as there is no real service for such cost.

In summary, we urge AERA to take the following steps:

- *Recalculate opex for 2020 assuming all cost efficiencies possible in the light of the pandemic*
- *Review the growth rates assumed post 2020. In particular, scrutinise the real need for cost increases, rather than just relying on past growth (which could have been inefficient in the first place)*
- *Review any allowed opex in relation on the bases of a review capital expenditure program"*

6.4 DIAL's counter-comments and response to stakeholder comments regarding Operating Expenses for the Third Control Period

6.4.1 Subsequent to the Stakeholder Comments received by DIAL as part of Stakeholder Consultation Process, DIAL's response to the various stakeholder comments with respect to Operating Expenses for the Third Control Period are presented below:

DIAL's Response to IATA's comments on Operating Expenses for the Third Control Period

6.4.2 DIAL stated that IATA has not objectively stated any discrepancies in the cost incurred by DIAL and has rejected the independent study and Authority's assessment on no proper grounds. The detailed response by DIAL in this regard is seen below;

"As regard to the efficient cost determination, it is stated that the IATA has not objectively stated any discrepancies in the cost incurred by DIAL. It has however based on fictitious grounds rejected the study of an independent consultant as well as the assessment of the Authority. In this regard DIAL in Sept'2019 appointed Leigh Fisher to do a benchmarking of DIAL operating cost to similar airport. Leigh Fisher benchmarked DIAL cost vis a vis airports like Amsterdam, Changi, Heathrow, Beijing, HongKong, Melbourne, Mumbai, San Francisco, Tokyo Narita, Washington Dulls etc.. Out of 16 airports analyzed DIAL ranked at last in terms of total operating cost on capacity basis. This summarizes that DIAL is an Airport which has been operated at the lowest cost around the world."

6.4.3 DIAL also inducts the reasons for the growth rates considered for expense-heads like Corporate Cost, Advertisement and Sales Promotion, Consultancy Expenses and existence of service under Airport Operator Fee. The detailed response of DIAL in this regard is seen below;

"Delhi Airport in order to address the business complexities as well as policy advocacy need advice from domain experts in various areas. At Airport sector a pool of experts are available in the field of Finance, Taxation, Operations, Commercial, IT, HR, Legal and construction management which are used by DIAL along with other airport entities within group.

Corporate departments help to bring in standardization in systems, processes, resources and activities, it is a repository of best practices, able to leverage the brand name of the group and DIAL also leverage the experience and business knowledge of key people, the experience of which cannot be duplicated. The costs of hiring consultant from outside for various activities on need basis is very high and it is charged on hourly basis. Using a pool of experts in their own area certainly help in reducing the costs

आ.वि.आ.वि.प्रा.
AERA
सत्यमेव जयते
Airports Economic Regulatory Authority of India

as well as ensure availability of consultant/expertise available round the clock. It is the most efficient way to manage the resources in a pool.

Since Delhi Airport is going for major expansion, the airport will require domain expert as well as policy level guidance in various areas where availability of external consultants/expertise is not easily available. These resources have been associated with DIAL since long and developed expertise specific to airport sector. These experts are in demand outside hence in order to retain them within sector, it becomes all the more necessary to compensate them adequately hence a reasonable annual increase is in evitable. Accordingly, DIAL estimated that the corporate cost will increase basis expansion growth, real increase as well as inflation. However, AERA restricted the growth to the level of past five year CAGR. It may be seen that such costs are justified when we are witnessing an expansion of almost double the existing capacity. The current expansion is unique in nature and with this expansion the area of operation of DIAL will increase significantly hence there will be increase in number of resources so as to address the increased operation and provide desired support as and when required.

With respect to advertisement and sales promotion expenditure IATA stated that these expenses are not required as people use the airport only to fly. In this regard we would like to excuse the ignorance shown by IATA, and for the fact of the matter would like state that the travel retails plays significant role in overall airport business. Also in case of DIAL a significant portion of aeronautical revenue is being cross subsidized by non-aeronautical business. Advertising and sale promotion not only improves the airport visibility to attract traffic, introduction of new routes and airlines but also improved non-aero revenue which ultimately reduces tariff burden on passengers as well as airlines. Further, it may be perused that the advertisement expenses are also related to various public notices issued in the newspapers in discharge of DIAL's obligations including tendering and other aspects. In a complex retail environment where competition is very tough and e-commerce is taking the business away from the retailers, advertisement and sales promotion is very important to drive the attention of the traveler to buy at the airport rather the buying through e-commerce site.

DIAL has proposed to consider the Consultancy expense to grow in line with inflation, real growth as well as expansion. The consultancy goes hand in hand with the business growth and capacity increase. DIAL is increasing its capacity accordingly there will need of more advise from industry experts, innovation etc. on airport operation and related area, financial consultant, legal advisors etc. Most of the consultants and industry experts are charging hourly fee as their availability is not that easy as well as they are in demand hence their costs increases more than the annual inflation.

We strongly disagree on IATA remark wherein they have questioned the existence of service under airport operator fee. In accordance with concession agreement Schedule 8 of OMDA, DIAL was required to put in place an Airport Operator Agreement to ensure DIAL operates, maintains and manages the Airport in order to meet the stated service standards. The scope of services includes general services, manager services and consultancy services which are related to the operation and maintenance of Aeronautical and Non-Aeronautical assets. DIAL in past with the help of airport operator was able to achieve various significant milestone and operation efficacy. The experience of airport operator in the specific field of airport operation gives DIAL an advantage in effective airport operation. Further, it is DIAL's responsibility and obligation to operate and manage the airport efficiently and hence DIAL has to make available all experience and airport expertise to manage airport efficiently and with high standard service levels.

भा.वि.आ.वि.प्रा.
AERA

Further, on recalculation of FY'2020 expenditure we would like to submit that DIAL had estimated operating expense to the tune of Rs 8379 cr for third control period, however same has been reduced to Rs 6345 Cr by the Authority in the consultation paper. Authority in the consultation paper had already reduced opex for the control period around 24% from the submission of DIAL. The said reduction itself is significant considering the airport is due for expansion.

Further, DIAL had to incur additionally Rs 5-10 Cr additionally due to COVID in FY'20 and considering the current situation this expense will further increase in coming years to rebuild the confidence of the passenger in air travel."

6.5 Authority's Examination on Stakeholder Comments regarding issues on Operating Expenses for the Third Control Period

6.5.1 Authority has noted the comments made by IATA regarding review of operating expenses and DIAL's response to IATA's comments regarding the same for the Third Control Period. Authority agrees with IATA that the projections considered in Consultation Paper No. 15/2020-21 cannot be considered justifiable in light of the impact of the COVID-19 pandemic and the operating expenses to be considered would have to be rationalized appropriately against the expenses considered in Consultation Paper No. 15/2020-21. In this regard, Authority has sought the revised submissions with regards to operating expenses from DIAL which could be seen in the table below;

Table 113: Revised Aeronautical Operating Expenses as submitted by DIAL for the Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
Manpower Cost	189.77	199.26	229.04	276.45	403.58	1,298.10
Admin & General Expense	298.06	257.12	410.96	345.03	501.68	1,812.85
Utility expense	69.70	71.93	103.72	128.19	247.36	620.90
Operating Expense	347.52	350.56	424.74	494.40	691.31	2,308.53
Airport Operator Fee	29.63	28.47	64.95	194.47	273.99	591.51
Property tax	17.10	9.98	9.98	10.00	11.97	59.03
AAI VRS	1.22	-	-	-	-	1.22
Total Aeronautical Expense	**953.00**	**917.32**	**1,243.39**	**1,448.54**	**2,129.89**	**6,692.14**

Authority has then proceeded to examine each of the above expense-heads as shown in the paras below;

Manpower Expenses

6.5.2 Authority has examined the revised submissions made by DIAL regarding manpower expenses. In this regard, Authority has decided to consider the manpower expenses for FY20 at actuals consistent with DIAL's submissions. For FY21, Authority has noted that DIAL has considered increase of 5% for manpower related expenses. Authority is of the view that in light of the current pandemic, DIAL should consider reducing costs and the existing manpower ought to be sufficient for airport operations in FY 2021 and given the economic scenario and salary freeze across the various service industries, DIAL should be able to retain the manpower cost at FY 2020 levels itself. Based on this, Authority has decided to consider manpower expenses in FY21 equivalent to actuals incurred in FY20.

For the remaining years for the Third Control Period, Authority has noted that DIAL has considered a 10% increase in manpower cost along with a nominal inflationary growth of 4.5%. DIAL has also considered an expansion factor of 5% in FY23 due to airside expansion and 27% in FY24 due to terminal expansion. Authority is of the view that as the passenger growth would regain FY20 levels only in FY23, the growth rates considered in Consultation Paper No. 15/2020-21 for manpower expenses ought to be considered as the same is based on past established growth. Authority considers that as the traffic at airport would be lower than the capacity added, the efficient utilization of the manpower would negate the need for an increase in manpower due to airside and terminal expansion. Thus, Authority has decided to consider an increase of 9% for manpower expenses from FY22 to FY24, consistent with the proposal in Consultation Paper No. 15/2020-21. The manpower costs shall be trued up at actuals subject to the same being assessed to be efficient during the tariff determination for the next Control Period.

Admin & General Expenses

6.5.3 The Authority has examined the revised submissions made by DIAL with regards to Admin & General expenses. Authority has decided to consider the Admin & General expenses at actuals for FY20 and as projected by DIAL for FY21.

For the balance years with regards to expense-heads such as Rent, Rates & Taxes, Printing & Stationery, Travelling & Conveyance, Communication costs, Advertising & Sales Promotion, and other Admin & General expenses, Authority has decided to consider the expenses as per the submissions made by DIAL as the growth rate in these items seem to be consistent with Authority's proposals in the Consultation Paper or have lesser contribution on the overall Admin and General expenses.

With regards to Professional & Consultancy expenses, DIAL has considered a 20% decrease in FY21 compared to FY20 and for FY22, DIAL has considered costs equivalent to FY20. For FY23 & FY24, DIAL has considered real growth of 10% along with nominal inflationary growth of 4.5% and expansion factor of 5% in FY23 due to airside expansion and 27% in FY24 due to terminal expansion leading to a considerable escalation in this cost. Authority has noted that for Professional & Consultancy expenses, no specific trend could be observed over the years. Authority has decided that beyond FY21, the Professional & Consultancy expenses should be considered at the cost equivalent to the expense incurred in FY20. Authority is also of the view that Legal Expense, which forms a part of Professional & Consultancy Expenses, would be allowed only for purposes related to aeronautical services subject to efficiency tests and necessity of incurrence of the same.

With regards to Corporate Cost Allocation, Authority noted that DIAL has registered a sharp decline in FY20 compared to FY19 and has considered a moderate increase of 5% in FY21. From FY22 to FY24, DIAL has considered real growth of 10% along with nominal inflationary growth of 4.5% and expansion factor of 5% in FY23 due to airside expansion and 27% in FY24 due to terminal expansion. Authority has examined DIAL's submissions and is of the view that the growth rates considered by DIAL from FY22 to FY24 are higher and may not materialize in the future. In this regard, Authority has decided to project the Corporate Cost considering a growth rate of 5% from FY22 to FY24 consistent with the growth rate projected for FY21.

Authority has noted that DIAL has projected Bank Charges to be Rs. 53.34 Cr from FY21 to FY24. Authority, consistent with its proposal in Consultation Paper No. 15/2020-21, is of the view that adjustments have to be carried out for Bank Charges consistent with the adjustments carried out in the Project Cost for Third Control Period. In this regard, Authority has decided to recalculate the Bank Charges for the Third Control Period by a reduction factor of 0.78 (arrived at by considering debt of

भा.वि.आ.वि.प्रा
AERA

Rs. 6,095.13 Cr assessed by Authority to fund the Project Cost against the debt of Rs. 7,815.01 Cr assessed by DIAL).

Authority, consistent with its proposals in Consultation Paper No. 15/2020-21, has decided to exclude Donations, Bad Debts, CSR expenses, and foreign exchange rate variation/losses from efficient operating expenses for Third Control Period.

Authority has considered the allocation ratio of 86.57% for Admin & General expenses as recommended by the independent study for Efficient O&M cost segregation for the Second Control Period. The Admin & General expenses considered by the Authority are in the table below;

Table 114: Efficient Admin & General Expenses decided to be considered by Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
Professional and Consultancy Expenses	85.77	68.62	85.77	85.77	85.77	411.71
Corporate Cost Allocation	62.72	65.[illegible]	69.15	72.61	76.24	346.56
CSR	-	-	-	-	-	
Bank Charges	9.71	9.84	9.83	7.97	8.87	45.73
Balance Admin Expenses	70.26	59.34	73.63	87.77	124.81	415.83
Foreign exchange rate variation	-	-	-	-	-	-
Total Admin and General Expenses	**228.47**	**203.17**	**238.39**	**254.12**	**295.69**	**1,219.84**

Utility Expenses

6.5.4 Authority has examined the revised utility expenses submitted by DIAL. Authority has observed that there is a sharp decrease in utility expenses in FY20 from FY19. Infact, the utility expenses in FY 2019 also has decreased from FY 2018 levels. As per DIAL, the decrease in FY20 expenses is due to a one-time adjustment due to change in cost optimization strategy where DIAL has adopted the following measures to reduce costs.

- Installation of LED lights which has reduced the consumption
- Maintaining and controlling AC systems with time and temperature management.
- Review of recovery of electricity costs from various stakeholders both in terms of cost per unit and quantum.

Authority is of the view that the above savings due to cost optimization could be sustained in the future and hence is of the view that the utility expenses as projected by DIAL have to be adjusted accordingly. Due to the restrictions on account of the ongoing pandemic, the airport operations were paused for most of Q1FY21. The flight operations resumed towards the end of May 2020 with DIAL only operating Terminal 3. From October 01, 2020, DIAL resumed its operations in Terminal 2 while Terminal 1, which is undergoing expansion, remained closed. Considering this, Authority is of the view that DIAL's projection of utility expense for FY21 being marginally higher than FY20 does not hold any merit. Authority, thereby, has decided to consider a decrease of 20% for utility expenses in FY21 compared to expense incurred in FY20.

For FY22 and FY23, Authority has decided to project utility expenses considering the units consumed per ATM traffic in FY 2019 and has correspondingly projected the utility expenses in FY22 and FY23 based on the ATM traffic projected in FY22 and FY23 along with the nominal inflationary growth of 4.60% each year. Authority has considered the base year as FY19 as the traffic levels of FY19 are passed only in FY24.

सत्यमेव जयते
भा.वि.आ.वि.प्रा.
AERA

For FY24, Authority has decided to consider an increase of 19.26% from the utility expenses projected in FY23 which is equivalent to the increase in area due to airport expansion along with the inflationary growth of 4.60%. Authority has also decided to subject utility expenses for true up based on actuals subject to the expenses being considered as efficient.

Operating Expenses

6.5.5 Authority has examined the comments made by DIAL with regards to the revised Operating Expenses. Authority has decided to consider the actual operating expenses for FY20 as submitted by DIAL. Authority has also decided to consider the FY21 operating expenses as projected by DIAL.

The growth rates considered by DIAL from FY22 to FY24 for various expense-heads under Operating Expenses are as follows;

- With regards to Repair & Maintenance expenses (except Other R&M expenses) and Housekeeping Expenses, real growth of 10% along with the nominal inflationary growth and expansion factor of 5% for airside expansion (FY23) and 27% for terminal expansion (FY24) from FY22 to FY24.
- With regards to Manpower Hire Charges and Security Expenses, growth in manpower cost of 10% along with the nominal inflationary growth and expansion factor of 27% in FY24 on account of terminal expansion from FY22 to FY24.

Authority is of the view that the growth rates considered by DIAL are aggressive in nature as the above-mentioned operating expenses are projected to increase at a CAGR of 25.40% from FY22 to FY24. Authority is of the view that the growth rates considered by DIAL need to be restated and given the past growth rates of these items as considered in the Consultation Paper No. 15/2020-21 might be apt for the years from FY 2022 till FY 2024. Thus, Authority has decided to project the above expense-heads from FY22 to FY24 consistent with the growth rate considered in the Consultation Paper as shown in Table 110.

Regarding the balance expense heads such as Other R&M Expenses, Insurance and Consumables, Authority has decided to consider DIAL's revised projections from FY22 to FY24 for the Third Control Period.

6.5.6 Authority has noted IATA's comments with regards to Airport Operator Fee and agrees with DIAL's view that the airport operator is appointed as per the requirement under OMDA and hence the same has to subsist. Authority, consistent with its proposal in Consultation Paper No. 15/2020-21, has thus decided to consider the Airport Operator Fee for Third Control Period as 3% of the projected aeronautical revenues of the previous year. The Airport Operator Fee would be considered for true up based on actuals at the time of tariff determination for the Fourth Control Period.

6.5.7 Authority has noted that there is a sharp one-time increase in property tax incurred by DIAL in FY20 as per their submissions. DIAL's reasoning for this one-time increase is quoted verbatim below;

"The payment of property tax in FY'20 has been increased to Rs 19.06 Cr from Rs 7.84 Cr in FY'19. The key reason of increase is due to payment of Rs 8 Cr to Delhi Cantonment Board. Delhi Cantonment Board had raised property tax demand on provisional basis which had been contested by DIAL in high court. Hon'ble high court on 2nd Dec'2019 had pronounced the order suggesting CEO DCB to settle the dispute by giving hearing to DIAL and also directed DIAL to pay Rs. 8 Cr as adhoc pending settlement of dispute. Accordingly DIAL in FY'20 had paid Rs 8 Cr additionally to DCB for the period

FY'17-FY'20. However final liability will be subject to settlement of dispute as matter is pending in High Court of Delhi."

Based on the above, Authority has decided to consider Property Tax for FY20 as per DIAL's submissions and project the same beyond FY20 consistent with DIAL's submissions for the future years. The same shall be trued up based on actuals subject to the outcome of the litigations pending in this matter.

6.5.8 Authority has decided to consider VRS payment to AAI for Third Control Period consistent with its proposal for the same in Consultation Paper No. 15/2020-21.

6.5.9 With regards to efficient cost segregation, Authority has decided to consider the cost segregation ratios as recommended by the independent study on Efficient O&M cost allocation. The cost allocation percentages are as provided in Table 111.

6.5.10 Authority has also noted the comments made by IATA with regards to the optimization of costs by DIAL and has observed the comments with regards to usage of past CAGR for the estimation of future operating expenses. Further to the counter comments made by DIAL in this regard which threw light on DIAL's cost per PAX being the lowest in the world, Authority would like to submit that in the absence of proper benchmark to estimate operating expenses in the future on an accurate basis, the past CAGR and other metrics provide a more reasonable guideline for opex cost estimation. Hence the same has been adhered to by the Authority. To mitigate some of the issues raised by IATA in terms of doubling of certain cost items over a period of 5 years, Authority would like to reiterate that apart from truing up the operating costs based on actual incurrence, Authority would also specifically admit costs only based on reasonableness and efficiency.

6.5.11 Considering the above, the revised operating expenses for Third Control Period considered by the Authority are in the table below and shall be considered for true up based on actuals in the next Control Period subject to the expenses being assessed to be efficient.

Table 115: Efficient Operating Expenses decided to be considered by Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
Manpower Cost	[illegible]	[illegible]	[illegible]	[illegible]	242.42	1,045.89
Admin & General Expense	228.47	[illegible]	[illegible]	[illegible]	295.69	1,219.84
Utility Expense	69.70	55.76	70.97	120.66	150.51	467.60
Operating Expense	342.08	345.45	392.46	442.38	515.88	2,038.24
Airport Operator Fee	29.63	28.47	8.35	18.33	29.83	114.61
Property Tax	16.80	9.76	9.76	9.76	11.63	57.70
AAI VRS	1.21	-	-	-	-	1.21
Total Aeronautical Expense	**875.96**	**830.67**	**924.55**	**1,067.95**	**1,245.96**	**4,945.09**

6.6 Authority's Decisions regarding Operating Expenses for the Third Control Period

Based on the material before it and based on its analysis, the Authority has decided the following regarding Operating Expenses for the Third Control Period.

6.6.1 Authority decides to consider Operating Expenses for FY20 based on actuals subject to exclusion of Bad Debts, CSR expenses, Donation and Forex losses and consider the expense segregation ratios for efficient costs as suggested by the Independent Study for the Second Control Period.

6.6.2 Authority decides to consider manpower expenses from FY21 to FY24 as per Para 6.5.2 which shall be trued up based on actuals during the tariff determination for the next Control Period.

6.6.3 Authority decides to consider Admin and General expenses as per Table 114. These expenses shall be trued up based on actuals during the tariff determination for the next Control Period.

6.6.4 Authority decides not to consider forex losses as the cost of debt considered includes hedge costs while forex losses incurred based on actuals shall be considered subject to assessment of cost efficiency at the time of true up while determining tariff for the Fourth Control Period.

6.6.5 Authority decides to project utility expenses from FY21 to FY24 as per Para 6.5.4 subject to be trued up based on actuals during tariff determination for next Control Period.

6.6.6 Authority decides to consider Operating Expenses as per Para 6.5.5 subject to be trued up based on actuals during the tariff determination for the next Control Period.

6.6.7 Authority decides to consider Property Taxes as per Para 6.5.7 and VRS payments as per Para 6.5.8 subject to be trued up based on actuals during the tariff determination for the next Control Period.

6.6.8 Authority decides to consider 3% of the projected Aeronautical Revenue for the previous year as Airport Operator Fee.

6.6.9 Authority decides to consider cost segregation ratios based on the recommendations of the independent study for Efficient O&M Cost segregation for the Second Control Period.

6.6.10 Authority decides to true up the Operating Expenses determined as per Table 115 based on actuals at the time of tariff determination for the Fourth Control Period subject to the efficiency tests for various components of operating expenses.

भा.वि.आ.वि.प्रा.
AERA

CHAPTER 7. REVENUE FROM REVENUE SHARE ASSETS FOR THIRD CONTROL PERIOD

7.1 DIAL's Submissions regarding Revenue from Revenue Share Assets for the Third Control Period

7.1.1 DIAL submitted that due to expansion works, part of its Terminal 1 operation had to be shifted to Terminal 2 which would lead to decline in non-aero revenue for the airport as the area utilised by non-aero activities will be reduced. The split in traffic, lower commercial area at Terminal 2, and reduction in commercial area at Terminal 1 shall contribute to the estimated decline.

Air Traffic Related Revenue

7.1.2 DIAL informed that DGCA vide notification Sl. No. 10/2018 dated 25th Oct'2018 had modified ground handling policy and the relevant extract is shown below;

"(a) All domestic scheduled airline operators and scheduled helicopter operators will be free to carry out self-handling at all airports including Civil Enclaves.

(b) A foreign airline may undertake self-handling in respect of passenger and baggage handling activities excluding security functions listed out in para 1 of AVSEC Order 03/2009 at the airport terminals restricted to the passenger check-in at pre security hold area, at all the airports except Civil Enclaves or Joint User Defence Airfields."

DIAL formed the view that the above policy change shall impact Third Party Ground Handling revenues as it will be cost efficient for airlines to do self-handling and accordingly most of the airlines may start self-handling, which will result in reduction of revenue share income to DIAL from such third party ground handler. DIAL had hence adjusted the revenues from Third Party Ground Handling accordingly. DIAL had projected other Ground Handling revenue in line with the overall ATM growth. Similarly, BME revenue was expected to grow in line with the ATM growth.

Passenger Traffic Related Revenue

7.1.3 DIAL had projected Revenue from Flight Kitchen to grow in line with the overall pax. growth which was in the range of 5% to 7%. Flight Kitchen revenue majorly came from Full Service Carriers (FSC), however the passenger growth was mainly expected towards Low Cost Carriers (LCC) hence the growth towards this stream was expected to be subdued. DIAL had mentioned that as per the FY'18 statistic, it could be inferred that almost 58% of the passengers, including domestic FSC and international FSC, contributed almost 86% of Flight Kitchen revenue and only 14% revenue came from LCC carriers. Hence the growth rate for this stream of revenue had been considered at 6%-8%.

7.1.4 Revenue from Car Parking was projected to be impacted by other factors such as alternate mode of transport, availability and tariff. Delhi Metro on June'2018 commenced operation of one metro station at domestic airport. This metro station connected Airport to various parts of city and accordingly it would cause an adverse impact over the car parking revenue. Upcoming expansion work at Terminal 1 would lead to reduction in available parking bays and better bus connectivity to city would also have adverse impact over car park revenue. As per the concession agreement, the revenue share from the car park JV would increase to 40% from current level of 20% w.e.f 1st April'2020. The impact of the increased revenue share was considered in the projections of revenue from car park. With respect to car park revenue forecast, DIAL had assumed growth in line with the pax growth and no growth in the year of completion of expansion work at Terminal 1. Increase on account of revenue share had also been considered.

7.1.5 Radio taxi model was considered to be in its last leg due to wider popularity and acceptance of taxi aggregators like Ola and Uber. There was a continuous drop in radio taxi business. The radio taxi count had also been reduced to 12.80 lakh in FY'17 from 15.06 in FY'16 (15% reduction) and further 11.20 lakh in FY'18 (12% reduction vis a vis FY'17). It was assumed that the income for radio taxi would reduce in the coming years. DIAL had hence considered that the revenue from radio taxi would remain at the same levels including inflation impact.

7.1.6 Though in FY'18 Retail duty paid had observed exceptional growth due to onetime refresh, DIAL expected that the same growth shall not continue. The shifting of domestic operations from Terminal 1 to Terminal 2 had adverse impact on retail revenue. Due to this shifting, the average monthly sale at various outlets at Terminal 1 dropped by almost 30%. Hence DIAL had mentioned that the revenue from retail duty was not expected to grow more than 6%-8% which was in line with the overall passenger growth. Also, there would be no growth in the year prior to the expansion work of Terminal 1 due to relocation activities and disruption in the operations.

7.1.7 DIAL had mentioned that F&B revenue in the past three years had seen double digit growth, however the same would not sustain in long run. In FY'18, there was F&B refresh which led to growth in F&B revenue. Similar to the retail duty at Terminal 1, the F&B average monthly sale had been reduced by 30% due to shifting of domestic operations from Terminal 1. Going forward, DIAL estimated that this growth might not sustain and accordingly, in case of F&B and lounge, had considered growth in line with the passenger traffic, and no growth had been considered twelve months prior to the completion of Terminal 1 expansion work due to relocation activities. Other non-aero revenue was expected to grow in line with the passenger growth.

7.1.8 DIAL had mentioned that duty free area had reached its saturation level and there was no room for any inorganic growth. DIAL had also mentioned that there were various international airports being developed in India which would result in lower international traffic at Delhi Airport. Growth at Delhi airport was expected to be as per pax growth which was still higher than the trend at competitive Airports. Considering above factors, DIAL had considered a growth in duty free revenue in line with international pax growth.

<u>**Other Revenue from Revenue Share Assets**</u>

7.1.9 The inorganic growth in case of advertisement came from creation of new sites. As per DIAL's submission, currently, advertisement capacity at Delhi Airport had reached its saturation level and going forward, advertisement revenue would see only organic growth. Also, from pricing strategy perspective cost of advertisement at Delhi Airport was already very high compared to any other location of Delhi. Hence, there was no room for price increase. Accordingly, DIAL had considered organic growth in terms of inflation only.

7.1.10 Due to increase in usage of credit card as well as digitization there was expected de-growth in the forex revenue. DIAL had assumed 10% YoY de-growth in forex revenue. However, with inflationary increase of 4.5% the effective de-growth had been assumed at 5.5%.

7.1.11 In recent past there were one time land allotments like land for Terminal 1C to DCSC, land allotment for MRO and FBO, commencement of new air cargo logistic facility (ACLC). However, going forward there was no business plan for allotment of new land/space. Hence, going forward DIAL had considered only 7.50% growth in line with the contractual arrangement.

7.1.12 Other contract linked non-aero revenue such as hangar, Common Area Management (CAM), Airport Service Charges (ASC), transit hotel and telecom were expected to grow by CPI linked inflation by DIAL.

IT JV

7.1.13 The outsourcing of IT works brought efficiency and benefit to DIAL. DIAL had entered into a Master Service Agreement with an IT service provider. This contract was in the nature of cost contract which ensured minimum subsistence level to the service provider. Any shortfall to the subsistence level had been funded by DIAL and similarly the excess amount being paid to DIAL. The income from IT JV had been considered based on contractual arrangement till FY'20. The Revenue for FY'21 to FY'24 had been considered based on expected arrangement of revenue share with the JV.

Cargo Revenue

7.1.14 DIAL had also submitted that the Cargo Revenue was expected to grow organically in line with the cargo traffic projection.

Revenue from Revenue Share Assets

7.1.15 Further, the cross subsidy from Revenue Share Assets would include Fuel Throughput Income and exclude revenue from AAI/Existing Assets. Further, DIAL had requested that the S-Factor should be considered post Annual Fee payable to AAI. DIAL had accordingly considered the S-Factor in calculation of Target Revenue for the Third Control Period as per the table below;

Table 116: Revenue from Revenue Share Assets submitted by DIAL for Third Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Fuel Farm	198.11	211.01	223.55	235.92	247.99
Ground Handling	102.54	109.21	115.71	122.11	128.35
BME	9.56	10.19	10.79	11.39	11.97
Flight Kitchen	69.44	74.52	79.68	84.80	89.83
Car Park	33.29	71.46	71.46	76.05	80.57
Radio Taxi	18.58	18.58	18.58	18.58	18.58
Retail duty paid	166.96	173.08	173.08	178.64	183.94
F&B	113.47	121.78	121.78	129.60	137.29
Lounge Income	49.22	52.82	52.82	56.21	59.55
Other passenger linked Revenue	23.95	25.71	27.49	29.25	30.99
Duty Free	480.27	511.74	543.81	575.76	607.48
Advertisement	168.35	175.93	183.84	192.11	200.76
Forex	61.79	58.11	54.66	51.40	48.35
Land & Space	362.74	389.94	419.19	450.63	484.42
Other contract linked revenue	102.05	106.38	110.91	115.64	120.58
IT JV	78.12	19.00	20.31	21.62	22.90
Cargo	248.69	263.72	279.16	294.71	310.34
Other Income	-	-	-	-	-
Gross Total	**2,287.13**	**2,393.18**	**2,506.82**	**2,644.41**	**2,783.90**

Airports Economic Regulatory Authority of India

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
NAR for Cross Subsidy as per AERA	2,287.13	2,393.18	2,506.82	2,644.41	2,783.90
Cross Subsidy post reduction of Revenue from Existing Assets and Disallowed Area	548.91	580.15	613.65	654.35	695.62
Cross-subsidization after Revenue Share	**296.47**	**313.34**	**331.43**	**353.41**	**375.71**

7.1.16 DIAL also had informed that the Non-Aeronautical Revenue for Cross Subsidy does not include the profit on sale of assets or non-current inventory and income earned from interest, dividends, SEIS valuation and exchange difference which was projected to be nil as per the MYTP.

7.2 Authority's Examination regarding Revenue from Revenue Share Assets for Third Control Period

7.2.1 The Authority had carefully examined DIAL's submissions regarding various non-aeronautical revenue streams for the Third Control Period and made the following observations.

Revenue from Fuel Throughput Charges

7.2.2 The Authority had looked at DIAL's submission regarding revenue from Fuel Farm Throughput Charges. The Authority was also in receipt of the communication from MoCA, via letter F.No. AV-13030/216/2016-ER dated 8th Jan'2020, wherein such charges had to be discontinued for all airports, which had been forwarded to DIAL. DIAL had replied to the same requesting for a compensatory tariff under aeronautical charges till the tariff determination is finalized for the Third Control Period. Authority formed the view that some compensation had to be paid to the airport operator to compensate for the revenue lost. Authority also proposed to consider such revenue as aeronautical revenue in consonance with the earlier proposals with regards to Fuel Throughput Charges as mentioned in the Tariff Order for the First and Second Control Periods.

Revenue from Ground Handling

7.2.3 Authority had looked at the justification provided by DIAL for the projected revenue from Ground Handling services including the policy of MoCA and had agreed to consider the estimated revenue from Ground Handling as submitted by DIAL, subject to true up. In the case of revenue from Bridge Mounted Equipment, Authority formed the view that the past CAGR was considerably higher which shouldn't be discounted and had hence proposed to consider past five year CAGR as the projected growth rate for this revenue head in the Third Control Period. The revenue from Ground Handling including revenue from Bridge Mounted Equipment would be trued up at the time of tariff determination of the Fourth Control Period.

Revenue from Flight Kitchen

7.2.4 The Authority had examined the submissions made by DIAL regarding revenue from Flight Kitchen. The Authority had observed that the growth rate projected by DIAL was significantly less than the actual growth rate in the Second Control Period. The Authority formed the view that the past five year growth rate should be sustainable and expected the past five year growth to continue in the next Control Period. The Authority had thus proposed to consider the past five year CAGR as the expected growth rate for this revenue stream in the Third Control Period.

Revenue from Retail, F&B, Lounge and Car Park

7.2.5 The Authority had examined DIAL's submissions regarding Retail, F&B, Lounge and expected that the past five year growth could continue for these revenue streams. The Authority formed the view that

Economic Regulatory Authority of India

there was no strong reason to consider any tempered growth rate as these revenue items in the past had grown independent of the Pax traffic growth rate which could be seen in the high growth rates for FY 2019 even when the Pax traffic growth rates had tempered. Authority hence proposed to consider the past five-year CAGR for the revenue streams under Retail, F&B and Lounge. However, Authority had considered the reasoning behind the moderated projection for revenues from Car Park (MLCP) and radio taxis as submitted by DIAL and had hence proposed to consider the growth rate submission of DIAL as it is for these revenue streams.

Revenue from Duty Free Related Services

7.2.6 The Authority had examined DIAL's submissions with regards to duty free related income and had observed that DIAL had considered a highly moderated growth rate vis a vis the actuals in the past. Authority formed the view that these revenue streams, in line with the above mentioned items such as Retail and F&B, had grown at a consistently high growth rate in the past and hence proposed to consider the past five year CAGR for this revenue item.

Revenue from Advertisements

7.2.7 The Authority had carefully examined the submissions made by DIAL regarding advertisement revenue and considers that DIAL was underestimating the potential revenue from advertisements. Authority expected the growth from advertisements to continue as in the previous Control Period and thus had decided to consider the actual growth rate achieved in the previous Control Period i.e. the five year CAGR for the Second Control Period.

Revenue from Land Leases and Spaces

7.2.8 The Authority had examined DIAL's submission regarding the revenue stream from land and spaces and noticed that the growth rate had tapered down to 9% in FY 19 from the 12% rate in FY 18 and 15% rate in FY 17. As per the reasons provided by DIAL, the high growth rates in earlier years were due to one-time land allotments and hence were not sustainable in the future. Authority hence proposed to consider the growth rate as submitted by DIAL for the future years in the Third Control Period for this revenue stream.

Revenue from Forex, Hangar, Common Area Management and Transit Hotel

7.2.9 The Authority after examining the submissions made by DIAL had decided to consider the past five year CAGR for revenues from Forex, Hangar, Common Area Management, Airport Service Charge, and Transit Hotel for Third Control Period.

Revenue from Banks and Telecom

7.2.10 Authority had noted the revenue stream from Banks and Telecom had been inconsistent in the past and no trend could be established. However, given the fact the same was part of specific contract linked revenue, Authority now proposes to consider the projection as made by DIAL for the Third Control Period for these revenue items which shall be trued up at actuals at the time of tariff determination for the Fourth Control Period.

Revenue from IT JV

7.2.11 The Authority had examined DIAL's submissions regarding revenues from IT JV based on the contract already entered into by them/expected revenue share from such arrangement and proposes to consider such revenues as projected by DIAL.

सत्यमेव जयते
भा.वि.आ.वि.प्रा
AERA

Revenue from Cargo

7.2.12 The Authority had examined DIAL's submissions regarding revenues from Cargo. The Authority formed the view that even though the growth rate as considered by DIAL was conservative compared to the past five year CAGR of 10.7%, the growth rates in each of the past years had not been consistent, with the growth rate very subdued in the initial half of the Second Control Period and comparatively higher in the latter half of the Second Control Period. The Authority hence proposed to consider the cargo traffic growth rate as submitted by DIAL for projecting revenues from this stream in the Third Control Period.

Other Income

7.2.13 The Authority had noted that DIAL had projected Other Income as nil. The Authority, at the time of truing up for the Second Control Period in this Tariff Order, had proposed to consider Other Income excluding dividend income as part of Revenue from Revenue Share Assets.

Authority formed a view that dividend income earned by DIAL is primarily through JV set up with other group entities of DIAL who were carrying non-aeronautical related services in IGIA such as duty free, advertisement etc. and also aeronautical services such as fuel farm services. Hence, the Authority formed the view that such revenues should be considered at least for cross subsidization by inclusion as part of revenue from Revenue Share Assets.

Regarding Other Income apart from Dividends such as Income from Investments etc., Authority proposed to consider these income sources as part of revenue from Revenue Share Assets as these were revenues accruing to the airport operator through cash earned from airport operations.

Authority also formed the view that some portion of Other Income including dividends was also fit enough to be classified as aeronautical revenues and had proposed stakeholder views on the same.

However, as the Other Income had been projected as nil by DIAL, the same was proposed to be considered as nil for the Third Control Period. The Authority hence proposed to consider Other Income actually earned by DIAL during the Third Control Period at the time of true up for the Fourth Control Period as part of aeronautical revenue stream and revenue from Revenue Share Assets based on stakeholder views.

7.2.14 The Authority, consistent with the stand already considered in the earlier Control Periods, proposed not to make any adjustment with regards to revenue from Existing Assets, revenue from Disallowed Area and proposed no deduction with regards to Annual Fee pertaining to Revenue Share Assets while arriving at the revenue from Revenue Share Assets for cross subsidization. The detailed justifications for the Authority's reasoning had already been provided as part of true up for the First Control Period in this Tariff Order.

Growth Rates considered by Authority

7.2.15 The growth rates for the significant non-aeronautical revenue streams in the last five years vis a vis the growth rates as considered by DIAL in its submission and as proposed by Authority in the Third Control Period are in the table below.

Table 117: Growth Rates of Revenue from Revenue Share Assets as per DIAL's submission and as proposed by the Authority

Particular	Past 5 year CAGR	Projected 5 year CAGR as considered by DIAL	Projected Growth Rates as proposed to be considered by Authority
Bridge Mounted Equipment	12.65%	5.96%	12.65%
Flight Kitchen	12.72%	6.84%	12.72%
Car Park	26.24%	21.09%	21.09%
Radio Taxi	1.65%	0.00%	0.00%
Retail duty paid	17.09%	2.72%	17.09%
F&B	17.18%	5.42%	17.18%
Lounge Income	17.32%	5.42%	17.32%
Duty Free	13.43%	6.19%	13.43%
Advertisement	13.19%	4.50%	13.19%
Forex	6.49%	-5.95%	6.49%
Land & Space Leases	18.76%	7.50%	7.50%
Cargo	10.73%	5.79%	5.79%

7.2.16 Based on the growth rates, the revised revenue from Revenue Share Assets considered by the Authority are shown in the table below which would be trued up based on actuals at the time of tariff determination for the Fourth Control Period;

Table 118: Revenue from Revenue Share Assets proposed to be considered by the Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Ground Handling	102.54	109.21	115.71	122.11	128.35
BME	10.09	11.37	12.81	14.43	16.25
Flight Kitchen	72.74	81.99	92.42	104.18	117.43
Car Park	33.29	71.46	71.46	76.05	80.57
Radio Taxi	18.58	18.58	18.58	18.58	18.58
Retail duty paid	188.34	220.53	258.22	302.36	354.03
F&B	123.57	144.79	169.67	198.82	232.97
Lounge Income	53.66	62.96	73.86	86.65	101.66
Other passenger linked Revenue	19.64	19.64	19.64	19.64	19.64
Duty Free	510.33	578.88	656.65	744.86	844.92
Advertisement	182.35	206.41	233.64	264.46	299.34
Forex	69.96	74.50	79.34	84.48	89.96
Land & Space	362.74	389.94	419.19	450.63	484.42
Other contract linked revenue (include Hangar, Transit Hotel, Airport Service Charges, Banks and Telecom)	108.19	119.81	132.92	147.75	164.51
IT JV	78.12	19.00	20.31	21.62	22.90
Cargo	248.69	263.72	279.16	294.71	310.34
Gross Total	**2,182.83**	**2,392.79**	**2,653.57**	**2,951.31**	**3,285.89**
NAR for Cross Subsidy as per AERA	2,182.83	2,392.79	2,653.57	2,951.31	3,285.89
Cross-subsidization considered as 30% of Revenue from Revenue Share Assets	**654.85**	**717.84**	**796.07**	**885.39**	**985.77**

आर्थिक विनियामक प्राधिकरण Regulatory Authority India

7.3 Stakeholder comments regarding Revenue from Revenue Share Assets for the Third Control Period

7.3.1 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals raised by Authority in the Consultation Paper No. 15/2020-21 with respect to determination of Revenue from Revenue Share Assets for the Third Control Period. The comments by stakeholders are presented below;

DIAL's comments on Revenue from Revenue Share Assets for the Third Control Period

7.3.2 DIAL has projected that the revenue from Revenue Share Assets are mainly dependent on traffic and passenger behavior and profile and not the simple CAGR growth. On account of deep economic impact due to COVID-19, loss of jobs, corporate revenue losses, income reductions, salary cuts, etc. there has been severe constraints on disposable incomes, which will have long lasting impact on economy and accordingly the revenue from Revenue Share Assets will see major impact. DIAL has made the following submissions;

- Majority of revenue from Revenue Share Assets are linked to traffic, which has a major role in estimation of such revenues. Accordingly, DIAL has revised the non-aero revenue with updated traffic forecast as stated above.
- The COVID-19 apart from having an impact on the traffic has also affected the economy at large. The situation has led to a crisis where there are widespread business implications across sectors. It is beyond doubt that this will ultimately reduce the spending ability of the passenger and consumer behavior at the airport. Such an economic slowdown will have a severe impact on the revenues at the airport.

Considering the above, DIAL has submitted the revised estimate for Revenue from Revenue Share Assets as below;

Table 119: Revenue from Revenue Share Assets submitted by DIAL as per Stakeholder Consultation Process

FY ending March 31 (Rs Cr)	2020	2021	2022	2023	2024	Total
Ground Handling	114.17	35.20	64.16	86.68	122.06	422.26
Bridge mounted equipment	8.08	2.88	4.73	6.23	8.42	30.33
Flight Kitchen	50.90	11.12	21.87	31.16	43.92	158.97
Car Park	34.35	18.77	36.91	52.57	74.10	216.70
Radio Taxi	16.86	4.61	9.06	12.90	18.18	61.60
Retail duty paid	167.61	36.64	72.03	102.61	144.62	523.50
Food & Beverages	109.79	24.00	47.18	67.21	94.73	342.91
Lounge Income	51.62	11.28	22.18	31.60	44.54	161.23
Other passenger link revenue	15.98	3.49	6.87	9.78	13.79	49.91
Duty Free	469.38	69.37	176.90	266.23	415.91	1,397.80
Advertisement	157.31	47.19	58.76	73.15	91.07	427.48
Forex	65.19	12.04	58.67	52.80	47.52	236.23
Land & Space	361.13	339.88	375.60	403.77	434.05	1,914.45
Other contract linked revenue	70.98	41.08	50.90	52.95	55.08	271.00
IT JV	21.57	7.20	21.23	30.25	42.63	122.89
Cargo	269.73	173.64	232.31	265.50	316.07	1,257.25
Gross Total	**1,984.65**	**838.40**	**1,259.35**	**1,545.39**	**1,966.70**	**7,594.50**

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

The rationale for the above projections and the assumptions as submitted by DIAL is as shown in the table below;

Table 120: Rationale for Revenue from Revenue Share Assets projections submitted by DIAL as per Stakeholder Consultation Process

Revenue Segment	Revenue	AERA assumptions	Assumptions for the remaining control period as submitted by DIAL
Air Traffic related	Ground Handling	ATM Growth	Domestic carrier at Delhi Airport started self-handling; a part of this impact has been witnessed in FY'20 wherein third-party revenue has reduced almost 33%. Accordingly, the GH, third party GH revenue will be mainly dependent on international ATMs. BME services revenues considered based on overall traffic.
	BME	YOY growth at past 5-year CAGR i.e. 12.65%	
Passenger Related	Flight Kitchen-Concession Fee	YOY growth at past 5-year CAGR i.e. 12.72%	Linked to Overall passenger growth additionally we reasonably estimate the min 20% dip in SPP in FY'21 due to inflight restriction imposed by GOI and economic downfall. This forms basis for the next year's projections.
	Cark Park (MLCP)	Traffic growth + contractual increase	Linked to traffic growth
		Maintained at FY'19 level of Rs 18.58 Cr	Linked to traffic growth
	Cark Park (Radio Taxi)		
	Retail Duty Paid	YOY growth at past 5-year CAGR i.e. 17.09%	- Linked to Overall passenger growth - Additional 20% dip in SPP in FY'21 due to reduced spending and penetration while current trend shows higher reduction.
	Food & Beverages	YOY growth at past 5-year CAGR i.e. 17.18%	
	Lounge Income	YOY growth at past 5-year CAGR i.e. 17.32%	
	Other non-aero revenue	Rs 19.64 Cr constant throughout Control Period	
International Passenger Related	Duty Free	YOY growth at past 5-year CAGR i.e. 13.43%	Linked to International pax growth and a one-time dip in SPP by 20% in FY'21
Contract linked revenue	Advertisement	YOY growth at past 5-year CAGR i.e. 13.19%	We foresee a serious reduction in the advertisement revenue as the companies would be compelled to reduce such expenditure. With the trends seen in the recent times the advertisement revenue is expected to see a reduction of 70% in FY'21 Thereafter we expect the business to revive at the rate of inflation growth and a 20% YoY business growth
	Forex	YOY growth at past 5-year CAGR i.e. 6.49%	The use of plastic money and reduction in leisure travel would lead to a lower utilisation of cash. Also, there will be direct impact of international pax. The forex revenue has been directly linked to international pax for FY'21. In FY'22 we expect the levels of FY'2020

Revenue Segment	Revenue	AERA assumptions	Assumptions for the remaining control period as submitted by DIAL
			with de-growth of 10% each year thereafter.
	Land and Space	YoY 7.5% increase	Some part of the area provided to FBO operators have been surrendered by them which leads to Rs Five Crore reduction in rentals for FY'21. Further, due to COVID situation we expect a reduction in floor area occupancy due to surrender, which will lead to a reduction of about 10% at least. Further, we have considered 5.5% escalation in rentals instead of 7.5% as there was no increase in Q1'21. Thereafter contractual increase has been considered.
	Hangar	Inflationary growth of 4.5% YoY	Due to Phase 3A expansion, DIAL needs space hence Airlines have been asked to surrender the hangar space. Further, Indigo and Air India also expected to surrender Hangar Space which will result significant fall in Hangar space income. Accordingly, only 20% occupancy has been considered in FY'21.
	IT JV	Accepted DIAL submission, i.e. 9% revenue share on Rs 211 Cr IT JV revenue and traffic growth thereafter.	The IT JV business has also been impacted due to COVID. The expected IT JV revenue for revenue share purpose is Rs 80 Cr for FY'21. Subsequently it is considered to grow in line with the overall passenger growth
	Airport Service Charge	Inflationary growth of 4.5% YoY	In FY'21 due to lockdown there will be only part operation of the airport, accordingly the concessionaires have been given waiver for T1 & T2 as these have been temporarily closed. We therefore expect only 75% of FY'20 level revenue in FY'21. In FY'22 we expect that revenues reach to the levels of FY'20. Inflationary growth has been considered beyond FY'22.
	Common Area Management		
	Transit Hotel		
	Bank/ATM		
	Telecom	FY'19 levels with no further growth	FY'20 levels with no further growth
Cargo		Overall cargo growth	Overall cargo growth with revised traffic

7.3.3 DIAL in response to the proposal from AERA regarding treatment of Other Income including dividends wherein it has suggested on classification of certain portion as aeronautical and balance as non-aeronautical has the following submission provided verbatim;

"The investment in the subsidiaries was made by DIAL and the same is not considered as regulatory asset base for the purpose of tariff calculation. Since the investment is outside tariff determination purpose any return from such investment as equity shareholder should also be outside regulation.

At para 6.45.1 of the order no 40/2015-16, authority opined following:

> *...Also the Authority noted that DIAL had realized dividend income from its investments in JVs. However as the assets pertaining to the JVs were not being reckoned for the purpose of determination of RAB, the Authority is of the view that the dividend income accruing to DIAL from such JVs should also not be considered towards cross-subsidization.*

Accordingly, Authority decided on other income as follows in order no 40/2015-16 for first control period:

> *6.53.13. To consider revenue realized by DIAL under the head "Other Income" (excluding income from interest, dividend and forex gain/loss) during the first Control Period towards cross-subsidization under the current exercise.*

Further with respect to CP2 Authority has opined following at para 19.37 of order 40/2015-16:

> *The Authority has noted FIA's comment with respect to Other Income. However, the Authority has decided to consider revenue realized by DIAL under this head (excluding income from dividend only) as non-aeronautical.*

The Authority deviated from its own decision taken earlier. It is a clear departure from settled principle. DIAL at the time on investment has undertaken business risk and in order to promote the airport non-aero revenue invested in various ventures. The investment in these ventures has not been considered as part of RAB from regulatory parlance and hence no return been allowed by AERA on such investment. The dividend is only way where DIAL can recoup its investment and fund its carrying cost. In case Authority consider some part of it as cross subsidy then DIAL will never be able to recoup its investment which will be not only against the regulatory principle but also against the financial principles.

Accordingly, we request Authority not to depart from the settled principle. Hence, dividend should not be considered as part of the revenue from revenue share assets."

<u>Other Stakeholder's comments on Revenue from Revenue Share Assets for the Third Control Period</u>

7.3.4 APAO commented that the Authority should re-consider the proposal of exclusion of revenue from Existing Assets from revenue from Revenue Share Assets.

APAO states that as per OMDA, revenue from Existing Assets is excluded from revenue from Revenue Share Assets. Revenue from Demised Premises and any asset owned other than by JVC or any other third entity should not be considered for cross-subsidy as per OMDA. As per APAO, Authority's view of the submission of DIAL in this regard to be an after-thought is incorrect as the issue was raised by DIAL after an extensive analysis of clauses in Concession Agreement and state of affairs of DIAL. Thus, APAO requests Authority to re-visit the decision taken in Consultation Paper No. 15/2020-21.

7.3.5 APAO also commented that the Authority ought to deduct Annual Fee while calculating S factor.

As per clause 3.1.1 of the SSA,

"the Upfront Fee and the Annual Fee paid/ payable by the JVC to AAI under the OMDA shall not be included as a part of costs for provision of Aeronautical Services and no pass through would be available in relation to the same".

As per definition of revenue from Revenue Share Assets, the cost in provision of non-aeronautical services shall not be considered while calculating aeronautical charges. As the Annual Fee is not a cost in relation to revenue from Revenue Share Assets, the revenue for cross-subsidy purpose has to be considered post Annual Fee. Authority's view of the submission of DIAL in this regard to be an afterthought is incorrect as the issue was raised by DIAL after an extensive analysis of clauses in Concession Agreement and state of affairs of DIAL. Thus, APAO requests Authority to re-visit the decision taken in Consultation Paper No. 15/2020-21.

7.3.6 IATA agrees with Authority's proposal to not exclude revenue from Existing Assets, revenue from Disallowed Area and not to consider deduction towards Annual Fee payable to AAI from revenue from Revenue Share Assets but requested Authority to consider adjustments linked to Covid-19 scenario.

7.3.7 ACI commented that Annual Fee payable to AAI should be outside the purview of S Factor.

ACI points out that as per SSA, the costs in relation to S factor shall not be included while calculating aeronautical charges. As per Clause 3.1.1 of the SSA, Annual Fee payable to AAI would not be included as part of costs for provision of aeronautical services and no pass through would be provided for the same. Annual Fee being a contractual obligation is an outcome of the revenue generated and not a cost in relation to revenue generated. Thus, ACI requests Authority to deduct Annual Fee from the calculation of S Factor.

7.3.8 ACI also commented that the Authority should allow the exclusion of revenue from Existing Assets from revenue from Revenue Share Assets.

ACI states that as per OMDA, revenue from Demised Premises and any asset owned other than by JVC or any other third entity should not be considered for cross-subsidy as per OMDA. To ensure consistency with the provisions in the Concession Agreements, ACI considers it reasonable to exclude revenue from Existing Assets while calculating the revenue from Revenue Share Assets and requests Authority to allow the same.

7.3.9 BAOA has commented that the parking and housing charges are not being implemented as per Tariff Order No. 39/2018-19.

BAOA pointed that parking charges in hangars, which are double the open parking charges, are not being implemented for NSOP/GA and all small aircraft operators have been asked by DIAL for requirement of hangars on hourly basis. Thus, BAOA requests that individual master plan for concessionaires including capital expenditure, as ratified by DIAL, be included in the overall development plan of DIAL by the 'authority' to rework fresh ARR and make sure concessionaires are enabled to charge AERA approved 'hourly housing tariff' for use of NSOP/GA hangars located on aeronautical assets of DIAL.

7.3.10 Further, BAOA requested Authority to treat hangars at operational airports used for parking as part of aeronautical services, as per Annexure 5 of OMDA. The stand-alone hangars for MRO services, and leased on long term would come under non-aeronautical services.

7.3.11 BAOA also commented that the final Order for Consultation Paper No. 15/2020-21 should include Ground Handling charges for small aircrafts using services of Ground Handling Agencies (GHA).

As per BAOA, the Consultation Paper has not included the proposal for including Ground Handling charges for NSOP/GA operators making use of these aeronautical services at DIAL. BAOA requests Authority to include these charges, on cost plus basis, for small aircrafts of non-scheduled operator's permit/general aviation using services of GHA for either separate ground handling services, a package of such services, or comprehensive ground handling services offered by GHA.

7.3.12 FICCI commented that revenue from Existing Assets should be excluded from revenue from Revenue Share Assets.

FICCI states that in accordance with OMDA and the SSA provision, revenue from Revenue Share Assets used for cross-subsidy excludes revenue from Existing Assets. In this regard, FICCI requests Authority to strictly abide by the Concession Agreement and exclude revenue from Existing Assets from revenue from Revenue Share Assets.

7.3.13 PHD Chamber of Commerce and Industry (PHDCCI) comments that Authority is not consistent with its approach while determining tariff for Third Control Period.

PHDCCI states that Authority in First Control Period did not consider Other Income as part of revenue from Revenue Share Assets whereas while truing up Second Control Period, it considered the same as part of Revenue Share Assets. PHDCCI requests Authority to consider a consistent approach which would enable the airport operator to strategize business accordingly and bring regulatory certainty in airport business.

7.3.14 PHDCCI commented that revenue from Revenue Share Assets should be bereft of Annual Fee payable to AAI.

PHDCCI points out that as per SSA, the costs in relation to S factor shall not be included while calculating aeronautical charges. The Annual Fee paid by DIAL is not in relation to generate such revenue for cross-subsidy but that is the cost which is paid post generation of revenue. The revenue post Annual Fee is used by DIAL to set off aeronautical charges and meeting cost incurred in generating revenue for cross-subsidy. Thus, PHDCCI requests Authority to deduct Annual Fee from the revenue from Revenue Share Assets.

7.3.15 ASSOCHAM commented that revenue from Disallowed Area should be excluded from revenue from Revenue Share Assets used for cross-subsidy purpose.

ASSOCHAM states that Authority disallowed a part of terminal area to the extent of 8652 sq.m in First Control Period. As the asset does not form part of DIAL, the revenue generated from such asset should not form part of tariff determination. In this regard, ASSOCHAM requests Authority to maintain consistency and exclude revenue from Disallowed Area from revenue from Revenue Share Assets.

7.3.16 AAI commented that revenue from Existing Assets should be included as part of revenue from Revenue Share Assets.

AAI states that as per Schedule 1 of SSA, Revenue Share Assets shall mean Non-Aeronautical Assets and assets required for provision of aeronautical related services arising from the airport and not considered in revenues from Non-Aeronautical Assets. The definition does not mention that revenue from Existing Assets have to be excluded. As per OMDA, Existing Assets have been defined so as to distinguish AAI's assets at the time of handover of assets to DIAL from the assets created by DIAL. AAI pointed out that the Existing Assets are conjoined to other assets, are incapable of independent existence and are servicing /catering terminal complex/cargo complex satisfying the definition of non-aeronautical assets as per OMDA. Thus, AAI states that Existing Assets are part of non-aeronautical assets.

7.3.17 AAI also commented that Annual Fee payable to AAI should not be a pass-through cost and has to be incurred by DIAL.

As per Clause 3.1.1 of the SSA,

"the Upfront Fee and the Annual Fee paid/ payable by the JVC to AAI under the OMDA shall not be included as a part of costs for provision of Aeronautical Services and no pass through would be available in relation to the same".

AAI points out that as per Clause 3.1.1, no pass-through shall be available to DIAL in relation to Annual Fee payable. Considering Annual Fee was the bidding criteria to win the bid for the airport, it should not be considered as pass-through under any head and thus has to be incurred by DIAL.

7.3.18 Further, AAI commented that Fuel Throughput Charges are to be considered as aeronautical charges.

As per AAI, Common Hydrant Infrastructure for aircraft fueling services by authorized providers is an aeronautical service listed in Schedule 5 of the OMDA. Hence, Fuel Throughput Charge and all associated charges have to be classified as aeronautical in nature. Also, as per Hon'ble TDSAT order, *"the colour of revenue from aeronautical service cannot be changed to that of revenue from non-aeronautical service by an act of delegation or leasing out by the concessionaire"*. Thus, Authority should classify Fuel Throughput Charges as aeronautical charges.

7.4 DIAL's counter-comments and response to stakeholder comments regarding Revenue from Revenue Share Assets for the Third Control Period

7.4.1 Subsequent to the Stakeholder Comments received by DIAL as part of Stakeholder Consultation Process, DIAL's response to the various stakeholder comments with respect to Revenue from Revenue Share Assets for the Third Control Period are presented below;

DIAL's Response to BAOA's comments on Revenue from Revenue Share Assets for the Third Control Period

7.4.2 DIAL, in response to BAOA's comments, stated that Hangar charges are non-aeronautical in nature and not covered under Housing Charges. DIAL also stated that Ground Handling as well as General Aviation services are non-aeronautical services as per OMDA. The detailed response of DIAL in this regard is as follows;

"The BAoA once again mistaken the hangar rental with Housing Charges. A similar clarification was sought by BAoA in May'2017 to which DIAL had already responded. We would like to once again reiterate that Hangar charges are not covered under housing charges. Hangar service are purely non-aeronautical in accordance with AERA Act as well as Concession Agreement. Hangar is an entry no 7 in Schedule 6- Non-Aeronautical Services of OMDA. Accordingly, the Hangar rentals are not regulated. DIAL as part of promoting general aviation business appointed two concessionaires and provided four hangars to them which they can operate in accordance with the terms of respective concession agreement.

In case of Ground Handling we would like to submit that both Ground Handling as well as General Aviation is non-aeronautical service in accordance with schedule 6 of OMDA. As far as General Aviation is concerned DIAL had appointed two independent concessionaire to develop dedicated general aviation facility and provide comprehensive services including MRO exclusively for general aviation aircrafts. Since both Ground Handling and General aviation are non-aeronautical service as *per OMDA, concessionaire can set the tariff card in accordance with the respective concession agreement. Accordingly, it is requested that the business agreement should be discussed and agreed between the parties and the regulator should not regulate such services."*

7.5 Authority's Examination on Stakeholder Comments regarding issues on Revenue from Revenue Share Assets for the Third Control Period

7.5.1 Authority has noted the comments made by DIAL regarding the projections of non-aeronautical revenue. DIAL has informed that in order to support and ensure sustainability of the businesses at the airport, it has provided various relief measures to the concessionaires operating at the airport including deferment of revenue share, waiver of MMG, and waiver of interest in case of delay in payments to DIAL. Authority has carefully examined and analyzed the submissions made by DIAL and agrees with DIAL that majority of revenue from Revenue Share Assets are linked to traffic and as such, Covid-19 has caused a major impact on the same. However, Authority is also of the view that DIAL has projected revenue from Revenue Share Assets considering the worst-case scenario of the pandemic and the same may not materialize.

7.5.2 DIAL has considered the revenue from Revenue Share Assets for FY20 at actuals and projected the revenues beyond FY20 based on the projected traffic and contracts entered into with concessionaires. For FY20, Authority has decided to consider the revenues at actuals submitted by DIAL including the submission pertaining to Other Income. For FY21 to FY24, Authority has examined DIAL's projections and has provided the treatment decided for future revenues from Revenue Share Assets as seen below.

Air Traffic Related Revenues

7.5.3 For Ground Handling revenues, Authority has observed that DIAL has considered international ATM growth rate for projecting revenues from FY21 to FY24. After careful examination of DIAL's submission pertaining to Ground Handling revenue, Authority considers DIAL's projections to be slightly conservative as Authority is of the view that the international ATM traffic would recover to FY20 levels by FY23.

Based on the above, Authority has decided to project the Ground Handling revenue from Registered Ground Handlers from FY21 to FY24 by considering revenue per international ATM earned by DIAL in FY19 as the base revenue and projecting it on the basis of the international ATM traffic for a particular year (FY21 to FY24) along with the nominal inflationary growth of 4.60% each year starting from FY 2021.

Authority noted that the Ground Handling Revenue from Third Party reduced by around 33% in FY20 from FY19 on account of Ground Handling policy modified by DGCA vide notification SI. No. 10/2018 dated 25th Oct'2018. The revenue for the year FY21 has been projected considering the revenue contribution per international ATM in FY 2019 decreased by 33% along with a nominal inflation of 4.6% on the projected international Air Traffic Movement in FY 2021. The revenue for the balance years i.e. from FY22 till FY24 is projected based on the international ATM traffic growth rate along with the nominal inflationary growth of 4.60% each year from the FY 2021 levels.

7.5.4 For Bridge Mounted Equipment (BME) revenue, Authority has noted that DIAL has considered overall ATM growth from FY21 to FY24. Authority has carefully analyzed the submissions made by DIAL for Bridge Mounted Equipment revenues and finds them to be still conservative as Authority considers the total ATM traffic to recover to FY20 traffic levels by FY23.

Based on the above, Authority has decided to project the BME revenue from FY21 to FY24 by considering revenue per ATM earned by DIAL in FY19 as the base revenue and projecting it on the basis of the total ATM traffic for a particular year (FY21 to FY24) along with the nominal inflationary growth of 4.60% each year starting from FY 2021.

Passenger Related Revenues

7.5.5 Authority has noted that DIAL has projected revenue from Flight Kitchen from FY21 to FY24 at the total passenger growth rate with an additional 20% decrease considered in FY21 due to restrictions enforced by the Government on account of the Covid-19 pandemic.

Authority has analyzed DIAL's submission and is of the view that the projections for revenue from Flight Kitchen should consider international passenger growth rate rather than total passenger growth rate as the revenue majorly comes from international passengers. Authority agrees with DIAL regarding the additional 20% decrease considered in FY21 due to restrictions enforced by the Government on account of Covid-19 pandemic. Authority is of the view that the revenue from Flight Kitchen would still not reach the international passenger growth rate in FY22 due to uncertainty in international traffic. In this regard, Authority has decided to project Flight Kitchen revenue for FY21 and FY22 by considering revenue per international passenger earned by DIAL in FY19 as the base revenue and projecting it on the basis of the total international passenger traffic for FY21 and FY22 along with a onetime decrease of 20% due to restrictions imposed on account of Covid-19 pandemic.

Beyond FY22, Authority has decided to project the revenue from Flight Kitchen at the international passenger traffic growth rate along with the nominal inflationary growth of 4.60% each year from the projected levels in FY22.

7.5.6 Authority has noted that DIAL has projected non-aero revenues like Retail Duty, Food & Beverages, Lounge Income and other non-aero revenue from FY21 to FY24 at the total passenger growth rate with an additional 20% decrease considered in FY21 due to restrictions enforced by the Government on account of the Covid-19 pandemic.

Authority agrees with DIAL regarding the additional 20% decrease considered in FY21 due to restrictions enforced by the Government on account of Covid-19 pandemic. Authority is of the view that the rate of increase for above-mentioned passenger related revenues in FY22 would still be lower than the passenger growth rate for FY22 on account of continuing restrictions on the same due to Covid-19 pandemic. In this regard, Authority has decided to project the above passenger related revenues for FY21 and FY22 by considering revenue per passenger earned by DIAL in FY19 as the base revenue and projecting it on the basis of the total passenger traffic for a particular year (FY21 and FY22) along with an additional decrease of 20% due to restrictions imposed on account of Covid-19 pandemic.

Beyond FY22, Authority has decided to project the above passenger related revenues at the passenger traffic growth rate along with the nominal inflationary growth of 4.60% each year from the projected levels in FY22.

7.5.7 Authority has noted that DIAL has projected revenue from Car Park (MLCP) from FY21 to FY24 at the growth rate of passenger traffic with the revenue in FY21 being increased by a factor of 2 due to increase in revenue share from Car Park from 20% to 40%.

Authority has assessed the submission and has decided to project the revenue from Car Park (MLCP) from FY21 to FY24 by considering revenue per passenger earned by DIAL in FY19 as the base revenue and projecting it on the basis of the total passenger traffic for a particular year (FY21 to FY24) along with the nominal inflationary growth of 4.60% each year commencing from FY21 and also considering an increase by a factor of 2 in FY21 due to increase in revenue share from Car Park from 20% to 40%.

7.5.8 Authority has analyzed the submissions made by DIAL with respect to revenue from Car Park (Radio Taxi) for FY21 to FY24 at the total passenger growth rate. In this regard, Authority has decided to project the revenue from Radio Taxi, from FY21 to FY24, by considering revenue per passenger earned by DIAL in FY19 as the base revenue and projecting it on the basis of the total passenger traffic for a particular year (FY21 to FY24) along with the nominal inflationary growth of 4.60% each year commencing from FY21.

7.5.9 Authority has noted that DIAL has projected Duty Free License Fees from FY21 to FY24 at the international passenger growth rate with an additional 20% decrease considered in FY21 due to restrictions enforced by the Government on account of the Covid-19 pandemic.

Authority agrees with DIAL regarding the additional 20% decrease considered in FY21 due to restrictions enforced by the Government on account of Covid-19 pandemic. In this regard, Authority has decided to project Duty Free revenue for FY21 and FY22 by considering revenue per international passenger earned by DIAL in FY19 as the base revenue and projecting it on the basis of the total international passenger traffic for a particular year (FY21 and FY22) along with an additional one time decrease of 20% due to restrictions imposed on account of Covid-19 pandemic.

Beyond FY22, Authority has decided to project the Duty-Free License Fees at the international passenger traffic growth rate along with the nominal inflationary growth of 4.60% from the projected levels in FY22.

7.5.10 Based on the above, the per unit revenue considered for projecting Air Traffic related revenue and Passenger related revenue for Third Control Period is shown in the table below;

Table 121: Per Unit Revenue decided to be considered by Authority for Revenue from Revenue Share Assets for Third Control Period

FY ending March 31 (Rs/unit)	Base Year*	2021	2022	2023	2024
Ground Handling registered#	12,211.40	12,773.12	13,360.69	13,975.28	14,618.14
Ground Handling Third Party#	12,041.66	8,606.87	9,002.78	9,416.91	9,850.09
Bridge mounted equipment##	377.73	395.10	413.28	432.29	452.17
Flight Kitchen***	34.49	27.59	27.59	28.86	30.19
Car Park^	4.47	9.35	9.78	10.23	10.70
Radio Taxi**	2.68	2.81	2.94	3.07	3.21
Retail duty paid**	23.23	18.59	18.59	19.44	20.34
Food & Beverages**	15.23	12.18	12.18	12.75	13.33
Lounge Income**	6.61	5.29	5.29	5.53	5.78
Other passenger related revenue**	3.22	2.57	2.57	2.69	2.81
Duty Free***	240.47	192.37	192.37	201.22	210.48

**FY 2019 considered as Base Year*
#For Ground Handling revenue, revenue/international ATM is considered.
##For Bridge Mounted Equipment revenue, revenue/ATM is considered.
***For Pax related revenue, revenue/pax is considered.*
****For Flight Kitchen and Duty Free revenue, revenue/international pax is considered.*
^Revenue Share from Car Park increased to 40% from 20% in FY21.

Contract Linked Revenues

7.5.11 For Contract Linked Revenues such as Advertisement, Forex, Land and Space etc., Authority has observed that DIAL's submissions for the same are based on specific contracts with various concessionaires. DIAL, as part of their submissions, mentioned that some of the spaces would likely be surrendered due to the current business environment and the projections for contract linked revenues consider the various arrangements/concessions given to sub-concessionaires. Due to the information pertaining to such arrangements/concessions being sensitive in nature, DIAL stated that disclosing them would not be in the best interest of the airport operator. Authority noted DIAL's submissions and after examination of the same, decided to project Contract Linked Revenues (except revenue from IT JV) as per DIAL's submissions, adjusted for inflation considered by the Authority, which would be considered for true up based on actuals in the subsequent Control Period.

Authority has noted DIAL's submissions regarding revenue from IT JV. DIAL has projected Rs. 80 Cr as the expected revenue from IT JV in FY21 of which DIAL's share is 9%. For FY22, DIAL has projected an increase of 50% for revenue from IT JV along with the projected total passenger growth rate for FY22. Beyond FY22, DIAL has considered revenue from IT JV at their projected total passenger growth rate. Authority, after examining DIAL's submissions, has decided to consider DIAL's submission for FY21 for revenue from IT JV. For FY22, Authority has projected revenue from IT JV as per DIAL's submission adjusting for the passenger growth rate considered by Authority. For FY23 and FY24, Authority has decided to project revenue from IT JV at the total passenger growth rate considered by Authority.

Revenue from Cargo

7.5.12 Authority has observed that DIAL has projected revenues from Cargo at the cargo traffic growth rate. As per DIAL's submissions, Authority notes that Cargo traffic has not been impacted to the extent of passenger traffic and ATM, due to Covid-19 pandemic. Authority has decided to consider revenues from Cargo as per DIAL's submission which would be trued up on actuals during tariff determination for Fourth Control Period.

Other Income

7.5.13 Authority has decided to consider actual Other Income for FY20 submitted by DIAL as part of stakeholder consultation process. For FY21 to FY24, Authority, consistent with its proposal for Other Income in Consultation Paper No. 15/2020-21, has decided to consider Other Income as nil which would be trued up based on actuals in the next Control Period.

7.5.14 Authority has carefully considered the comments made by DIAL and PHDCCI regarding treatment of Other Income for Third Control Period. Authority, as per Tariff Order No. 40/2015-16 for Second Control Period, had conveyed to DIAL to allocate Other Income into aeronautical and non-aeronautical portion from the next Control Period. Authority has analyzed DIAL's comments regarding dividend income and considers that if a particular JV is involved in performing non-aeronautical activities, then the dividend it pays to DIAL can be viewed as non-aeronautical in nature. Thereby the non-aeronautical portion of the dividend income is to be considered for cross-subsidization of revenue from Revenue Share Assets. As DIAL has projected the Other Income as nil for the balance years in the Third Control Period, Authority has decided to true up the actual Other Income earned by DIAL during Third Control Period at the time of true up during tariff determination for Fourth Control Period with the non-aeronautical portion of Other Income, including dividend income, to be considered for cross-subsidization of revenue from Revenue Share Assets, while the aeronautical portion of Other Income shall be considered as aeronautical revenues.

7.5.15 Authority has noted that the comments made by APAO, IATA, ACI, FICCI, and AAI regarding treatment of revenue from Existing Assets for Third Control Period. APAO, ACI and FICCI have requested Authority to exclude revenue from Existing Assets from revenue from Revenue Share Assets whereas IATA and AAI have agreed with Authority's proposal in Consultation Paper No.15/2020-21 to include the same as part of revenue from Revenue Share Assets. Authority sees no merit in changing its stance regarding revenue from Existing Assets and has decided to include them as part of revenue from Revenue Share Assets to be used for cross-subsidization for Third Control Period, consistent with the decisions taken for First and Second Control Periods in this Tariff Order.

7.5.16 Authority has taken note of the comments made by IATA and ASSOCHAM regarding revenue from Disallowed Area. IATA agrees with Authority's proposal regarding treatment of revenue from Disallowed Area in Consultation Paper No.15/2020-21 whereas ASSOCHAM has requested Authority to exclude revenue from Disallowed Area from revenue from Revenue Share Assets. Authority has decided not to exclude revenue from Disallowed Area from revenue from Revenue Share Assets for the first two Control Periods in this Tariff Order and sees no merit in revisiting its decision for the Third Control Period. Thus, Authority has decided to include revenue from Disallowed Area as a part of revenue from Revenue Share Assets for Third Control Period.

7.5.17 Authority has carefully examined the comments made by APAO, IATA, ACI, PHDCCI and AAI regarding treatment of Annual Fee payable to AAI. APAO, ACI, and PHDCCI have requested Authority to deduct Annual Fee from revenue from Revenue Share Assets whereas IATA and AAI have agreed with Authority's proposal in Consultation Paper No. 15/2020-21 regarding the same. Authority, consistent with the decisions made for First and Second Control Periods in this Tariff Order, has decided to not exclude Annual Fee payable to AAI from revenue from Revenue Share Assets to be used for cross-subsidization for Third Control Period.

7.5.18 Authority has carefully analyzed the comments made by BAOA with regards to Hangar Charges and the responses made by DIAL to BAOA's comments. In this regard, consistent with the past treatment of the Hangar Charges, Authority had decided that it would continue to treat these services as non-aeronautical services as per the definition of Non-Aeronautical Services under Schedule 6 of the OMDA.

7.5.19 Similarly, with regards to BAOA's request to consideration of Ground Handling Charges and General Aviation as part of aeronautical services, Authority is governed by the clauses under the OMDA which specify the same as non-aeronautical services as per Schedule 6 of OMDA. Thus, Authority has decided that Ground Handling Charges and General Aviation would continue to be treated as non-aeronautical services.

7.5.20 Apart from the above, Authority has decided to continue with its proposals in Consultation Paper No. 15/2020-21 for revenue from Revenue Share Assets for Third Control Period.

7.5.21 Based on the above, the revenue from Revenue Share Assets decided to be considered by the Authority are shown in the table below which shall be trued up subject to actuals at the time of tariff determination for the Fourth Control Period;

Table 122: Revenue from Revenue Share Assets decided to be considered by Authority for the Third Control Period

FY ending March 31 (Rs Cr)	2020	2021	2022	2023	2024	Total
Ground Handling	114.17	32.80	69.57	116.40	142.44	475.38
Bridge Mounted Equipment	8.08	3.26	5.88	10.00	10.90	38.12
Flight Kitchen	50.90	9.09	30.97	51.46	59.62	202.05
Car Park	34.35	17.19	40.62	68.84	77.66	238.67
Radio Taxi	16.86	5.16	12.20	20.67	23.32	78.21
Retail Duty paid	167.61	34.18	77.21	130.84	147.61	557.45
Food & Beverages	109.79	22.41	50.62	85.78	96.77	365.36
Lounge Income	51.62	9.72	21.96	37.21	41.98	162.48
Other passenger traffic linked revenue	15.98	4.73	10.68	18.11	20.43	69.93
Duty Free	469.38	63.37	215.95	358.80	415.69	1,523.19
Advertisement	157.31	47.19	58.80	73.27	91.29	427.87
Forex	65.19	12.04	58.67	52.80	47.52	236.23
Land & Space	361.13	339.88	375.60	403.77	434.05	1,914.45
Other contract linked revenue	70.98	41.09	50.91	53.00	55.19	271.17
IT JV	21.57	7.20	24.40	39.53	42.63	135.33
Cargo	269.73	173.64	232.31	265.50	316.07	1,257.25
Other Income	327.43	-	-	-	-	327.43
Gross Total	**2,312.08**	**822.95**	**1,336.35**	**1,785.98**	**2,023.19**	**8,280.54**
NAR for Cross Subsidy as per AERA	**2,312.08**	**822.95**	**1,336.35**	**1,785.98**	**2,023.19**	**8,280.54**
Cross-subsidization considered as 30% of Revenue from Revenue Share Assets	**693.62**	**246.88**	**400.90**	**535.79**	**606.96**	**2,484.16**

भा.वि.आ.वि.प्रा.
AERA

7.6 Authority's Decisions regarding Revenue from Revenue Share Assets for the Third Control Period

Based on the material before it and its analysis, the Authority has decided the following for Revenue from Revenue Share Assets for the Third Control Period.

7.6.1 Authority decides to consider revenue from Revenue Share Assets for FY20 at actuals submitted by DIAL, including the Other Income earned in FY 2020 and excluding the Fuel Throughput Charges.

7.6.2 Authority decides to project Ground Handling Revenue from Registered Ground Handlers and Ground Handling Revenue from Third Parties as per Para 7.5.3 subject to true up based on actuals.

7.6.3 Authority decides to project BME Revenue beyond FY20 as per Para 7.5.4 subject to true up based on actuals.

7.6.4 Authority decides to project Passenger related revenues like Retail Duty, F&B, Lounge Income, and other passenger related non-aero revenues from FY21 to FY24 as per Para 7.5.6 subject to true up based on actuals.

7.6.5 Authority decides to project Revenue from Car Park (MLCP) beyond FY20 as per Para 7.5.7 subject to true up based on actuals.

7.6.6 Authority decides to project Revenue from Car Park (Radio Taxi) beyond FY20 as per Para 7.5.8 subject to true up based on actuals.

7.6.7 Authority decides to project revenue from Flight Kitchen beyond FY20 as per Para 7.5.5 and Duty Free License Fees beyond FY20 as per Para 7.5.9 subject to true up based on actuals.

7.6.8 Authority decides to consider the Contract Linked revenues including Advertisement, Forex, Land & Space, IT JV and Other Contract Linked revenues like Hangar, Transit Hotel, Airport Service Charges, Banks, and Telecom as per Para 7.5.11 subject to true up based on actuals.

7.6.9 Authority decides to consider Cargo revenues as per Para 7.5.12 subject to true up based on actuals.

7.6.10 Authority decides to continue to consider revenue from Hangar, Ground Handling and General Aviation as part of non-aeronautical revenues for the Third Control Period.

7.6.11 Authority decides not to exclude revenue from Existing Assets, revenue from Disallowed Area and also to not consider deduction towards the Annual Fee payable to AAI from the revenue from Revenue Share Assets for Third Control Period.

7.6.12 Authority decides to consider non-aeronautical portion of the actual Other Income earned during the Third Control Period for cross-subsidization of revenue from Revenue Share Assets at the time of true up during tariff determination for Fourth Control Period. Authority also decides to include dividend income for cross-subsidy at the time of true up during the Fourth Control Period. The aeronautical portion of Other Income shall be treated as aeronautical revenues.

7.6.13 Authority decides to true up revenue from Revenue Share Assets considered as per Table 122 based on actuals at the time of tariff determination for the Fourth Control Period.

CHAPTER 8. TAXATION FOR THIRD CONTROL PERIOD

8.1 DIAL's Submissions regarding Taxation for the Third Control Period

8.1.1 DIAL in their submission computed MAT and normal tax as per Income Tax Act and considered the carried forward business losses and unabsorbed depreciation as per Income Tax Act. MAT paid by DIAL and credit of the same was considered in accordance with the Act.

8.1.2 DIAL calculated the ratio of aero PBT to non-aero PBT and applied the same ratio on the projected taxes for the company as a whole to arrive at the aeronautical taxes for the Third Control Period. The aeronautical taxes as submitted by DIAL to be considered for tariff calculation are in the table below along with the calculation;

Table 123: Aeronautical Taxes submitted by DIAL for Third Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Aero Revenue	4,809.13	5,279.91	5,776.64	6,295.18	6,839.66
Cross subsidy- non-aero	296.47	313.34	331.43	353.41	375.71
Total Aero Revenue	**5,105.60**	**5,593.24**	**6,108.07**	**6,648.59**	**7,215.36**
Annual Fee (arrived at by considering 45.99% of the Total Aero Revenue excluding Interest and Depreciation)	1,866.93	2,054.77	2,190.65	2,222.39	2,346.30
Aero Expense	1,025.52	1,283.22	1,620.70	2,090.02	2,359.28
EBIDTA	2,213.15	2,255.26	2,296.73	2,336.18	2,509.78
Interest	228.92	268.58	366.94	552.26	656.45
Depreciation	520.78	543.48	646.39	910.58	1,081.44
PBT	1,463.44	1,443.20	1,283.40	873.34	771.89
AERO PBT	1,463.44	1,443.20	1,283.40	873.34	771.89
Non-Aero PBT	312.64	314.48	295.34	272.98	178.61
Aero to Non-Aero PBT Ratio (A)	0.82	0.82	0.81	0.76	0.81
Tax as per Projected Financials (B)	485.56	495.71	508.47	442.20	426.42
Aeronautical Tax (T=A X B)	**400.09**	**407.02**	**413.35**	**336.89**	**346.29**

8.2 Authority's Examination regarding Taxation for the Third Control Period

8.2.1 Authority looked at DIAL's submission regarding aeronautical taxes and analyzed the issue by assessing two scenarios with S Factor (Scenario 1) and without S factor (Scenario 2).

8.2.2 The aeronautical PBT was calculated under both the scenarios and the effective tax rate applicable for the company was applied on the aeronautical PBT thus arrived to calculate the aeronautical taxes considered for tariff determination.

8.2.3 The outcome under the Scenario 1 including S Factor as part of the revenue base for computation of aeronautical taxes is shown in the table below;

Table 124: Aeronautical Taxes proposed to be considered by the Authority under Scenario 1 considering S Factor for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Aero Revenue	1,056.38	1,124.21	1,191.75	1,258.15	1,323.80
Cross subsidy – non-aero (S Factor)	654.85	717.84	796.07	885.39	985.77
Total Aero Revenue (including S Factor)	1,711.23	1,842.04	1,987.82	2,143.54	2,309.57
Annual Fee (considered as 45.99% of Total Aero Revenue including S Factor as arrived above)	786.99	847.16	914.20	985.82	1,062.17
Aero Expense	965.83	1,078.49	1,240.65	1,444.81	1,615.07
EBIDTA- Aero	(41.59)	(83.61)	(167.03)	(287.08)	(367.67)
Interest- Aero	230.19	262.96	339.57	508.75	619.22
Depreciation- Aero	519.53	514.68	554.30	727.21	847.20
AERO PBT	(791.31)	(861.24)	(1,060.90)	(1,523.04)	(1,834.09)
Effective Tax rate as per projected financials	1.37%	1.53%	2.36%	2.21%	1.92%
Aeronautical Tax (Max of 0 or Aero PBT X Effective Tax Rate)	-	-	-	-	-

8.2.4 The outcome under the Scenario 2 wherein S Factor was not considered as part of the revenue base for computation of aeronautical taxes is shown in the table below;

Table 125: Aeronautical Taxes proposed to be considered by the Authority under Scenario 2 excluding S Factor for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024
Aero Revenue	1,056.38	1,124.21	1,191.75	1,258.15	1,323.80
Cross subsidy - non aero (S Factor)	-	-	-	-	-
Total Aero Revenue (excluding S Factor)	1,056.38	1,124.21	1,191.75	1,258.15	1,323.80
Annual Fee (considered as 45.99% of Total Aero Revenue excluding S Factor as arrived above)	485.83	517.02	548.08	578.62	608.82
Aero Expense	965.83	1,078.49	1,240.65	1,444.81	1,615.07
EBIDTA- Aero	(395.28)	(471.31)	(596.99)	(765.28)	(900.08)
Interest- Aero	230.19	262.96	339.57	508.75	619.22
Depreciation- Aero	519.53	514.68	554.30	727.21	847.20
Aero PBT	(1,144.99)	(1,248.95)	(1,490.85)	(2,001.24)	(2,366.51)
Effective Tax rate as per projected financials	1.37%	1.53%	2.36%	2.21%	1.92%
Aeronautical Tax (Max of 0 or Aero PBT X Effective Tax Rate)	-	-	-	-	-

8.2.5 The aeronautical taxes were determined as nil during the Third Control Period as the aeronautical PBT under both the scenarios was negative.

8.2.6 The Authority proposed to consider the S Factor for the determination of aeronautical taxes from the Third Control Period and invited stakeholder views on whether the S Factor should be considered as part of revenue base for assessment of aeronautical PBT and determination of aeronautical taxes. However, Authority had also assessed the impact under both the scenarios to be neutral with the aeronautical taxes determined to be nil.

8.3 Stakeholder comments regarding Taxation for the Third Control Period

8.3.1 Subsequent to the Stakeholder Consultation process, the Authority has received comments/views from various stakeholders in response to the proposals of Authority in the Consultation Paper No. 15/2020-21 with respect to determination of Aeronautical Taxes for the Third Control Period. The comments by stakeholders are presented below;

DIAL's comments regarding Taxation for the Third Control Period

8.3.2 DIAL's comments on the Taxation issue is consistent with their stand on aeronautical taxes for the First and Second Control Period in which it has requested for S factor to form part of aeronautical revenue to arrive at aeronautical taxes. DIAL has requested for similar principle to be adhered to for the Third Control Period also.

Other Stakeholder's comments regarding Taxation for the Third Control Period

8.3.3 IATA commented that S Factor should not be considered as part of aeronautical revenue while calculating aeronautical tax. The comments from IATA are verbatim reproduced below;

"We remain unconvinced that the tax calculation should include the S factor. Given that AERA is aiming at calculating actual tax, including the S factor in the calculation creates an artificial tax that the company will not actually incur.

Moreover, if the S factor is included in the taxes calculations this implies that the 30% contribution to reduce charges will not be met (since charges would be reduced by a level lower than the 30% due to the artificial tax calculation).

It is due to the abovementioned arguments, that we strongly believe that AERA should not consider the S factor as part of the revenue base (in other words, apply scenario 2)."

8.3.4 AOC agreed with Authority's proposal to consider S factor as part of aeronautical revenue base while calculating aeronautical tax.

8.4 DIAL's counter-comments and response to stakeholder comments regarding Taxation for the Third Control Period

8.4.1 Subsequent to the Stakeholder Comments received by DIAL as part of Stakeholder Consultation Process, DIAL's response to the various stakeholder comments with respect to Taxation for the Third Control Period are presented below;

DIAL's Response to IATA's comments regarding Taxation for the Third Control Period

8.4.2 DIAL did not agree with IATA's suggestion that S factor would lead to artificial tax to DIAL and requested Authority to consider S factor as part of aeronautical revenue while calculating Tax. The detailed response of DIAL is as follows;

"IATA has suggested that S Factor will lead to artificial tax to DIAL. The understanding of IATA in this context is incorrect in our opinion. It may be perused that the Authority by virtue of TDSAT order at para 3.6.4 of the consultation paper has proposed to consider S factor as part of revenue for providing aeronautical taxes as a benefit as part of tariff determination process.

The S Factor has been considered in aeronautical P&L to arrive Aeronautical PBT. The actual tax liability of DIAL then allocated into so arrived aero and non-aero PBT. Hence, the S Factor will not result into artificial tax benefit to DIAL.

Also, the IATA submission on reduction of level of cross subsidy is also misleading. The non-aeronautical revenue cross subsidizes aeronautical revenue and the tax is only resultant on the profit earned. The cross subsidy (S-Factor) is nothing but a part of aeronautical revenue only. Hence, for aeronautical P&L purpose same needs to be considered.

Since the cross subsidy is part of aeronautical revenue it has to be considered while drawing aeronautical P&L.

Further, we understand that Airlines Operators Committee which is an association under IATA in its response dtd. 30th July'2020 supported AERA view on this and stated following:

> *"AOC wishes to submit that it is in sync with AERA's proposal to arrive at the aeronautical taxation including the 'S' factor which can be trued up during the tariff determination exercise of the next control period"*

Accordingly, we would request Authority to consider the S Factor in aeronautical P&L while calculating tax."

DIAL's Response to AOC's comments regarding Taxation for the Third Control Period

8.4.3 DIAL response to comments from AOC is as follows;

"AOC has shown agreement to the Authority's view in this matter and suggested to consider S-Factor in calculation of tax. We are in agreement with the AOC view.

In accordance with the SSA, while determining tariff Authority subsidies the aero eligibility of DIAL calculated as per building block by 30% of revenue from revenue share assets. In other words some part of the aeronautical revenue is expected to be recovered through cross subsidy from revenue from revenue share assets.. However, while determining tax Authority has not considered this 30% of revenue.

TDSAT in case of MIAL appeal no 4 of 2013 against the CP1 order of MIAL in its order dtd. 15th Nov'2018 at para 15 opined that:

"...by the provision in the Agreement, 'S' is an element of revenue on aero side and by the same yardstick must be added while calculating the 'T'. We find some merit in these arguments.."

Accordingly TDSAT vide Judgment at Para 41(i) remanded the matter of considering the S-Factor as part of revenue in calculation of tax, to AERA.

The Authority should consider the S-Factor in consideration for aeronautical tax for DIAL. Since, this is the issue of settling principle under the SSA the effect of such consideration should be taken from the first control period itself. Accordingly, we request Authority to kindly take positive view on the subject matter."

8.5 Authority's Examination on Stakeholder Comments regarding issues on Taxation for the Third Control Period

8.5.1 Authority has noted the comments made by stakeholders and DIAL's response to their comments regarding Aeronautical Taxes for the Third Control Period. AERA at the time of issuance of Consultation Paper No. 15/2020-21 had proposed that the S factor should form part of the revenue block for calculation of aeronautical taxes. Views from all the stakeholders were received during the stakeholder consultation process as directed by Hon'ble TDSAT. AERA has now examined the issue in detail and has decided on the way forward with regards to treatment of S factor as part of Aeronautical Taxes based on the following aspects;

Definition as per the SSA/OMDA

Authority has looked at the definition of the factor "T" as per the SSA which is as below;

*"**T = corporate taxes** on earnings pertaining to Aeronautical Services.*

The impetus has to be paid on the word "pertaining to" which is very specific and is directed towards the earning from "Aeronautical Services". The Aeronautical Services definition as per the OMDA/SSA is as below;

"Aeronautical Services shall have the meaning assigned hereto in Schedule 5 hereof"

The above definition specifically refers to the services under Schedule 5 of the OMDA which doesn't include any of the activities from which revenue from Revenue Share Assets are earned.

The definition of S Factor as per the State Support Agreement is reiterated below;

*"**S = 30% of the gross revenue generated by the JVC from Revenue Share Assets**. The costs in relation to such revenue shall not be included while calculating Aeronautical Charges."*

The S Factor is referring to the revenue from Revenue Share Assets which can't be associated with Aeronautical Services as defined in the OMDA/SSA. Clearly, Non-Aeronautical Services defined as the list of activities under Schedule 6 of the OMDA from which revenue from Revenue Share Assets accrue based on which S Factor is derived is different from the Aeronautical Services defined as the list of activities under Schedule 5 of the OMDA.

Based on the above definitions it can be concluded that S Factor which is a portion of the revenue from Revenue Share Asset is not a constituent of the revenue from Aeronautical Services.

As a result, earnings pertaining to Aeronautical Services should not include revenue from Revenue Share Assets and hence S Factor should not form part of the earnings while determining the factor "T" as per the SSA.

Interpretation of S factor as a cross subsidy:

Authority has also perused the discussions as per the Hon'ble TDSAT order in which one of the airport operators has argued that a subsidy is treated as part of taxable income and hence the S Factor which is a cross-subsidy should also be considered as part of taxable income.

While the Authority agrees that as per the provisions of the Income Tax Act, subsidy is treated as part of taxable income provided a portion of the revenue accruing to an entity is received in the form of subsidy by that entity. However, in the current case S Factor is used to cross subsidise the airport users while determining the tariff, and this term is not used while determining the revenue accruing to the operator.

The idea of introducing the S Factor is to lessen the burden on the airport user by cross-subsidizing the aeronautical tariff by deducting some portion (30%) of the non-aeronautical revenues accruing to the airport operator while arriving at the target revenue requirement of the operator.

As a result, considering subsidy as taxable income while determining aeronautical tax, doesn't arise in this case, as the subsidy is meant for the airport user and not to the airport operator who has already earned the non-aeronautical revenue and on which the airport operator pays income tax. Considering the S Factor as a subsidy income in the tariff determination process would lead to the airport operator's aeronautical taxes being overstated as non-aeronautical income meant to cross subsidize the airport user is treated as an aeronautical income.

The subsidy in other cases quoted by one of the operators in the discussions mentioned in the Hon'ble TDSAT_Order have been provided as a gap/deficit funding to the entity whose tax has been assessed and hence is not comparable to this case as the airport operator has already earned the S factor and is meant for cross-subsidizing airport user.

Analysis of comments from various stakeholders:

AERA, after assessing the comments of the various stakeholders, has now formed a view that consideration of the S Factor while determining aeronautical taxes could indeed effectively lead to the effective cross subsidization be less than 30% as the airport operator gets benefit to the extent of tax reimbursement for 30% of non-aeronautical revenues which is not the intent of the SSA. AERA agrees with IATA's view on this aspect.

The reservations made by DIAL in its counter comments to the comments from IATA wherein it argues that no artificial tax benefit accrues to DIAL may not be the correct view. As already stated in the above paragraph, clearly, inclusion of S Factor as part of aero revenues will increase tax reimbursement beyond the requirement pertaining to aeronautical services leading to an artificial tax benefit. The same could lead to the effective cross subsidy benefit being passed on to the airport user being less than 30% to the extent of the artificial tax benefit the operator receives in the event of considering S Factor as part of revenue from aeronautical services.

Authority would also like to add that if the intent of the SSA is to include S Factor also as part of the aeronautical revenues while determining aeronautical taxes the same would have been included in the SSA. In the absence of the same, the various interpretations without proper justifications from the airport operator and other stakeholders requesting for the S Factor to be included, Authority is of the view that the earlier stand in the previous Tariff Orders seems logical and correct and need not be revised.

Hon'ble TDSAT in its directions had remanded the matter back to AERA to be decided based on a consultation process in the next Control Period i.e. Third Control Period. The Authority, on careful relook on the aspect and based on the comments from the various stakeholders, has now formed a view that;

- ✓ S factor should not be treated as a subsidy for the airport operator as the airport operator has already earned it from non-aeronautical services and is meant as a cross subsidy to the airport user.
- ✓ The interpretation of the definitions as per the SSA clearly refers to earnings pertaining to Aeronautical Services and since S factor doesn't find place in Aeronautical Services, earning pertaining to aeronautical services should not include S Factor.
- ✓ Consideration of S Factor as part of Aeronautical Services would result in undeserved enrichment to the airport operator effectively reducing the cross-subsidy benefit to the airport user from the present 30% of non-aeronautical income.

This stand is also consistent with the tariff determination principles as per AERA guidelines applicable for other major airports (apart from Delhi and Mumbai) in which the cross subsidized non-aeronautical revenues are not considered as part of the aeronautical revenue block towards determination of aeronautical taxes.

Authority has formed its view only after taking into consideration the views of the various stakeholders as directed by Hon'ble TDSAT and **has decided not to consider S factor as part of Aeronautical Revenue base** to compute corporate taxes on earnings pertaining to Aeronautical Services for the Third Control Period.

Authority has noted that DIAL is not likely to pay any Income Tax on the revenue earned during the Third Control Period. Therefore, the element of Taxation on 'S' factor or consideration of 'S' factor as aero revenue, is irrelevant and has no effect on calculation of Target Revenue of DIAL for the Third Control Period. However, if DIAL pays any Income Tax during the Third Control Period, then the same will be examined/ looked into during the true up process in the next Control Period.

8.5.2 Authority, as part of Tariff Order No. 40/2015-16, had decided to determine corporate tax pertaining to aeronautical earnings by considering depreciation pertaining to only aeronautical services. The relevant extract is quoted verbatim below;

"Additionally, the Authority has decided to determine such corporate tax pertaining to aeronautical earnings based on the consideration of actual/projected aeronautical revenue, operating expenses pertaining to aeronautical services, depreciation pertaining to aeronautical assets and interest expense and had considered the applicable tax rate.

....

The Authority further clarifies that the depreciation, to be considered for such tax calculation, should be the depreciation on account of aeronautical assets only. The Authority is of the view that as Hypothetical Regulatory Base, to be determined in line with SSA, is of hypothetical nature and does not correspond to physical assets in the books of accounts of DIAL, depreciation on such assets should not be considered towards calculation of tax pertaining to aeronautical services."

In this regard, Authority had decided to exclude depreciation pertaining to HRAB while considering depreciation pertaining to aeronautical services for computing aeronautical taxes for all three Control Periods. The impact on this for the Third Control Period is neutral as the aeronautical taxes determined continue to be nil for the Third Control Period.

8.5.3 The computation of corporate taxes on earnings pertaining to Aeronautical Services without S factor as part of Aeronautical Revenue and considering depreciation pertaining to only aeronautical services for the Third Control Period is shown in the table below;

Table 126: Aeronautical Taxes decided to be considered by Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
Aero Revenue (A)	949.16	278.21	610.83	994.47	1,082.18	3,914.85
Annual Fee (considered as 45.99% of Aero Revenue) (AF=45.99%*A)	436.52	127.95	280.92	457.36	497.69	1,800.44
Aero Expense (AE)	875.96	830.67	924.55	1,067.95	1,245.96	4,945.09
EBIDTA – Aero (E=A-AF-AE)	(363.32)	(680.41)	(594.64)	(530.83)	(661.48)	(2,830.68)
Interest – Aero (I)	222.99	215.42	245.43	364.67	526.51	1,575.01
Depreciation – Aero (D)	496.74	449.22	442.96	564.33	728.88	2,682.14
Aero PBT (PBT=E-I-D)	**(1,083.05)**	**(1,345.05)**	**(1,283.03)**	**(1,459.83)**	**(1,916.87)**	**(7,087.83)**
Effective Tax rate as per projected financials (T)	-	-	-	-	-	-
Aeronautical Tax (Max of 0 or Aero PBT X Effective Tax Rate) (AT=PBT*T)	-	-	-	-	-	-

8.6 Authority's Decisions regarding Taxation for the Third Control Period

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

8.6.1 Authority decides to determine aeronautical taxes based on earnings pertaining to Aeronautical Services for the Third Control Period by applying effective tax rate on the aeronautical PBT which is calculated without including S factor as part of the Aeronautical Revenue base. The aeronautical taxes on earnings pertaining to Aeronautical Services for the purpose of tariff determination for the Third Control Period have been determined as nil which shall be trued up based on actuals at the time of tariff determination for the Fourth Control Period.

8.6.2 Authority decides to exclude depreciation pertaining to Hypothetical Regulatory Asset Base and consider depreciation pertaining to only aeronautical assets while computing Aeronautical Taxes for tariff determination.

भा.वि.आ.वि.प्रा.
AERA
भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
Airports Economic Regulatory Authority of India
सत्यमेव जयते

CHAPTER 9. TRAFFIC PROJECTIONS FOR THIRD CONTROL PERIOD

9.1 DIAL's Submissions regarding Traffic Projections for the Third Control Period

9.1.1 DIAL had mentioned that the OMDA agreement required DIAL to develop an initial Master Plan (completed in Sept'2006) and also provided an obligation to revise the master plan once in every ten years or at shorter interval if traffic forecast or other reasons require an earlier assessment.

9.1.2 DIAL had submitted that as the terminal capacity reaches its saturation level, the need to improve turnaround time and operating efficiencies, predominance of belly cargo over freighter aircraft, dynamic changes in aviation industry, intra city connectivity like Delhi Metro, etc. had resulted in the need to review the existing Master Plan and get IGI Airport ready to cater to future needs of Delhi-NCR region. With this vision DIAL had appointed Landrum & Brown (L&B) to review the initial Master Plan in 2015.

9.1.3 As part of master plan, L&B provided the traffic forecast for IGI Airport. DIAL for the purpose of tariff filing for Third Control Period had considered the growth projected by L&B in base case scenario for the years pertaining to the Third Control Period. Following is the traffic growth rate provided by L&B which had been considered by DIAL in their submission.

Table 127: Growth Rate of Traffic submitted by DIAL for Third Control Period as per MYTP

FY ending March 31	2020	2021	2022	2023	2024
Passenger					
Domestic	7.9%	7.6%	7.2%	6.6%	6.1%
International	6.8%	6.6%	6.3%	5.9%	5.5%
ATM					
Domestic	6.9%	6.8%	6.1%	5.7%	5.2%
International	6.0%	5.5%	5.3%	4.9%	4.8%
Cargo					
Domestic	7.5%	7.3%	6.9%	6.4%	6.0%
International	5.4%	5.3%	5.2%	5.0%	4.9%

9.1.4 DIAL, based on the application of growth rates in the table above, had projected the traffic for the years in the Third Control Period as shown in the table below;

Table 128: Traffic Projections submitted by DIAL for Third Control Period as per MYTP

FY ending March 31	2020	2021	2022	2023	2024
Passenger Traffic (Mn)					
Domestic	54.53	58.67	62.88	67.04	71.12
International	19.97	21.28	22.61	23.94	25.26
Total	**74.50**	**79.95**	**85.49**	**90.98**	**96.38**
Air Traffic Movement – Billable ('000s)					
Domestic	198.24	211.67	224.60	237.41	249.79
International	54.94	57.99	61.08	64.08	67.13
Total	**253.18**	**269.66**	**285.69**	**301.49**	**316.91**
Cargo Traffic (in 1000 MT)					
Domestic	420.11	450.65	481.81	512.85	543.64
International	687.10	723.45	761.02	799.22	838.02
Total	**1107.21**	**1174.09**	**1242.84**	**1312.07**	**1381.66**

9.2 Authority's Examination regarding Traffic Projections for the Third Control Period

9.2.1 The Authority had looked at the past five-year traffic growth rates and could notice that the traffic growth had tapered down in the last FY on account of various factors including stress amongst airline operators. Authority had also noted that the actual passenger traffic for the 8-month period from April 2019 till November 2019 had decreased marginally vis-a-vis the actual Passenger Traffic for the 8-month period from April 2018 till November 2018.

9.2.2 Considering that the traffic growth rates as submitted by DIAL were based on a specific independent study conducted by L&B and given the fact that the traffic growth rates had moderated all over the country in FY19, Authority had proposed to consider the traffic growth rates as submitted by DIAL for its tariff determination exercise for the Third Control Period.

9.2.3 The projected passenger traffic, Air Traffic Movement and Cargo Traffic based on the growth rates proposed to be considered is shown in the table below which would be trued up based on actuals;

Table 129: Traffic proposed to be considered by the Authority for Third Control Period

FY ending March 31	2020	2021	2022	2023	2024
Passenger Traffic					
Domestic Traffic (Mn)	54.53	58.67	62.88	67.04	71.12
International Traffic (Mn)	19.97	21.28	22.61	23.94	25.26
Total (Mn)	**74.50**	**79.95**	**85.49**	**90.98**	**96.38**
Air Traffic Movement – Billable					
Domestic ATM ('000s)	198.24	211.67	224.60	237.41	249.79
International ATM ('000s)	54.94	57.99	61.08	64.08	67.13
Total ('000s)	**253.18**	**269.66**	**285.69**	**301.49**	**316.91**
Cargo Traffic					
Domestic Cargo (in 1000 MT)	420.11	450.65	481.81	512.85	543.64
International Cargo (in 1000 MT)	687.10	723.45	761.02	799.22	838.02
Total (in 1000 MT)	**1107.21**	**1174.09**	**1242.84**	**1312.07**	**1381.66**

9.2.4 In light of COVID-19 pandemic, GoI restriction on domestic and international flights and other prevailing situations, it was difficult to assess the Traffic Volume for FY 2021 at time of issuance of Consultation Paper No. 15/2020-21. Further the traffic achieved in FY 2020 also had to be reassessed. Authority proposed to consider the above-mentioned traffic figures as submitted by DIAL in their proposal as the expected traffic for the purpose of this Tariff Order but would take a final decision after considering Stakeholders view on the subject.

9.3 Stakeholder comments regarding Traffic Projections for the Third Control Period

9.3.1 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals raised by Authority in the Consultation Paper with respect to Traffic Projections for the Third Control Period. The comments by stakeholders are presented below;

DIAL's comments regarding Traffic Projections for the Third Control Period

9.3.2 DIAL estimates the impact of the COVID-19 pandemic on the traffic for the airport shall be longer and deeper. DIAL has submitted relevant extracts from

- ICF, a global consultancy firm which has predicted that global passenger traffic is forecasted to reach the 2019 levels by 2023 and will witness tepid growth thereafter.

- ACI International, which has estimated that traffic for FY 2020 is expected to witness reduction of 50.4% in pre COVID growth estimates and 52.9% reduction in case of Asia-pacific region.
- International Air Transport Association (IATA) has estimated that the 2019 traffic levels shall be reached again in 2023.

DIAL has mentioned that in Q1'21 (post lifting of lockdown) they have handled average 29000 domestic pax per day and in total handled 1.23 Mn pax. However, since some states have resorted back to lockdowns owing to spikes in single day COVID cases daily traffic levels in July 2020 has been lower compared to June 2020. DIAL expects traffic for Q2 to be highly muted. Accordingly, DIAL expects the traffic in FY'21 to reach at level of ~18 million passengers. The expected easing of travel restrictions and demand for travel will result in slow roll back of traffic in FY'22, similar growth trajectory with slight moderation will follow in FY'23. In FY'24 the traffic may pass FY'20 level, as vaccine development and distribution is expected to be significantly established. As per DIAL's assessment the recovery of traffic would take atleast three years after FY'21. The revised Traffic estimate submitted by DIAL is as shown in the table below;

Table 130: Traffic Projections submitted by DIAL for Third Control Period as per Stakeholder Consultation Process

Traffic	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
PAX Overall (MPPA)	**67.30**	**18.39**	**36.15**	**51.50**	**72.59**
Domestic	49.47	15.09	27.75	38.86	52.84
International	17.83	3.29	8.40	12.64	19.75
ATM – Billable ('000s)	**231.34**	**82.57**	**135.49**	**178.36**	**241.07**
Domestic ATM	181.58	67.23	105.86	137.81	182.85
International ATM	49.76	15.34	29.63	40.55	58.22
Cargo (in 1000 MT)	**955.86**	**615.34**	**823.25**	**940.86**	**1,120.07**
Domestic	352.69	214.20	296.64	339.02	403.60
International	603.16	401.14	526.61	601.84	716.48

Other Stakeholder's comments regarding Traffic Projection for the Third Control Period

9.3.3 As per IATA, the passenger traffic would recover to pre-covid (2019) level only in 2023 or 2024. The passenger volume in IGIA would increase at an average annual rate of 4% between 2020 and 2025. Domestic Traffic would resume earlier than the International Traffic with short haul international movement likely to recover more quickly than long haul and intercontinental travel.

IATA considers there to be considerable uncertainty around air traffic and believes that recovery in economic activity would be a key factor in recovery in passenger demand. The ongoing pandemic has put a huge dent in consumer confidence and if the consumers are reluctant to travel even after the containment of Covid-19 pandemic and lifting of restrictions, the anticipated recovery could be slower than expected. There was already significant pressure on the finances of airlines and with the advent of pandemic the fragile financial position could prevent airlines from responding quickly to improving demand in the upcoming years.

9.3.4 PHDCCI commented that the Covid-19 impact on air traffic submitted by DIAL ought to be considered while issuing Tariff Order for the Third Control Period.

PHDCCI states that there is more than 50% reduction in air traffic envisaged for FY21 due to the advent of covid-19 pandemic. As per PHDCCI, there would be a significant impact on air traffic and customer behavior would have a long-term impact on airport revenue. Thus, PHDCCI requests Authority to consider the impact due to covid-19 while issuing Tariff Order for the Third Control Period.

9.4 DIAL's counter-comments and response to stakeholder comments regarding Traffic Projections for the Third Control Period

9.4.1 Subsequent to the Stakeholder Comments received by DIAL as part of Stakeholder Consultation Process, DIAL's response to the various stakeholder comments with respect to Traffic Projections for the Third Control Period are presented below;

DIAL's Response to IATA's comments regarding Traffic Projections for the Third Control Period

9.4.2 DIAL states that it has taken cognizance of various available reports and their own experience in its revised traffic projections considering the impact of Covid-19. According to DIAL, IATA's comments reinforce the estimates of traffic put forth by DIAL and a periodic review of traffic would bring more uncertainty to the airport economics. Hence, DIAL proposes that the traffic projected by DIAL for Third Control Period should be considered as they are based on the current scenario and projected recovery estimated by DIAL.

9.5 Authority's Examination on Stakeholder Comments regarding issues on Traffic Projections for the Third Control Period

9.5.1 Authority has examined the comments made by stakeholders and DIAL's response to their comments regarding Traffic Projections for the Third Control Period. Authority has decided to consider traffic for FY20 at actuals as per DIAL's submission.

For FY21, DIAL has considered passenger traffic of 18.39 MPPA which is around 27% of DIAL's actual traffic in FY19. Authority has considered the slow progress of recovery in FY21 till date and the traffic figures of IGIA till date and is of the view that for DIAL to achieve the traffic projection for FY21, there has to be considerable increase in traffic during latter half of FY21. Considering this, Authority has decided to consider the traffic projected by DIAL for FY21.

For FY22, DIAL has projected traffic of 36.15 MPPA which is around 52% of traffic in FY19. Authority has considered the projected recovery of economies in South East Asia which have recovered from Covid-19 to 60% of pre-covid levels in the current year itself. Authority is of the view that DIAL's projection of traffic in FY22 to be 52% of pre-covid levels could be highly conservative. Authority has hence decided to consider IGIA to recover its traffic to 60% of pre-covid levels by FY22 and reach a projected traffic of 41.54 MPPA. The same could be possible considering the gradual relaxation with regards to restrictions in airline operations as directed by Ministry of Civil Aviation which has allowed the airlines to operate at 80% of their pre COVID capacity levels from December 2020.

For FY23, DIAL has projected traffic of 51.50 MPPA which is around 74% of traffic in FY19. Authority has looked at estimates by various organizations such as ICF and IATA which have projected traffic to recover to pre-covid levels by 2023. Considering the expected trajectory of traffic revival, Authority has decided to consider the traffic in FY23 to recover to at least FY20 levels and reach 67.30 MPPA.

For FY24, DIAL has projected traffic of 72.59 MPPA which is greater than the pre-covid traffic levels. Authority has taken note of IATA's comments which state that there would be restrained growth in traffic after recovery to pre-covid levels due to fragile financials of airlines and expected dent in consumer confidence. In this regard, Authority has decided to consider the traffic projected by DIAL for FY24.

9.5.2 Authority has similarly examined the submissions made by DIAL for ATM traffic and has decided to project them proportionately with regards to projections considered for passenger traffic.

9.5.3 Authority has noted that the Cargo traffic projected by DIAL is not impacted by Covid-19 pandemic to the same extent of passenger traffic and ATM traffic and is projected to recover to FY20 levels by FY23. In this regard, Authority has decided to consider Cargo traffic as projected by DIAL for the Third Control Period.

9.5.4 The traffic projections decided to be considered by Authority is as shown in the table below which would be trued up during the next Control Period on the actual traffic achieved by DIAL.

Table 131: Traffic Projections decided to be considered by Authority for Third Control Period

Traffic	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
PAX Overall (MPPA)	**67.30**	**18.39**	**41.54**	**67.30**	**72.59**
Domestic	49.47	15.09	30.31	49.47	52.84
International	17.83	3.29	11.23	17.83	19.75
ATM - Billable ('000s)	**231.34**	**82.57**	**142.33**	**231.34**	**241.07**
Domestic	181.58	67.23	111.22	181.58	182.85
International	49.76	15.34	31.11	49.76	58.22
Cargo (in 1000 MT)	**955.86**	**615.34**	**823.25**	**940.86**	**1,120.07**
Domestic	352.69	214.20	296.64	339.02	403.60
International	603.16	401.14	526.61	601.84	716.48

9.6 Authority's Decisions regarding Traffic Projections for the Third Control Period

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

9.6.1 Authority decides to consider Passenger Traffic and Air Traffic Movement for the Third Control Period as has been considered as per Table 131.

9.6.2 Authority has decided to consider Cargo traffic as per Table 131.

9.6.3 Authority has decided to true up the traffic for the Third Control Period based on actuals during next Control Period.

भा.वि.आ.वि.प्रा.
AERA

CHAPTER 10. INFLATION FOR THIRD CONTROL PERIOD

10.1 DIAL's Submissions regarding Inflation for the Third Control Period

10.1.1 For the purpose of inflation, DIAL had considered the RBI survey of professional forecasters on macroeconomic indicators – result of the 51st round. As per the survey, DIAL considered median CPI Headline inflation rate of 4.5%. The medium- and long-term forecasts as per the 51st round of RBI survey are in the table below;

Table 132: Inflation submitted by DIAL for Third Control Period as per MYTP

Percentage (%)	Mean	Median	Max	Min
CPI Combined	4.5	4.5	5.5	3.5

10.2 Authority's Examination regarding Inflation for the Third Control Period

10.2.1 The Authority examined the submission made by DIAL on inflation to be considered during Third Control Period.

10.2.2 The Authority had noted that DIAL had considered mean CPI from the RBI survey conducted during March 2018 as the inflation for Third Control Period. The Authority however, proposed to consider the recent inflation forecast by RBI as per its 61st round of survey of professional forecasters on macroeconomic indicators, as the same would be consistent with the recent macroeconomic developments.

10.2.3 Based on the inflation forecast by RBI as per the survey of professional forecasters on macroeconomic indicators – 61st round, Authority proposed to consider inflation of 4.6% i.e. the mean CPI headline inflation during Q3 of FY 2019-20.

Table 133: Inflation forecast – 61st round of survey by RBI

Percentage (%)	Mean	Median	Max	Min
CPI Combined	4.6	4.7	5.1	3.5

10.3 Authority's Examination on Stakeholder Comments regarding Inflation for the Third Control Period

10.3.1 Authority has noticed that there are no stakeholder comments regarding the inflation proposed for the Third Control Period. In this regard, Authority has decided to consider the inflation of 4.6% i.e. the mean CPI headline inflation during Q3 of FY 2019-20, as was proposed in Consultation Paper No. 15/2020-21 for Third Control Period.

10.4 Authority's Decisions regarding Inflation for the Third Control Period

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

10.4.1 Authority decides to consider the CPI headline inflation of 4.6% based on the RBI survey of professional forecasters on macroeconomic indicators – 61st round for the Third Control Period.

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

CHAPTER 11. QUALITY OF SERVICE FOR THIRD CONTROL PERIOD

11.1 DIAL's Submissions regarding Quality of Service for the Third Control Period

11.1.1 DIAL, in a letter to the Authority dated 23.07.2018 submitted that they were exploring ways to improve the quality of service provided at the airport. DIAL considered a number of actions to improve passenger experience at the airport which can be seen in the improved ASQ scores and rankings. The ongoing actions considered by DIAL to further improve ASQ score at the airport are stated below;

- Engagement of an expert agency to develop a long-term service concept and training program for Delhi airport involving all its stakeholders.
- Awareness and trainings for government agencies (CISF, Immigration staff), airlines & GHS outsourced agencies like housekeeping, trolley pushers, parking personnel, concessionaire, etc.
- Exclusive Customer Service training to security forces with fresh content.
- Reduction in passenger load at Terminal 1, post shifting of few flights to Terminal 2.
- All temporary signage removed and placed in acrylic holders. Restricted items signage refreshed at all check-in counters. In Terminal 3, the electronic dangerous goods & other notifications have been added in Check-in area as well as other areas to guide passengers better and also the screens have undergone the black spot cleaning activity.
- Passengers movement space increased in security check area at all terminals of IGIA.
- Metro Operations commenced at Terminal 1 for ensuring better connectivity.
- Deployment of Customer Service Agents (extra manpower to support daily operations) at departure forecourt to guide and assist passengers.
- Old FIDS replaced with new ones for better visibility to passengers.
- Extending the Wi-Fi service to the Forecourt Areas so that once the passengers can get connected as soon as they reach the airport; further connects seamlessly throughout till departure piers.
- PVC slats were facilitated at Entry Gates to stop high infiltration of air ensuring comfortable terminal environment.

11.2 Authority's Examination regarding Quality of Service for the Third Control Period

11.2.1 The Authority in its Order No. 03/2012-13 dated 24.04.2014 had decided, as specified by the Government, to monitor the performance standards as laid down in the OMDA. The Authority had noted that OMDA provides for liquidated damages to be paid by DIAL to AAI, should the quality of service not be achieved by DIAL as per the requirements under OMDA.

11.2.2 The Authority had assessed various media reports and Airports Council International (ACI) website wherein the IGIA had constantly been adjudged one of the best airports in the world in its traffic category and the Airport Service Quality (ASQ) score has consistently improved in the past ten years.

11.2.3 The Authority had noted that in the past five years, IGIA has been consistently ranked as one of the top airports by the ACI in the Airport Service Quality awards in various categories. The rankings are shown in the table below;

Table 134: ACI ASQ Rankings of IGIA over the past five years

Category	2014	2015	2016	2017	2018
Best Airport by size - Over 40 mppa			2nd position	1st position	
Best Airport by size - 25-40 mppa	1st position	1st position			
Best Airport by Region – Asia Pacific	5th position	2nd position	2nd position	1st position	
Departures - Best Airport by size and region (over 40 mppa, Asia Pacific)*					1st position

** ACI altered their ranking system in 2018 by introducing categories of departure and arrival.*

11.2.4 The Authority had also considered the ranking of airports by Skytrax, one of the leading ranking organizations in the aviation industry, where IGIA had been ranked as the best airport in Central Asia. Skytrax also rated IGIA as a four-star airport, the only airport from India to be rated so.

11.2.5 Hence, the Authority did not propose any adjustment towards determination of aeronautical tariff on account of service quality maintained by the airport operator.

11.3 Stakeholder comments regarding Quality of Service for the Third Control Period

11.3.1 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals raised by Authority in the Consultation Paper with respect to Quality of Service for the Third Control Period. The comments by stakeholders are presented below;

Other Stakeholder's comments (other than DIAL) on Quality of Service for the Third Control Period

11.3.2 IATA commented that Authority should introduce an appropriate service level performance framework to measure DIAL's performance.

As per IATA, airports are built to serve as aviation infrastructure enabling airlines, who are the primary users of airports, to operate as they are the major revenue source of airport operators. IATA considers that ASQ based approach has no accountability, cost relatedness or recognition of airlines requirements. IATA points out that there have been no regular, structured reviews of the airport conducted between DIAL and airlines resulting in a major failure on the Concession Agreement and current approach. Thus, IATA requests Authority to introduce a service level performance framework and encourages adoption of IATA's policy in users and consumers interests.

11.4 DIAL's counter-comments and response to stakeholder comments regarding Quality of Service for the Third Control Period

11.4.1 Subsequent to the Stakeholder Comments received by DIAL as part of Stakeholder Consultation Process, DIAL's response to the various stakeholder comments with respect to Quality of Service for the Third Control Period are presented below;

DIAL's Response to IATA's comments on Quality of Service for the Third Control Period

11.4.2 DIAL stated that the quality standards have been laid out in OMDA with enough checks and balances built in the Concession Agreement to take care of compliance of quality standards. DIAL's detailed response is as follows;

"In case of Delhi Airport, the quality standard already been laid down in schedule 3 & 4 of OMDA. A periodic compliance report to these being submitted to AAI on quarterly basis. The Concession Agreement also provides for penalty to be paid by DIAL to AAI, should the quality of service not be

आर्थिक विनियामक प्राधिकरण Economic Regulatory Authority of India

achieved by DIAL in line with the requirement under OMDA. Accordingly, there are enough checks and balance in built in the concession agreement to take care of the compliance of the required service standards.

Authority in the consultation paper no 15/2020-21 evaluated various media report, ASQ ranking as well as skytrax ranking and drawn its satisfaction to the quality standard maintained by the DIAL at IGI Airport.

The ASQ program is a worldwide accepted airport quality benchmarking exercise and needs to be given due weightage."

11.5 Authority's Examination on Stakeholder Comments regarding issues on Quality of Service for the Third Control Period

11.5.1 Authority has noted the comments made by stakeholders and DIAL's response to their comments regarding Quality of Service for the Third Control Period. Authority has taken note of IATA's comments regarding ASQ taking no accountability or recognition of airlines in their rankings. In this regard, Authority agrees with DIAL that there are adequate service quality parameters concerning airlines in the Service Quality requirements set down in Schedules 3 and 4 of OMDA. Authority has considered the recent performance of IGIA where it has been consistently ranked as one of the top airports in the Airport Service Quality awards across various categories, as seen in Table 134. Thus, Authority considers that IGIA has consistently maintained its service quality over the years and has decided to not consider any adjustments in the aeronautical tariff during Third Control Period with regards to Quality of Service.

11.6 Authority's Decisions regarding Quality of Service for the Third Control Period

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

11.6.1 Authority decides to not consider any adjustments in the aeronautical tariff during Third Control Period with regards to Quality of Service.

भा.वि.आ.वि.प्रा.
AERA

CHAPTER 12. TARGET REVENUE DETERMINATION FOR THIRD CONTROL PERIOD

12.1 DIAL's Submissions regarding Target Revenue for the Third Control Period

12.1.1 DIAL had arrived at the target revenue based on the submissions made as discussed in previous sections. The resultant building blocks and X- Factor are shown in the table below;

Table 135: Target Revenue submitted by DIAL for Third Control Period as per MYTP

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
Regulatory Asset Base (A)	5,089.54	5,911.95	7,988.06	11,918.90	14,118.37	
WACC (B)	16.42%	16.42%	16.42%	16.42%	16.42%	
Return on RAB (C=A*B)	835.47	970.47	1,311.27	1,956.53	2,317.58	7,391.31
Operating expense (E)	1,025.52	1,283.22	1,620.70	2,090.02	2,359.28	8,378.75
Depreciation (D)	520.78	543.48	646.39	910.58	1,081.44	3,702.68
Taxes (T)	400.09	407.02	413.35	336.89	346.29	1,903.65
Target Revenue prior to cross-subsidy from Revenue Share Asset (GTR=C+E+D+T)	2,781.86	3,204.19	3,991.71	5,294.03	6,104.60	21,376.39
Cross subsidy - Revenue from Revenue Share Asset (NAR)	296.47	313.34	331.43	353.41	375.71	1,670.36
Target Revenue (TR=GTR-NAR)	**2,485.39**	**2,890.85**	**3,660.28**	**4,940.62**	**5,728.89**	**19,706.03**
BAC True up (BTR)	**3,120.93**					**3,120.93**
True up for Second Control Period (STR)	**4,279.90**					**4,279.90**
Adjusted Target Revenue (ATR=TR+BTR+STR)	**9,886.22**	**2,890.85**	**3,660.28**	**4,940.62**	**5,728.89**	**27,106.86**
WACC	16.42%					
PV Factor (PV)	0.86	0.74	0.63	0.54	0.47	
PV of ARR (X=ATR*PV)	8,492.20	2,133.07	2,319.97	2,689.92	2,679.29	18,314.45
PV of Projected Revenue (Y)	4,131.01	3,895.88	3,661.38	3,427.42	3,198.77	18,314.45
X- Factor Increase						**424.21%**

12.1.2 DIAL had requested for a one time increase of 424.21% on the Base Airport Charges followed by normal adjustment in tariff to the extent of inflation of 4.5% to recover the projected net target revenue as assessed by them.

12.1.3 Further as part of the Annual Tariff Proposal, DIAL had requested for the following for the Third Control Period;

- Aeronautical Charges / Target Revenue should be determined as per the formula stated in Schedule I of SSA,
- PSF be determined under section 13(1)(c) of AERA Act, 2008 read with Rule 88 of Aircraft Rules, 1937 with specific Building Blocks of Depreciation and Interest out of target revenue, and

- Aeronautical Charges towards aeronautical services be calculated under section 13(1)(a) of AERA Act, 2008 (target revenue minus PSF).

12.2 Authority's Examination regarding Target Revenue for the Third Control Period

12.2.1 Based on the submissions made and based on Authority's examination on each of the submissions, the Target Revenue as proposed to be considered by Authority for the Third Control Period are shown in the table below;

Table 136: Target Revenue as proposed to be considered by the Authority for Third Control Period

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
Control Period Year	1	2	3	4	5	
RAB (A) (Refer Table 87)	5,008.71	5,669.41	7,247.04	10,756.90	13,041.95	41,724.00
WACC (B)	12.81%	12.81%	12.81%	12.81%	12.81%	
Return on RAB (C= A X B)	641.45	726.07	928.11	1,377.61	1,670.25	5,343.49
Depreciation (D) (Refer Table 86)	519.53	514.68	554.30	727.21	847.20	3,162.91
Expense (E) (Refer Table 112)	965.83	1,078.49	1,240.65	1,444.81	1,615.07	6,344.85
Taxes (T) (Refer Table 124)	-	-	-	-	-	-
Target Revenue prior to cross-subsidy from Revenue Share Asset (GTR= C+D+E+T)	**2,126.81**	**2,319.24**	**2,723.06**	**3,549.62**	**4,132.52**	**14,851.25**
Less: Cross Subsidy from Revenue Share Assets (NAR) (Refer Table 118)	654.85	717.84	796.07	885.39	985.77	4,039.92
Target Revenue for CP3 (TR=GTR-NAR)	1,471.96	1,601.41	1,926.99	2,664.23	3,146.75	10,811.33
BAC True Up	-					-
True up for 2nd Control Period (STR) (Refer Table 70)	**(5,736.88)**					**(5,736.88)**
Adjusted TR (ATR= TR+STR)	**(4,264.92)**	**1,601.41**	**1,926.99**	**2,664.23**	**3,146.75**	**5,074.45**
PV Factor as on 01.04.2019 (PV)	0.89	0.79	0.70	0.62	0.55	
Present value of ATR as on 01.04.2019 at 12.81% (X=ATR*PV)	**(3,780.74)**	**1,258.44**	**1,342.37**	**1,645.25**	**1,722.61**	**2,187.93**
Projected Aero Revenue based on Base Airport Charges including compensation towards revocation of Fuel Throughput Charges (provided as part of BAC Tariff order) (PAR)	1,056.38	1,124.21	1,191.75	1,258.15	1,323.80	5,954.28
Present Value of Projected Aeronautical Revenue as on 01.04.2019 at 12.81% (Y=PAR*PV)	**936.45**	**883.44**	**830.19**	**776.95**	**724.68**	**4,151.70**
Over Recovery on PV terms as on 01.04.2019 (Z= Y-X)	4,717.18	(375.00)	(512.18)	(868.30)	(997.93)	
Projected Over Recovery pending to be trued up as on 01.04.2019						**1,963.77**

12.2.2 Based on the above analysis, the Authority estimated that the eligible Target Revenue that could be collected by the airport operator during the Third Control Period to be Rs. 2,187.93 Cr based on present value terms. Given the fact that DIAL would collect almost 50% of the eligible Target Revenue for the

Third Control Period in the first year itself, effecting the adjustment in tariff to match the NPVs of Projected Aeronautical Revenues and the eligible Target Revenue would have entailed a drastic reduction in the aeronautical tariff for the airport operator who is currently levying Base Airport Charges plus 10%.

As per the terms of the SSA, the airport operator is eligible to charge Base Airport Charge plus 10% at the least and hence no reduction was possible with regards to aeronautical tariff beyond the Base Airport Charges plus 10%.

Authority hence proposed to allow the airport operator to continue levying Base Airport Charges plus 10% during the Third Control Period. This was also in compliance with the Hon'ble TDSAT Order wherein AERA was required to respect rights/concessions etc. flowing from lawful agreements / directions viz. OMDA, SSA etc. The charges determined by the Authority pertaining to BAC plus 10%, currently levied by the Airport Operator, are as per Tariff Order No 39/2018-19. These charges had been used to arrive at the projected aeronautical revenue as mentioned under Table 136.

12.2.3 Based on the above calculation, the difference between the Present Value of Revenue projected based on the existing Base Airport Charges plus 10% and Present value of Target Revenue was a projected over recovery to the extent Rs.1964 Cr (arrived on a PV basis as on April 1, 2019) for the Third Control Period to be recovered in the future control periods along with carrying cost.

12.2.4 The Authority had received the communication from MoCA, via letter F.No. AV-13030/216/2016-ER dated 8th Jan'2020 wherein Fuel Throughput Charges had to be discontinued for all airports. Based on the letter, the Authority in its projections towards aeronautical revenues for the airport operator had proposed to consider compensatory tariff in lieu of the disallowance of the Fuel Throughput Charges, considered as aeronautical by the Authority. The compensatory tariff was proposed to be fixed such that the revenue projected from Fuel Throughput Charges at the allowed rate of Rs. 500/KL every year and based on the projected fuel utilization was recovered through an additional charge levied on every billable passenger.

12.2.5 The Authority proposed to consider the compensatory tariff as per the calculation in the table below;

Table 137: Compensatory Tariff proposed to be considered by the Authority for Third Control Period in lieu of Disallowance of Fuel Throughput Charge

FY ending March 31	**2020**	**2021**	**2022**	**2023**	**2024**
Fuel Uptake Projected as per DIAL submission (KL) **(A)**	28,41,173.3	30,26,103.3	32,05,994.7	33,83,383.4	35,56,451.7
Fuel Throughput charge allowed by AERA as per BAC order (Rs/KL) **(B)**	500.00	500.00	500.00	500.00	500.00
Fuel Farm revenues Estimated (Rs. Cr) **(R= AX B)**	142.06	151.31	160.30	169.17	177.82
Fuel Farm Revenues collected till Dec 31, 2019 (Rs. Cr) **(C)**	100.50				
Fuel Farm Revenues remaining non recovered in the Third Control Period (Rs. Cr) **(FFR= R-C)**	**41.56**	**151.31**	**160.30**	**169.17**	**177.82**
Billable Passengers projected as per DIAL submission in its MYTP (Mn)	31.52	33.83	36.18	38.50	40.79
Billable Passenger Traffic achieved till Dec 31, 2019 (Mn)	22.47				
Balance Billable Passenger Traffic (Mn) **(BP)**	9.05	33.83	36.18	38.50	40.79
Compensation Tariff to be collected per passenger (Rs/Billable Pax)	**45.91**	**44.72**	**44.31**	**43.93**	**43.59**

FY ending March 31	2020	2021	2022	2023	2024
(FFR/BP)					

12.3 Stakeholder comments regarding Fuel Throughput Charges' Compensation for the Third Control Period

12.3.1 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals raised by Authority in the Consultation Paper with respect to Fuel Throughput Charges' Compensation for the Third Control Period. The comments by stakeholders are presented below;

DIAL's comments regarding Fuel Throughput Charges Compensation for the Third Control Period

12.3.2 DIAL has mentioned that pursuant to Authority's direction, it has stopped collecting Fuel Throughput Charges w.e.f. 15th Jan'2020. DIAL has mentioned that even though Authority in its Consultation Paper 15/2020-21 proposed a compensatory tariff for the Third Control Period, since the Third Control Period is currently at consultation stage there is no compensatory tariff for the period starting from 15th Jan'2020 to 31st March'2020. Hence the revenue lost on this account needs to be compensated.

The details of revenue foregone on account of discontinuation of Fuel Throughput Charges for the period 15th Jan'2020 to 31st March'2020, which DIAL has requested to be compensated, is as below.

Table 138: DIAL's submission on revenue to be compensated in lieu of disallowance of Fuel Throughput Charges as per Stakeholder Consultation Process

Period	Total Throughput (KL)	FTC rate in BAC (Rs /KL)	FTC revenue foregone (In Rs Cr)
Month			
Jan'20 (15th -31st)	128394	500	6.42
Feb'20	221267	500	11.06
Mar'20	149347	500	7.47
Total	**499008**		**24.95**

Other Stakeholders' comments regarding Fuel Throughput Charges Compensation for the Third Control Period

12.3.3 MIAL commented that the Authority ought to levy the charges in lieu of discontinuation of Fuel Throughput Charges on airlines.

As per MIAL, the tariff in lieu of disallowance of Fuel Throughput Charges should not be levied on passengers since the GST levied thereon would be an expense to passengers which is against the spirit behind discontinuation of FTC i.e. input tax credit in respect of charge on passengers would be lost. Thus, MIAL requests Authority to levy the charges in lieu of disallowance of Fuel Throughput Charges on airlines using ATF.

12.3.4 BAOA agrees with Authority's proposal to compensate DIAL for loss of revenue due to disallowance of Fuel Throughput Charges as per MoCA's orders of January 8, 2020 by levying the charges in lieu of disallowance of Fuel Throughput Charges on passengers.

12.4 DIAL's counter-comments and response to stakeholder comments regarding Fuel Throughput Charges' Compensation for the Third Control Period

12.4.1 Subsequent to the Stakeholder Comments received by DIAL as part of Stakeholder Consultation Process, DIAL's response to the various stakeholder comments with respect to determination of Target Revenue for the Third Control Period are presented below;

DIAL's Response to BAOA's comments on Fuel Throughput Charges' Compensation for the Third Control Period

12.4.2 DIAL agrees with BAOA to compensate DIAL on account of loss of revenue due to disallowance of Fuel Throughput Charges by MoCA as per their letter dated 8th January 2020. DIAL also points out that Fuel Throughput Charges should be considered as part of non-aeronautical revenue in terms of the concession as it is in the nature of royalty.

12.5 Authority's Examination on Stakeholder Comments regarding issues on Fuel Throughput Charges Compensation for the Third Control Period

12.5.1 Authority has noted the comments made by the stakeholders and DIAL's response to BAOA's comments regarding the compensation for Fuel Throughput Charges for the Third Control Period.

Authority has carefully examined MIAL's comment that the compensation for disallowance of Fuel Throughput Charges should be levied on airlines. In this regard, Authority would like to state that an additional charge on airlines added to Landing & Parking Charges would result in the contravention of the provisions of SSA because the Landing and Parking Charges are a part of Base Airport Charges as per SSA and have been considered as per Tariff Order No. 30/2018-19 pertaining to Base Airport Charges for Second Control Period. Hence, Authority is of the view that the compensation for disallowance of Fuel Throughput Charges should not be charged to airlines.

Considering the above, Authority agrees with the views of DIAL and BAOA and has decided to consider an additional charge in lieu of disallowance of Fuel Throughput Charges on every billable passenger, consistent with its proposal in Consultation Paper No. 15/2020-21. Authority would like to indicate that the only reason for providing compensation to the airport operator for disallowance of Fuel Throughput Charge is on account of communication from MoCA, vide letter F.No. AV-13030/216/2016-ER dated 8th Jan'2020, which states that Authority has to provide compensation to airport operators for disallowance of Fuel Throughput Charges as seen in the extract below.

"AERA / Ministry of Civil Aviation, as the case may be, should take into account the amount in this revenue stream and duly compensate the Airport Operator / AAI by suitably recalibrating other tariffs during their determinations of airport tariffs."

Authority has taken note of the revenue of Rs. 24.95 Cr (Table 138) foregone by DIAL in FY20 on account of disallowance of Fuel Throughput Charges and has decided to allocate the same proportionately on the basis of billable passengers for the last two months of FY 2021 and the years FY 2022, FY 2023 and FY 2024.

Authority has also estimated the revenue foregone for the months from April 2020 till January 2021 of Rs 35.03 Cr. This amount has been estimated considering an expected billable ATM of 61,930 ATMs during the period from April 2020 till January 2021.

The expected billable ATM figure has been estimated considering the actual ATM achieved from April 2020 till November 2020 and the expected ATMs that could be realized in the months of December 2020 and January 2021.

This amount of Rs 35.03 Cr also has been decided to be allocated proportionately on the basis of billable passengers for the last two months of FY 2021 and the years FY 2022, FY 2023 and FY 2024.

The revised Compensatory Tariff to be collected per embarking passenger based on the traffic projected by the Authority which shall be levied from February 1, 2021 is seen in the table below;

Table 139: Revised Compensatory Tariff decided to be considered by Authority for Third Control Period

FY ending March 31	**2021***	**2022**	**2023**	**2024**
Fuel Uptake as projected by Authority (KL) from February 1, 2021 **(A)**	2,33,563.89	15,97,193.39	26,17,410.00	27,27,461.76
Fuel Throughput charge allowed by Authority as per BAC order (Rs/KL) **(B)**	500.00	500.00	500.00	500.00
Fuel Farm revenues Estimated (Rs. Cr) **(FFR = A x B)**	11.67	79.86	130.87	136.37
FTC Revenue foregone by DIAL from Jan 15, 2020 – Mar 31, 2020 **(Rs 24.95 Cr as per Table 138)** and FTC Revenue estimated to be foregone by DIAL from April 1, 2020 – Jan 31, 2021 **(estimated as Rs 35.03** Cr) bringing the total revenue foregone to **Rs 59.98 Cr** (apportioned over the last two months of FY 2021 and the next 3 years) (Rs. Cr) **(R)**	1.51	13.28	21.98	23.21
Total Fuel Farm Revenue Estimated (TFFR = FFR + R) (Rs. Cr)	**13.19**	**93.14**	**152.85**	**159.58**
Billable Passengers projected by Authority (Mn) **(BP)**	2.00	17.58	29.08	30.71
Compensatory Tariff to be collected per embarking passenger (Rs/Billable Pax) **(TFFR/BP)**	**65.98**	**53.00**	**52.56**	**51.97**

**Last two months of FY 2021 during which Compensatory Tariff shall be levied.*

12.6 Authority's Examination on Stakeholder Comments regarding issues on Target Revenue for the Third Control Period

12.6.1 Based on the stakeholder comments to Consultation Paper No. 15/2020-21, DIAL's response to the comments and Authority's decisions pertaining to each building block after analysis of the stakeholder comments, the revised Target Revenue for the Third Control Period is shown in the table below;

Table 140: Target Revenue decided to be considered by Authority for Third Control Period

FY ending March 31 (Rs. Cr)	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
Control Period Year	1	2	3	4	5	
RAB (A) (Refer Table 96)	4,912.93	4,729.96	5,342.99	7,840.41	11,237.05	34,063.33
WACC (B)	12.75%	12.75%	12.75%	12.75%	12.75%	
Return on RAB (C= A X B)	626.46	603.13	681.30	999.75	1,432.86	4,343.48
Depreciation (D) (Refer Table 95)	521.31	470.93	462.21	583.48	747.98	2,785.91
Expense (E) (Refer Table 115)	875.96	830.67	924.55	1,067.95	1,245.96	4,945.09

आर्थिक विनियामक प्राधिकरण Airports Economic Regulatory Authority of India सत्यमेव जयते

FY ending March 31 (Rs. Cr)	2020	2021	2022	2023	2024	Total
Taxes (T) (Refer Table 126)	-	-	-	-	-	-
Target Revenue prior to cross-subsidy from Revenue Share Assets (GTR= C+D+E+T)	2,023.73	1,904.73	2,068.06	2,651.17	3,426.80	12,074.49
Less: Cross Subsidy from Revenue Share Assets (NAR) (Refer Table 122)	693.62	246.88	400.90	535.79	606.96	2,484.16
Target Revenue for CP3 (TR=GTR-NAR)	**1,330.11**	**1,657.84**	**1,667.15**	**2,115.38**	**2,819.84**	**9,590.33**
BAC True Up	-					-
True up for 2nd Control Period (STR) (Refer Table 71)	(5,721.23)					(5,721.23)
Adjusted TR (ATR= TR+STR)	**(4,391.13)**	**1,657.84**	**1,667.15**	**2,115.38**	**2,819.84**	**3,869.09**
PV Factor as on 01.04.2019 (PV)	0.89	0.79	0.70	0.62	0.55	
Present value of ATR as on 01.04.2019 at 12.75% (X=ATR*PV)	**(3,894.53)**	**1,304.07**	**1,163.09**	**1,308.89**	**1,546.95**	**1,428.47**
Projected Aero Revenue based on Base Airport Charges including compensation towards discontinuation of Fuel Throughput Charges (PAR)	**949.16**	**278.21**	**610.83**	**994.47**	**1,082.18**	**3,914.85**
Present Value of Projected Aeronautical Revenue as on 01.04.2019 at 12.75% (Y=PAR*PV)	**841.81**	**218.84**	**426.15**	**615.33**	**593.68**	**2,695.81**
Over Recovery on PV terms as on 01.04.2019 (Z= Y-X)	4,736.34	(1,085.23)	(736.94)	(693.56)	(953.27)	1,267.34
Projected Over Recovery pending to be trued up as on 01.04.2019						**1,267.34**

12.6.2 Based on the above analysis, the Authority has estimated the eligible Target Revenue to be collected by the airport operator during the Third Control Period as Rs. 1,428.47 Cr based on present value terms as on the Effective date of tariff implementation i.e. April 01, 2019. Given the fact that DIAL would have collected almost 66% of the eligible Target Revenue for the Third Control Period in the first year itself, effecting the adjustment in tariff to match the NPVs of Projected Aeronautical Revenues and the eligible Target Revenue would entail a drastic reduction in the aeronautical tariff for the airport operator who is currently levying Base Airport Charges plus 10%.

As per the terms of the SSA, the airport operator is eligible to charge Base Airport Charge plus 10% at the least and hence no reduction is possible with regards to aeronautical tariff beyond the Base Airport Charges plus 10%.

Authority hence decides to allow the airport operator to continue levying Base Airport Charges plus 10% during the Third Control Period, consistent with their proposal in Consultation Paper No. 15/2020-21. This is also in compliance with the Hon'ble TDSAT Order wherein AERA is required to respect rights/concessions etc. flowing from lawful agreements / directions viz. OMDA, SSA etc. The charges pertaining to BAC plus 10%, as per Tariff Order No. 39/2018-19, along with the compensation towards discontinuance of Fuel Throughput Charges have been used to arrive at the projected aeronautical revenue as shown under Table 140.

12.6.3 Based on the above calculation, the difference between the Present Value of aeronautical revenue projected on the existing Base Airport Charges plus 10% and Present value of Target Revenue is a projected over recovery to the extent of Rs. 1,267 Cr (arrived on a PV basis as on April 01, 2019) for the Third Control Period. The charges determined by the Authority to be levied by the airport operator are provided in the tariff card for Third Control Period in Annexure 1.

12.7 Stakeholder comments regarding Treatment of Base Airport Charges for the Third Control Period

12.7.1 Subsequent to the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the proposals raised by Authority in the Consultation Paper with respect to Treatment of Base Airport Charges for the Third Control Period. The comments by stakeholders are presented below;

DIAL's comments regarding treatment of Base Airport Charges for the Third Control Period

12.7.2 DIAL as part of their comments for the BAC True up with regards to Second Control Period has the following extracts with regards to the treatment of BAC for the Third Control Period

"Further, for the Third Control Period, AERA has proposed as under:

"...

As per the terms of the SSA, the airport operator is eligible to charge Base Airport Charge plus 10% at the least and hence no reduction is possible with regards to aeronautical tariff beyond the Base Airport Charges plus 10%.

Authority hence proposes to allow the airport operator to continue levying Base Airport Charges plus 10% during the Third Control Period. This is also in compliance with the TDSAT directions wherein AERA is required to respect rights/concessions etc. flowing from lawful agreements / directions viz. OMDA, SSA etc. The charges determined by the Authority pertaining to BAC plus 10% as per Tariff Order No 39/2018-19, currently levied by the Airport Operator can be seen in Annexure 7. These charges have been used to arrive at the projected aeronautical revenue as mentioned under Table 110.

12.2.3 Based on the above calculation, the difference between the Present Value of Revenue projected based on the existing Base Airport Charges plus 10% and Present value of Target Revenue is a projected over recovery to the extent Rs. 1964 Cr (arrived on a PV basis as on April 1, 2019) for the Third Control Period and the same has to be recovered in the future control periods along with carrying cost."

That while the proposal for levy of Base Airport Charges plus 10% thereof for the Third Control Period is in consonance with the provisions of the SSA, the proposal for true up of revenue which may be 'over recovered' by DIAL in the Third Control Period is without any contractual or legal basis. It is submitted that the proposal of AERA to true up the 'over recovered' Base Airport Charges plus 10% thereof is based on the erroneous premise that the total entitlement of DIAL for the Third Control Period is the Target Revenue calculated under Schedule 1 of the SSA and that any amount collected over and above the said amount, is excessive and would therefore have to be trued up in the successive control periods. However, the said assumption is in complete contravention of the provisions of the SSA, which simply state that the entitlement of DIAL is calculated in terms of the Aeronautical Charges and not in terms of the quantum of revenue to be collected as per the applicable Aeronautical Charges. Pertinently, the said proposal is also in contravention of AERA's own observation as made in Para 4.3.6 of Order No.

30/2018-19 wherein AERA has clearly stated that the comparison required to be done in terms of Clause 2 of Schedule 6 of the SSA is that of the rate of Aeronautical Charges to the Base Airport Charges plus 10% and not that of revenue therefrom.

As such, once the Aeronautical Charges determined under Schedule 1 of the SSA have been compared to the Base Airport Charges plus 10% thereof and it has been determined which one of the two is higher and shall therefore, be leviable, the question of the revenue which shall be collected on account of such levy becomes irrelevant. Therefore, once it is found that the Aeronautical Charges under Schedule 1 of the SSA are lower than the Base Airport Charges plus 10% thereof and that the latter would be applicable, then the entitlement of the relevant Control Period becomes the revenue collected by levy of the Base Airport Charges plus 10% and the corresponding revenue becomes the entitlement of DIAL for said Control Period. As such, once the comparison has been made and it has been decided that the Base Airport Charges plus 10% thereof would be levied, the calculation under Schedule 1 of the SSA becomes irrelevant for the said control period and cannot be used as a yardstick to determine the revenue entitlement of DIAL for the control period. Hence, the two systems of arriving at the leviable Aeronautical Charges, i.e., the one under Schedule 1 and the other being the Base Airport Charges plus 10% thereof, are mutually exclusive and independent of each other. Therefore, the moment either one of the Aeronautical Charge systems are adopted, no reference can be made to the other system for any purpose whatsoever.

That in view of the foregoing, it is stated that once AERA has reached the conclusion that DIAL is entitled to levy Base Airport Charges plus 10% thereof for the Third Control Period, there is no question of reverting to the calculation under Schedule 1 of the SSA or to say that the entitlement of DIAL is limited to the Target Revenue calculated under Schedule 1 of the SSA. Once it has been proposed that DIAL shall be entitled to levy Base Airport Charges plus 10% thereof for the Third Control Period, the entitlement of DIAL qua revenue to be collected in the Third Control Period shall also stand amended in terms of the same. Also, as long as DIAL levies Aeronautical Charges as per the Base Airport Charges plus 10% thereof, no revenue collected therefrom can be said to be 'over recovered' or excessive in the hands of DIAL.

However, in the present case, the entitlement of DIAL to levy Base Airport Charges plus 10% thereof shall be decided at the very time of determination of Aeronautical Charges for the Third Control Period and therefore, whatever revenue is collected by DIAL by levy of Base Airport Charges plus 10% thereof shall form a part of the same entitlement. As such, there can be no true-up of the revenue collected by DIAL by levy of Base Airport Charges plus 10% thereof for the Third Control Period and the proposal of AERA in this regard is in derogation of the scheme of the Project Documents.

Further, in this regard DIAL has also sought expert view of ex-chairman AERA Mr. Yashwant Bhave. He has gone through the subject matter in detail and opined following:

- *The tariff determination process provided in Schedule 1 and the other being the Base Airport Charges plus 10% are mutually exclusive and independent of each other. Therefore, the moment either one of the Aeronautical Charge systems are adopted, no reference can be made to the other system for any purpose whatsoever.*
- *Accordingly, the Base Airport Charges plus 10% thereof entitled and proposed for the Third Control period cannot be trued up in the Fourth Control period as has been proposed by AERA. (para 4.2 of the opinion)*

- *Since the order for second control period was effective on 1st Jan'2016 the aggregate revenue (or the X factor) based on the enhanced airport charges (BAC + 10%) wherever applicable, will need to be calculated from the effective date till the end of the control period i.e. 31-3-2019. (para 4.3 of the opinion)*
- *The target revenue for true up purpose for second control period should be over and above the Base Airport Charges (para 4.5 of the opinion)*

The opinion of the erstwhile regulatory expert is in consonance with the view of DIAL for the treatment of BAC+10%. The expert opinion has been attached herewith as Annexure –6 for your ready reference.

Accordingly, it is our humble request that Authority for the purpose of true up consider only the target revenue over and above the revenue earned basis Base Airport Charge+10% for the period effective from 1st Jan'2016 – 30th Nov'2018. Also, there should be no true up of the revenue allowed by AERA on the basis of BAC+10% for third control period."

Stakeholders' comments (other than DIAL) regarding Treatment of Base Airport Charges for the Third Control Period

12.7.3 The comments by MIAL regarding Treatment of Base Airport Charges for the Third Control Period are as follows;

"Authority needs to follow the tariff principles laid down in the SSA. As per SSA, the aeronautical charges derived as per Schedule 1 Principle of tariff fixation and under Schedule 6 Aeronautical Charges (i.e. BAC +10%) are mutually exclusive exercise and cannot be merged.

While calculating aeronautical charges in any year of control period, the Authority has to compare aeronautical charges computed as per Schedule 1 and BAC + 10% as per Schedule 6 of SSA and consider higher of the two as aeronautical charges in any year of the concession term.

Authority has acted in contravention of the Concession terms by truing up the actual aeronautical revenue of third control period determine as per Schedule 1 of SSA and aeronautical revenue computed in accordance with Schedule 6 of SSA.

We request Authority that DIAL and MIAL are one of its first kind of airport project which were awarded by GoI under PPP model. To ensure business sustainability, GoI had provided the Base Airport Charges +10% as the bare minimum revenue levels which DIAL or MIAL are eligible for in any year during the entire concession term. Accordingly, such minimum level is not subject to true up and hence Authority should not propose to take back such minimum revenue from the airport operator.

We request Authority to reconsider its proposal of truing up the BAC and provide business sustainability to the airport."

12.7.4 The comments by APAO regarding Base Airport Charges for the Third Control Period are as below;

"GoI vide concession agreement has assured that at least a permitted nominal increase of 10% of the Base Airport Charges will be available to DIAL for the purpose of calculating aeronautical charges for any year. The Authority acknowledging the terms of the concession allowed DIAL to charge BAC+10% vide its order no 30/2018-19 dated 19th Nov'2018. However, while computing the Target Revenue for the third control period in Table 110 of the CP, the Authority has computed TR as per BAC +10% of Rs. 4,151.70 Crs. and Net Target Revenue as per Schedule 1 of SSA of Rs. 2,187.93 Crs. Based on this there is over recovery of Rs. 1,963.77 Crs. regarded as true up as on 01st April 2019 by

the Authority. Through this proposal, the Authority has disregarded the provisions of Schedule 6 of SSA entered with GoI, since DIAL in all practical terms shall be made available the least permitted aeronautical charges as per BAC + 10%. The BAC+10% is a sovereign assurance given by GoI and such minimum guarantee should not be taken back through true up by the regulator in its tariff determination exercise. Hence, BAC +10% as has been allowed in the 3rd control period, once accorded should be the eligible amount for the relevant period and the same should not be subjected to any adjustment or true-up in the subsequent period."

12.7.5 The comments by ACI with regards to true up of Base Airport Charges are as follows;

"ACI Asia-Pacific understands that the State Support Agreement (SSA or Agreement, dated 26 April 2006) signed between DIAL and the Government of India sets out the tariff setting methodology in Schedule 1 of the SSA. In addition, Schedule 6 of the SSA includes clauses to allow for the "Base Airport Charges (BAC) + 10%" approach as the minimum Aeronautical Charges in any given year.

In computing the Target Revenue during the Control Period, it is therefore reasonable to assess DIAL's eligibility to the "BAC+10%" approach of tariff-setting by comparing the aeronautical charges to be collected under the Schedule 1 methodology with the "BAC+10%" (i.e. Schedule 6) methodology. Should the Schedule 1 aeronautical charges fall below the "BAC+10%" approach, then the "BAC+10%" aeronautical charges should be adopted.

Once a methodology is chosen, the Agreement does not appear to have provisions requiring the calculation or true-up of the difference in revenue projected under the 2 methodologies. Hence, any proposed ploughed back of "excess" revenue would seem a departure from the permitted methodology allowed in the Agreement. Accordingly, we would urge AERA not to plough back the revenue received under the BAC+10% approach when computing excess recovery under the true up mechanism."

12.7.6 The comments by FICCI with regards to the Base Airport Charges for Third Control Period are as follows;

"As per the terms of state support agreement DIAL had been given a sovereign assurance in terms of minimum revenue threshold in terms of BAC+10% in any year during the concession term after fourth year of commencement of operation. Such minimum threshold has been made available to DIAL and once provided it is fixed and should not be relooked. Hence the revenue earned from the charges equivalent to BAC+10% should not be considered for true up. Authority while truing up second control period has trued up revenue earned from BAC+10% which is not in line with the terms of the concession. Similarly Authority proposed to true up the BAC revenue to be earn by DIAL in CP III, we request Authority to consider the terms of the concession in its letter and spirit and accordingly should not true up the minimum revenue threshold to be made available to DIAL in CP III."

12.8 Authority's Examination on Stakeholder Comments regarding issues on Treatment of Base Airport Charges for the Third Control Period

12.8.1 Authority noted the comments made by stakeholders regarding treatment of Base Airport Charges for the Third Control Period. Authority has suitably addressed the points made by DIAL regarding BAC true up for the Third Control Period already in its examination on stakeholder comments under 3.8.11, and the views of the Authority while examining the same along with other stakeholder comments are as produced below;

Right interpretation of the Schedule 6 of the SSA

Authority is of the view that Schedule 6 of the SSA only states that the aeronautical charges shall be determined as per Schedule 1 of the SSA and it should also be ensured that BAC plus 10% should be available at the least for the airport operator as aeronautical charges. The same has been ensured in Authority's proposal which allowed the airport operator to levy BAC plus 10% for the Third Control Period (As per Schedule 6 of the SSA), in spite of projected over recovery of Rs 1267 Cr calculated as per Schedule 1 of the SSA, based on projections for the future years of the Third Control Period while considering the already over recovered amount in the past control periods.

Truing up of over recovery in the future Control Periods:

Authority is of the view that the projected over recovery of Rs. 1267 Cr pending to be trued up (estimated based on projections for the future years of the Third Control Period while considering the already over recovered amount in past control periods) should be recovered in the future Control Period subject to the condition that the BAC plus 10% rate is always allowed to be charged by the airport operator at the least. It is felt that only by this process that the Schedule 1 and Schedule 6 of the SSA could be made harmonious and can be complied with and any other treatment would mean gross violation of the provisions of the SSA.

Relevance of the Schedule 1 of the SSA:

The relevant extracts of the Schedule 1 of the SSA are reproduced below;

"The X factor is calculated by determining the X factor that equates the present value over the regulatory period of the target revenue with the present value that results from applying the forecast traffic volume with a price path based on the initial average aeronautical charge, increased by CPI minus X for each year. That is, the following equation is solved for X:

$$\sum_{i=1}^{n} \frac{RB_i \times WACC_i + OM_i + D_i + T_i - S_i}{(1 + WACC)^i} = \sum_{i=1}^{n} \sum_{j=1}^{m} \frac{AC_{i,j} \times T_{i,j}}{(1 + WACC)^i}$$

where

$AC_{i,j}$ = average aeronautical charge for the j^{th} category of aeronautical revenue in the i^{th} year

$T_{i,j}$ = volume of the j^{th} category of aeronautical traffic in the i^{th} year

X = escalation factor

n = number of years considered in the regulatory period

m = number of categories of aeronautical revenue e.g. landing charges, parking charges, housing charges, Facilitation Component etc."

The extracts clearly state that the PV of the Target Revenue has to be compared with the PV of the aeronautical revenues and the equation has to be solved. There has been no explicit or implicit provision in the SSA that once the BAC plus 10% tariff regime is implemented the above equation has to be considered irrelevant.

DIAL's proposal to make Schedule 1 irrelevant under BAC+ 10% regime would effectively mean allowing charges to DIAL with no reference to its entitlement as per various building blocks provided in Schedule 1 and no true up of over recovery of the amount drawn previously. Such position of DIAL is not as per provisions of SSA and could also lead to Airport Operator collecting much more revenues than their entitlement without truing up, to the detriment of other stakeholders.

Comments from the other stakeholders:

Regarding the comments from other stakeholders such as MIAL, APAO, FICCI and ACI concerning that the revenue earned under BAC should not be considered for true up in the Fourth Control Period stating amongst various reasons that the same is in contravention of Schedule 6 of the SSA, Authority could not find any reason on how the Schedule 6 of the SSA is contravened when the airport operator is **specifically allowed to levy BAC plus 10%** perfectly consistent with the Schedule 6 of the SSA, in spite of a projected over recovery of Rs. 1267 Cr. Only by taking cognizance of the over recovery amount, the principles under both the schedules of the SSA are met.

To summarise, in the Third Control Period, Authority has allowed BAC plus 10% as the tariff honouring the Schedule 6 of the SSA even when there is a projected over recovery calculated as per Schedule 1 of the SSA. To ensure the Schedule 1 of the SSA is also adhered to, Authority is of the view that such over recovery has to be calculated and have to be possibly recovered in the later Control Periods along with the carrying costs.

Authority is of the view that such treatment is consistent with the principles of the SSA concerning tariff determination for the airport operator and foregoing this over recovery amount shall be in violation of the principles of the SSA.

The aspect of the projected over recovery still pending to be trued up (determined currently as Rs. 1267 Cr) along with carrying cost shall be considered by the Authority at the time of tariff determination for the Fourth Control Period, during which the actual over recovery shall have to be re-assessed based on actuals.

12.9 Authority's Decisions regarding Target Revenue for the Third Control Period

Based on the material before it and based on its analysis, Authority has decided the following regarding Target Revenue for the Third Control Period;

12.9.1 Authority decides to continue with the existing Base Airport Charges plus 10% for the airport operator as per the terms of the Schedule 6 of the SSA.

12.9.2 Authority shall consider the aspect of projected over recovery pending to be trued up (determined currently as Rs. 1267 Cr) along with carrying cost at the time of tariff determination for the Fourth Control Period, during which the actual over recovery shall have to be re-assessed based on actuals.

12.9.3 Authority decides to consider compensatory tariff to compensate the airport operator towards discontinuance of Fuel Throughput Charges by MoCA vide letter F.No. AV-13030/216/2016-ER dated 8th Jan'2020 and to recover the same from every embarking passenger. The same shall be considered as part of aeronautical revenues and shall be trued up (including collection charges) based on actuals at the time of tariff determination for the Fourth Control Period.

12.9.4 Authority decides to consider the tariff to be levied by the airport operator as indicated in the tariff card in Annexure I. The BAC plus 10% tariff is already effective from the beginning of the Third Control Period and shall continue to be effective. The compensatory tariff towards discontinuance of Fuel Throughput Charges shall be levied from February 1, 2021.

CHAPTER 13. POINTS RAISED BY DIAL POST FINALIZATION OF TARIFF ORDER

13.1.1 DIAL, post the completion of the stakeholder consultation process, has sent in a request vide letter dated 19th November 2020 seeking viability gap funding for the airport in the event of continuation of Base Airport Charges plus 10% tariff regime. The main points brought out by DIAL in their request are as below:

- ✓ DIAL has generated cash profit of Rs. 383 Cr in FY 2020 of which Rs. 363 Cr pertaining to CPD income which may be required to be reversed subject to AAI not granting approval of CPD plan.
- ✓ On account of reduced aeronautical and non-aeronautical revenues in the balance years of the Control Period, DIAL is expected to incur a cumulative operational cash loss of Rs. 3,538 Cr in the Third Control Period including revenue from CPD as stated above.
- ✓ DIAL has to utilize the internal accruals of Rs. 398 Cr out of the accumulated internal accruals of Rs. 3,065 Cr initially earmarked to fund the capex for funding the operational cash losses in FY 2021.
- ✓ The deficit in means of finance for funding Phase 3A Capex after accounting for accumulated internal surplus for previous years is proposed to be bridged by debt/lease finance options etc.
- ✓ DIAL has requested cash support in the form of additional tariff to meet the estimated operational cash shortfall of Rs. 3,538 Cr over the Third Control Period.

The above issues have been raised by DIAL much after the stakeholder consultation process and when AERA was about to issue the Final Tariff Order for the Third Control Period. Transparent and exhaustive stakeholder consultation process is fundamental principle of tariff determination exercise. This is explicitly provided for in ICAO guidance principles, SSA principles, AERA Act and the guidelines issued and followed by AERA in this regard. The consultation process gives equal chance to all stakeholders to make their views on various proposals of AERA and help AERA to have a fair and objective tariff determination exercise.

AERA is not inclined to consider the issues raised by DIAL at the present stage due to following reasons:

- ✓ DIAL had been given full opportunities to raise any issue they would like to raise and also respond to issues raised by the other stakeholder during the consultation process. The consultation process commenced with issuance of the Consultation Paper on June 9, 2020 and closed with the last counter comments from the Airport Operator on stakeholders' views on August 21, 2020. Thus, the total period was almost 70 days from the date of issuance of the Consultation Paper. Extension of time was also given for the submission of comments and counter comments on the request of DIAL during this period.
- ✓ The issue raised by DIAL now has come out of turn and as an after-thought, as the same has never been raised whatsoever during the stakeholder consultation process, though the issued Consultation Paper proposed that BAC plus 10% shall be applicable for Third Control Period.
- ✓ The airlines and the airport users who shall be the most impacted on account of the proposal of DIAL for providing additional tariff have no opportunity to raise their views on this issue thus negating the very purpose of consultation process.

Nevertheless, Authority has examined the issue raised by DIAL and following issues emerge: -

13.1.2 Surplus Collection by DIAL during the Second Control Period

Due to late implementation of the Second Control Period tariff owing to litigation, DIAL has over collected the revenues than entitlement to the tune of around Rs. 5,721 Cr as brought out in this Tariff Order. This surplus collection needs to be considered for recovery from the airport operator during the Third Control Period as per tariff determination guidelines.

However, the SSA stipulation provides that the airport operator at the least should be able to recover Base Airport Charges plus 10%. Hence the mentioned over recovery is being recovered through a staggered fashion honouring the stipulation as per SSA and allowing the airport operator to get BAC charges plus 10% tariff in any year under the Third Control Period.

Given the fact that the projected over recovery post Third Control Period is expected to be substantial at around Rs. 1267 Cr at present value terms, any additional cash support in the form of increase in tariff beyond BAC plus 10% as requested by DIAL would mean a higher over recovery in the later years. Hence providing additional tariff at this stage would make the process of recovery difficult in future.

13.1.3 Consequences of Increase in Tariff beyond BAC for other Stakeholders

The proposal of DIAL to raise the tariff beyond BAC plus 10% in spite of earlier over recovery still pending has the following demerits: -

- ✓ The proposal is unfair to the airport users as having already overpaid in the prior years and rather than being benefited from adjustment of this amount would have to bear additional burden.
- ✓ In the case of airlines whose sustainability and viability are already impacted by the COVID pandemic, such increase in tariff could in effect further worsen the sustainability of the airlines who are expected to post record losses in the immediate future which in turn adversely affects the airport.
- ✓ In the case of airport users, the same would lead to uneven and inefficient transfer of burden across passengers utilising the airport. The airport user currently travelling may have to bear the burden while the airport user at a later date is compensated when tariff is lowered when the additional tariff is recovered/clawed back,
- ✓ The proposal by DIAL to increase the tariff could also adversely impact the crucial revival of demand in the airport traffic at the present juncture which would be detrimental to interests of all stakeholders.

13.1.4 Difficulty in Recouping the Surplus Collection

The proposal by DIAL to grant cash support would lead to charge additional tariff which would only widen the over recovery considerably from the current levels. Normally such over recovery could be adjusted / recovered by a requisite reduction in tariff in the period post the concerned Control Period.

Such over recovery would be recovered over a much longer period and that too at higher cost (12.75% for the Third Control Period) while the cost for funds raised in the market is much lower. This shall lead to further financial difficulties for the Airport Operator and counter to the Section 13(1)(a)(iv) of AERA Act mandating AERA in ensuring economic and viable operations of the Airports. It will be beneficial for the Airport Operator to raise finance from market at a lower cost than to raise funds through additional tariff which has to be refunded at higher overall cost.

13.1.5 Utilization of the surplus collected during Second Control Period

From the letter of DIAL, it is clear that they have/are in the process of utilizing the surplus cash accruals of around Rs. 3000 Cr to fund the Capex for Phase 3A expansion. The airport operator should have borne in mind that these surplus cash accruals are due to over recovery during Second Control Period and hence the same would be clawed back later through the tariff setting process in the next Control Period.

In fact, the Hon'ble Supreme Court Judgment upholding the Tariff Order for the Second Control Period was made effective in July 2017 while the consultation process of Phase 3A expansion commenced only in Sep 2017.

Clearly the airport operator had enough time to plan his means of finance for Phase 3A Expansion Capex and need to raise more funds from the market than utilizing the accumulated internal accruals meant for recouping.

13.1.6 Issue of Revenue Share Payable to AAI

The airport operator in its request has estimated the operational cash flow shortfall considering the revenue share payable to AAI. The Authority understands that the issue of revenue share payable to AAI has been taken up by the Airport Operator at various fora seeking excuse of revenue share payable to AAI till the situation arising out of pandemic and restriction on traffic/air travel both domestic and international becomes normal. Such request has been made by the Airport Operator based on their interpretation of the Concession Agreement clause. The issue of revenue share payable to AAI has an impact on the cash flow. The current situation and outcome of the contention made by the Airport Operator is uncertain in the immediate future. In view of the above, it is difficult to assess the requirement and impact on the cash flows of the Airport Operator at present.

13.1.7 Stabilization of operation post COVID-19

According to estimations by various agencies, outlook for flying is likely to improve starting FY 2021-22. The traffic figure for the month of November 2020 is much higher than previous month and the conditions are expected to improve further. Even the Ministry of Civil Aviation expects demand to look up starting this period. The assumptions considered by the Authority for the tariff determination exercise are overall on the conservative side and given the expected recovery, the traffic and actual aero and non-aero revenues realized by the airport operator could be higher.

Conclusion:

In view of all the above issues, the Authority is not inclined to consider the representation of the airport operator at present stage and therefore has not acceded to the request. Still in the event that the current depressed traffic and non-aero revenue earnings sustains or even worsens beyond FY 2022, AERA can at its discretion, on getting any request from Airport Operator, relook at the need for providing any additional tariff support after proper and transparent stakeholder consultation process.

CHAPTER 14. SUMMARY OF AUTHORITY'S DECISIONS

The below mentioned provides the summary of the Authority's decisions relating to relevant chapters regarding the tariff determination for the Third Control Period as reproduced below;

Chapter 2 True up for the First Control Period

Based on the material before it and based on its analysis, Authority has decided the following regarding true up for the First Control Period;

2.8.1 Authority decides to consider the upfront fee of Rs. 150 Cr as part of equity base and true up WACC based on the cost of equity of 16%, cost of debt at actuals i.e. 10% and cost of RSD at the cost of debt i.e. 10% based on the recommendation of the independent study. The recalculated WACC for the First Control Period is 11.65% (Table 8).

2.8.2 Authority decides to apportion DF to the extent of Rs. 3065 Cr against aeronautical assets that are capitalized in the First Control Period and rework the aeronautical RAB and associated depreciation

2.8.3 Authority decides to not consider Baggage Screening Related Assets as part of the RAB in the First Control Period and to consider these assets only after the remittance of the Passenger Service Fee Fund amount to MoCA

2.8.4 Authority decides to consider RAB, calculated as per Schedule 1 of SSA for the First Control Period with pro rata additions based on actual date of capitalization (Table 3).

2.8.5 Authority decides to consider average HRAB as part of RAB for First Control Period with the opening HRAB for FY 2010 determined by considering only aeronautical revenues and costs (Table 3).

2.8.6 Authority decides to consider costs incurred in relation to rehabilitation of Runway 10/28 to the extent of Rs. 17.50 Cr as part of the operating expenses for FY 2011.

2.8.7 Authority decides to not consider forex losses as part of efficient O&M Costs for the First Control Period (Para 2.4.16).

2.8.8 Authority decides to not consider S factor as part of aeronautical revenue base while determining aeronautical taxes for First Control Period (Para 2.5.7). Authority also decides to exclude depreciation pertaining to Hypothetical Regulatory Asset Base and consider depreciation pertaining to only aeronautical assets while computing Aeronautical Taxes for tariff determination (Para 2.5.8).

2.8.9 Authority decides to consider revenues from Fuel Throughput Charges earned in the First Control Period as part of aeronautical revenue (Para 2.6.30).

2.8.10 Authority decides to not consider any adjustment in revenue from Revenue Share Assets towards revenue from Disallowed Area, revenue from Existing Assets, Annual Fee payment to AAI as part of 45.99% revenue share (Paras 2.6.31, 2.6.32, and 2.6.33).

2.8.11 Authority decides to true up Rs. 641.68 Cr which shall be provided to the airport operator along with the re-assessed true up for the Second Control Period as part of the tariff determination for the Third Control Period.

Chapter 3 True up for the Second Control Period

Based on the material before it and based on its analysis, Authority has decided the following regarding true up for the Second Control Period;

3.11.1 Authority decides to true up Aeronautical RAB considering the actual additions on a pro rata basis and as per the asset segregation ratios as suggested by the independent study (Para 3.2.22). The adjustment towards ATC Tower capitalization and Baggage Screening Related Assets shall also be carried out on a pro rata basis for FY 2019 with the balance carried forward to FY 2020.

3.11.2 Authority decides to reclassify an amount of Rs. 23.58 Cr from Aeronautical assets to Non-Aeronautical assets in the Second Control Period, as part of additions to RAB for the Second Control Period based on the independent study (Para 3.2.23). The revised allocation ratio for FY 2019 has been considered as 89.16%:10.84%.

3.11.3 Authority decides to consider RAB calculated as per Schedule 1 of SSA for the Second Control Period with actual pro rata additions each year (Table 27).

3.11.4 Authority decides to consider the upfront fee of Rs. 150 Cr as part of equity base and true up WACC based on the cost of debt at actuals i.e. 9.28%, cost of RSD at the cost of debt i.e. 9.28%, and cost of equity of 16%. The proposed recalculated WACC for the Second Control Period is 11.10% (Para 3.3.18).

3.11.5 Authority decides to recalculate Airport Operator Fee for the Second Control Period as 3% of the Aeronautical Revenues for the previous year (Table 48).

3.11.6 Authority decides to consider refinancing cost based on actuals as part of Admin and General Expenses with the efficient refinancing costs determined based on aeronautical asset segregation ratio (Para 3.5.33).

3.11.7 Authority decides to consider forex losses based on actuals to the extent the effective cost of debt including such forex losses and refinancing charges doesn't exceed the cost of RTL considered at the time of tariff determination for the Second Control Period as per Order No. 40/2015-16. The forex losses determined to be efficient has been then segregated as per the aeronautical asset segregation ratio similar to refinancing charges (Para 3.5.32).

3.11.8 Authority decides to reclassify IT JV expenses to the extent of Rs. 8.20 Cr classified as aeronautical by DIAL over a period from FY 2015 till FY 2017 as non-aeronautical as suggested by the independent study based on revised segregation ratio for IT JV assets.

3.11.9 Authority decides to not include CSR expenses as part of Operating Expenses for the Second Control Period (Para 3.5.34).

3.11.10 Authority decides to consider Efficient O&M Costs based on the adjustment as suggested by the independent study tasked with studying the O&M Cost segregation along with adjustments in forex losses and refinancing costs as decided by the Authority (Para 3.5.35).

3.11.11 Authority decides to not consider S factor as part of aeronautical revenue base while determining aeronautical taxes for Second Control Period (Para 3.6.10). Authority also decides to exclude depreciation pertaining to Hypothetical Regulatory Asset Base and consider depreciation pertaining to only aeronautical assets while computing Aeronautical Taxes for tariff determination (Para 3.6.11).

3.11.12 Authority decides not to consider any adjustment in revenue from Revenue Share Assets towards revenue from Existing Assets, revenue from Disallowed Area, Annual Fee payable to AAI as part of 45.99% revenue share and also to consider Fuel Throughput Charges as part of aeronautical revenue (Para 3.7.24).

3.11.13 Authority decides to consider Other Income, apart from Dividend Income, as part of revenue from Revenue Share Assets for the Second Control Period (Para 3.7.25).

3.11.14 Authority decides not to consider any adjustment with regards to BAC True up on the Target Revenue assessed for the Second Control Period (Para 3.8.11).

3.11.15 Authority decides to true up Rs. 5,721.23 Cr which is to be recovered from the airport operator in the Third Control Period subject to the applicability of Schedule 6 of the SSA with regards to Base Airport Charges.

Chapter 4 Regulatory Asset Base and Depreciation for the Third Control Period

Based on the material before it and based on its analysis, Authority has decided the following with regards to Regulatory Asset Base and Depreciation for the Third Control Period;

4.6.1 Authority decides to consider the cost for Phase 3A expansion as Rs. 9126.42 Cr and shall consider any further escalation if submitted with reasons deemed justifiable at the time of tariff determination for the Fourth Control Period (Table 81). The phasing for the incurrence of the mentioned capex has been revised on account of COVID-19 pandemic with the project proposed to be completed by March 31, 2024.

4.6.2 Authority decides to consider only IDC incurred on account of financing Expansion Capex during Third Control Period based on prudent means of finance for funding the capex (Table 91). The same shall be trued up based on actuals subject to justifications provided at the time of tariff determination for the Fourth Control Period.

4.6.3 Authority decides to consider the cost of debt for the proposed Rupee Term Loan at 10.00% p.a. while the cost of debt with regards to the USD 350 Mn Bond instrument raised in June 2019 is considered at 9.92% towards calculation of IDC for Phase 3 A Expansion Project. The cost of debt shall be trued up on actuals subject to an upper cap of 50 bps on the weighted average effective cost of debt allowed for the Third Control Period post assessment of efficiency at the time of tariff determination for the Fourth Control Period.

4.6.4 Authority decides to consider General Capex as per the proposal in the Consultation Paper for the Third Control Period which includes the capex of Rs. 19 Cr towards procurement of aircraft recovery kit, Capex pertaining to Body Scanners mandated by BCAS which was estimated as Rs. 154 Cr, and the cost of Rs 150 Cr pertaining to the underpass at Shiv Murthy NH 8 as an enabling cost for Phase 3A Expansion (which is 50% of the total cost of Rs 300 Cr) (Table 90).

4.6.5 Authority decides to consider asset allocation ratio of 89.16% as aero for Common Assets (Para 4.5.12) and General Capex (Para 4.5.8) excluding aircraft recovery kit, body scanners mandated by BCAS and underpass at Shiv Murthy NH 8 (which have been considered as 100% aeronautical assets).

4.6.6 Authority decides to consider depreciation rate for Expansion Capex as 4.51% which shall be trued up based on actual depreciation (Para 4.5.19).

4.6.7 Authority decides to consider a provision for adjustment towards RAB to the extent of 1% of the Phase 3A Project Cost at the time of tariff determination for the Fourth Control Period if the proposed Phase 3A Project has not been completed and made available for the passengers before March 31, 2024. Authority shall also consider IDC incurred by the airport operator only till March 31, 2024 with additional IDC beyond March 31, 2024 considered only based on justification for the delay in completion of the Project beyond March 31, 2024. Authority has also decided to monitor the status of the Project and relook at the provision for adjustment on Phase 3A Project Cost at their discretion at the time of tariff determination for the Fourth Control Period (Para 4.5.18).

4.6.8 Authority decides to consider Average RAB while calculating RAB for tariff determination for Third Control Period (Table 96). Authority shall true up RAB and depreciation at the time of determination of tariff for the Fourth Control Period based on actual additions to RAB on a pro rata basis similar to the exercise carried out with regards to the true up of RAB for the First and Second Control Period. The above true up shall be subject to the reasonable justifications for any escalation in cost beyond the efficient cost as considered by AERA for Phase 3A expansion project.

Chapter 5 Weighted Average Cost of Capital for the Third Control Period

Based on the material before it and based on its analysis, Authority has decided the following with regards to Weighted Average Cost of Capital for the Third Control Period;

5.6.1 Authority decides to consider cost of equity as 15.41% as per the outcome of the independent study commissioned (Table 101).

5.6.2 Authority decides to consider cost of debt as 9.87% based on its assessment of the cost of Rupee Term Loan and the effective cost of the existing bonds, which shall be trued up on actuals subject to a ceiling of additional 50 bps on the cost of debt considered for the Third Control Period.(Table 103).

5.6.3 Authority decides to consider a notional debt equity ratio of 48%:52% as suggested by the independent study.

5.6.4 Authority decides to consider the treatment of RSD as part of the notional debt to arrive at WACC which shall be subject to the final outcome of the adjudication in higher courts.

5.6.5 Authority decides to consider the Weighted Average Cost of Capital as 12.75% for the Third Control Period based on the above-mentioned Cost of Equity and Cost of Debt and considering the notional gearing ratio of debt to equity ratio as suggested by the Independent Study.

Chapter 6 Operating Expenses for the Third Control Period

Based on the material before it and based on its analysis, Authority has decided the following with regards to Operating Expenses for the Third Control Period;

6.6.1 Authority decides to consider Operating Expenses for FY20 based on actuals subject to exclusion of Bad Debts, CSR expenses, Donation and Forex losses and consider the expense segregation ratios for efficient costs as suggested by the Independent Study for the Second Control Period.

6.6.2 Authority decides to consider manpower expenses from FY21 to FY24 as per Para 6.5.2 which shall be trued up based on actuals during the tariff determination for the next Control Period.

6.6.3 Authority decides to consider Admin and General expenses as per Table 114. These expenses shall be trued up based on actuals during the tariff determination for the next Control Period.

6.6.4 Authority decides not to consider forex losses as the cost of debt considered includes hedge costs while forex losses incurred based on actuals shall be considered subject to assessment of cost efficiency at the time of true up while determining tariff for the Fourth Control Period.

6.6.5 Authority decides to project utility expenses from FY21 to FY24 as per Para 6.5.4 subject to be trued up based on actuals during tariff determination for next Control Period.

6.6.6 Authority decides to consider Operating Expenses as per Para 6.5.5 subject to be trued up based on actuals during the tariff determination for the next Control Period.

6.6.7 Authority decides to consider Property Taxes as per Para 6.5.7 and VRS payments as per Para 6.5.8 subject to be trued up based on actuals during the tariff determination for the next Control Period.

6.6.8 Authority decides to consider 3% of the projected Aeronautical Revenue for the previous year as Airport Operator Fee.

6.6.9 Authority decides to consider cost segregation ratios based on the recommendations of the independent study for Efficient O&M Cost segregation for the Second Control Period.

6.6.10 Authority decides to true up the Operating Expenses determined as per Table 115 based on actuals at the time of tariff determination for the Fourth Control Period subject to the efficiency tests for various components of operating expenses.

Chapter 7 Revenue from Revenue Share Assets for the Third Control Period

Based on the material before it and its analysis, Authority has decided the following with regards to Revenue from Revenue Share Assets for the Third Control Period;

7.6.1 Authority decides to consider revenue from Revenue Share Assets for FY20 at actuals submitted by DIAL, including the Other Income earned in FY 2020 and excluding the Fuel Throughput Charges.

7.6.2 Authority decides to project Ground Handling Revenue from Registered Ground Handlers and Ground Handling Revenue from Third Parties as per Para 7.5.3 subject to true up based on actuals.

7.6.3 Authority decides to project BME Revenue beyond FY20 as per Para 7.5.4 subject to true up based on actuals.

7.6.4 Authority decides to project Passenger related revenues like Retail Duty, F&B, Lounge Income, and other passenger related non-aero revenues from FY21 to FY24 as per Para 7.5.6 subject to true up based on actuals.

7.6.5 Authority decides to project Revenue from Car Park (MLCP) beyond FY20 as per Para 7.5.7 subject to true up based on actuals.

7.6.6 Authority decides to project Revenue from Car Park (Radio Taxi) beyond FY20 as per Para 7.5.8 subject to true up based on actuals.

7.6.7 Authority decides to project revenue from Flight Kitchen beyond FY20 as per Para 7.5.5 and Duty Free License Fees beyond FY20 as per Para 7.5.9 subject to true up based on actuals.

7.6.8 Authority decides to consider the Contract Linked revenues including Advertisement, Forex, Land & Space, IT JV and Other Contract Linked revenues like Hangar, Transit Hotel, Airport Service Charges, Banks, and Telecom as per Para 7.5.11 subject to true up based on actuals.

7.6.9 Authority decides to consider Cargo revenues as per Para 7.5.12 subject to true up based on actuals.

Airports Economic Regulatory Authority of India

7.6.10 Authority decides to continue to consider revenue from Hangar, Ground Handling and General Aviation as part of non-aeronautical revenues for the Third Control Period.

7.6.11 Authority decides not to exclude revenue from Existing Assets, revenue from Disallowed Area and also to not consider deduction towards the Annual Fee payable to AAI from the revenue from Revenue Share Assets for Third Control Period.

7.6.12 Authority decides to consider non-aeronautical portion of the actual Other Income earned during the Third Control Period for cross-subsidization of revenue from Revenue Share Assets at the time of true up during tariff determination for Fourth Control Period. Authority also decides to include dividend income for cross-subsidy at the time of true up during the Fourth Control Period. The aeronautical portion of Other Income shall be treated as aeronautical revenues.

7.6.13 Authority decides to true up revenue from Revenue Share Assets considered as per Table 122 based on actuals at the time of tariff determination for the Fourth Control Period.

Chapter 8 Taxation for the Third Control Period

Based on the material before it and its analysis, Authority has decided the following with regards to Taxation for the Third Control Period;

8.6.1 Authority decides to determine aeronautical taxes based on earnings pertaining to Aeronautical Services for the Third Control Period by applying effective tax rate on the aeronautical PBT which is calculated without including S factor as part of the Aeronautical Revenue base. The aeronautical taxes on earnings pertaining to Aeronautical Services for the purpose of tariff determination for the Third Control Period have been determined as nil which shall be trued up based on actuals at the time of tariff determination for the Fourth Control Period.

8.6.2 Authority decides to exclude depreciation pertaining to Hypothetical Regulatory Asset Base and consider depreciation pertaining to only aeronautical assets while computing Aeronautical Taxes for tariff determination.

Chapter 9 Traffic Projections for the Third Control Period

Based on the material before it and its analysis, the Authority has decided the following with regards to Traffic Projections for the Third Control Period;

9.6.1 Authority decides to consider Passenger Traffic and Air Traffic Movement for the Third Control Period as has been considered as per Table 131.

9.6.2 Authority has decided to consider Cargo traffic as per Table 131.

9.6.3 Authority has decided to true up the traffic for the Third Control Period based on actuals during next Control Period.

Chapter 10 Inflation for the Third Control Period

Based on the material before it and its analysis, Authority has decided the following with regards to Inflation for the Third Control Period;

10.4.1 Authority decides to consider the CPI headline inflation of 4.6% based on the RBI survey of professional forecasters on macroeconomic indicators – 61st round for the Third Control Period.

Economic Regulatory Authority of India

Chapter 11 Quality of Service for the Third Control Period

Based on the material before it and its analysis, Authority has decided the following with regards to Quality of Service for the Third Control Period;

11.6.1 Authority decides to not consider any adjustments in the aeronautical tariff during Third Control Period with regards to Quality of Service.

Chapter 12 Target Revenue for the Third Control Period

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

12.9.1 Authority decides to continue with the existing Base Airport Charges plus 10% for the airport operator as per the terms of the Schedule 6 of the SSA.

12.9.2 Authority shall consider the aspect of projected over recovery pending to be trued up (determined currently as Rs. 1267 Cr) along with carrying cost at the time of tariff determination for the Fourth Control Period, during which the actual over recovery shall have to be re-assessed based on actuals.

12.9.3 Authority decides to consider compensatory tariff to compensate the airport operator towards discontinuance of Fuel Throughput Charges by MoCA vide letter F.No. AV-13030/216/2016-ER dated 8th Jan'2020 and to recover the same from every embarking passenger. The same shall be considered as part of aeronautical revenue and shall be trued up based on actuals (including collection charges) at the time of tariff determination for the Fourth Control Period.

12.9.4 Authority decides to consider the tariff to be levied by the airport operator as indicated in the tariff card in **Annexure 1**. The BAC plus 10% tariff is already effective from the beginning of the Third Control Period and shall continue to be effective. The compensatory tariff towards discontinuance of Fuel Throughput Charges shall be levied from February 1, 2021.

भा.वि.आ.वि.प्रा.
AERA

CHAPTER 15. ORDER

15.1.1 In exercise of power conferred by Section 13(1)(a) of the AERA Act, 2008 and based on the above decisions, the Authority hereby determines the aeronautical tariffs to be levied at IGI Airport, New Delhi for the Third Control Period (01.04.2019 to 31.03.2024), as seen in Annexure 1 to the Order. These rates are effective from 01.04.2019.

15.1.2 The tariffs determined herein are the ceiling rates, exclusive of taxes, if any.

15.1.3 DIAL shall submit its MYTP submission to the Authority for Fourth Control Period in a timely manner as per Authority's Regulatory Guidelines, 2011.

By the Order of and in the Name of the Authority

(Col. Manu Sooden)
Secretary, AERA

To,

Shri. K. Narayana Rao, Director
Delhi International Airport Limited
New Udaan Bhavan,
Opp. Terminal 3, IGI Airport,
New Delhi – 110 037

Copy to,

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

2. **Directorate General of Civil Aviation**, for issue of AIC.

CHAPTER 16. LIST OF ANNEXURES

16.1 Annexure 1 – Tariff Card pertaining to IGIA, New Delhi for Third Control Period as approved by the Authority – Effective from April 01, 2019 to March 31, 2024

16.1.1 Landing Charges

Rate per landing – International Flight

Weight of the Aircraft	Rate Per Landing (In INR)
<= 21 MT	Not Applicable
<=100 MT	INR 250.47/ MT
>= 100 MT	INR 25047 + INR 336.60/MT in excess of 100 MT

Rate per landing – Domestic Flight

Weight of the Aircraft	Rate Per Landing (In INR)
<= 21 MT	INR 113.30/ MT
<=100 MT	INR 187.88/ MT
>= 100 MT	INR 18788 + INR 252.45/MT in excess of 100 MT

Note

1)	Minimum charges of INR 1,100 per landing, except in case of domestic aircraft with MAUW ≤ 21 MT
2)	25 per cent surcharge on landing charges for supersonic aircraft
3)	5 per cent surcharge on International landings between 2301-2400 hours IST (peak hour)
4)	5 per cent discount on International landing between 1301-1600 hours IST
5)	15 per cent reduction in landing charges in case of payments within the 15-days credit period for domestic flights
6)	The domestic leg of international routes of Indian operators is treated as domestic flights as far as airport charges are concerned
7)	No landing charges for helicopters and aircraft with seating capacity ≤ 80 and operated by domestic scheduled operations and for helicopters of all types

16.1.2 Parking and Housing Charges

Housing Charges

Weight of the Aircraft	Housing Charges Rates per Hour
<=100 MT	INR 8.14 MT
>= 100 MT	INR 814 + INR 10.78 MT in excess of 100 MT

Parking Charges

1)	When an aircraft is parked in the open, only half of the housing charges are levied. No parking charges are levied for the first 2 hours.
2)	While calculating the free parking time, standard time of 15 minutes is added on account of time taken between touchdown and actual parking time on the parking stand. Another standard time of 15 minutes is added on account of taxiing time of aircraft from parking stand to take off point.
3)	For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour)
4)	Charges shall be calculated on the basis of the nearest MT
5)	Charges for each period parking shall be rounded off to the nearest Rupee
6)	At in contact stands, after free parking hours, normal parking charges are levied for the first two hours.
7)	After this period, the charges are double the normal charges.

Airports Economic Regulatory Authority of India

16.1.3 X-Ray Baggage Charges

Domestic Flights	**International Flights**
Registered Baggage	Registered Baggage For turnaround flights
<= 25 seats: INR 110	**USD 209.55** for all **wide body** aircrafts (Code D, Code E and Code F) **USD 149.33** for all **narrow body** turnaround flights (Code C) and all transit flights
26-50 seats: INR 220	
51-100 seats: INR 495	
101-200 seats: INR 770	
≥ 201 seats: INR 880	

16.1.4 Passenger Service Fee (PSF) – Facilitation

Rate per embarking passenger	
₹ 77 for tickets issued against INR tariff	US$ 1.93 for tickets issued against foreign currency tariff

a) For conversion of US$ to INR the RBI reference conversion rate as on the last day of the previous month for tickets issued in the first fortnight and rate as on 15th of the month for tickets issued in the second fortnight shall be adopted.

b) Collection charges: If the payment is made within 15 days of receipt of invoice, then collection charges per departing passenger shall be paid by DIAL as per the policy pertaining to such charges between the airport operator and the airlines. No collection charges shall be paid in case the airline fails to pay the PSF invoice to DIAL within the credit period of 15 days or in case of any part payment.

16.1.5 Aviation Security Fee (ASF) – previously Passenger Service Fee (PSF) – Security

Applicable as prescribed by Ministry of Civil Aviation from time to time.

16.1.6 User Development Fee (UDF) – applicable w.e.f. February 1, 2021 to 31st March 2024 - Towards Compensation for *Discontinuation of Fuel Throughput Charges :

Year ending March 31	**Rate per embarking passenger for tickets issued (booking date) on or after 1st February 2021 (in INR)**
2021	65.98
2022	53.00
2023	52.56
2024	51.97

a) For calculating the UDF in foreign currency the RBI reference conversion rate as on the last day of the previous month for tickets issued in the first fortnight and rate as on 15th of the month for tickets issued in the second fortnight shall be adopted.

b) Collection charges: If the payment is made within 15 days of receipt of invoice, then collection charges per departing passenger shall be paid by DIAL as per the policy pertaining to such charges between the airport operator and the airlines. No collection charges shall be paid in case the airline fails to pay the UDF invoice to DIAL within the credit period of 15 days or in case of any part payment.

***Note**: Fuel Throughput Charges have been discontinued by MoCA vide letter F. No. AV-13030/216/2016-ER dated 8th January 2020.

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

16.1.7 **GENERAL CONDITION:**

1. In terms of DGCA AIC no.14/2019 dated 16.05.2019 & AIC no.20/2019 dated 06.11.2019 (decision of Ministry of Civil Aviation, Govt. of India vide order no. AV.29012/39/2018-AD dated 10.04.2019/ 30.10.2019) the following categories of persons are exempted from levy and collection of UDF/PSF.
    a. Children (under the age of 2 years),
    b. Holders of Diplomatic Passport,
    c. Airlines crew on duty including sky marshals & airline crew on board for the particular flight only (this would not include Dead Head crew, or ground personnel),
    d. Persons travelling on official duty on aircraft operated by Indian Armed Forces,
    e. Persons travelling on official duty for United Nations Peace Keeping Missions.
    f. Transit/transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hours. "A passenger is treated in transit only if onward travel journey is within 24 hours from arrival into airport and is part of the same ticket, in case 2 separate tickets are issued it would not be treated as transit passenger").
    g. Passengers departing from all Indian Airports due to involuntary re-routing i.e. technical problems or weather conditions.
2. Flight Operating under Regional Connectivity Scheme will be completely exempted from charges as per Order No. 20/2016-17 dated 31.03.2017 of the Authority from the date the scheme is operationalized by GoI.
3. All the above Airport Charges and Fee are subject to applicable taxes.

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

16.2 Annexure 2 – Summary of Independent Study on Allocation of Assets between Aeronautical and Non-Aeronautical Assets

16.2.1 Background

Regulatory Asset Base (RAB) is an integral element of tariff determination having considerable impact on other building blocks like rate of return, operating expenses, depreciation, etc. To determine RAB each year, the allocation of capital investments into Aeronautical and Non-Aeronautical assets is extremely relevant and often subject to extensive stakeholder discussions.

The Authority had commissioned an independent study concerning Allocation of Assets between Aeronautical and Non-Aeronautical assets for the Second Control Period.

16.2.2 Classification of Assets

The Independent study, based on their analysis, classified the aggregate assets of DIAL under the following categories:

- ***Aeronautical:*** *All assets which are exclusively utilised for activities covered under Schedule 5 of the OMDA are tagged as "Aeronautical" Assets. Examples - Runways, drainage and culverts, taxiways, aprons and bays, airfield ground lighting, etc. Additionally, any service bought under the scope of Aeronautical services by TDSAT order dated 23rd April 2018 is also classified under Aeronautical Assets.*
- ***Non-Aeronautical:*** *All assets which are exclusively required or necessary for the performance of Non-Aeronautical services at DIAL as listed in Schedule 6 of the OMDA are tagged as "Non-Aeronautical". Examples - Development of the retail stores, cargo assets, Metro Station Development.*
- ***In-Admissible Assets:*** *Upfront fee paid to Airport Authority of India (AAI) (of Rs. 150 Cr) has been tagged as an In-Admissible asset and does not qualify for consideration in the RAB as per the definition of RAB in the State Support Agreement of DIAL.*
- ***Common Assets:*** *Assets which are not directly allocable to either Aeronautical or Non-Aeronautical are classified as Common assets. During the course of the study, based on the nature of assets, its location, usage and criteria defined under relevant documents, the consultant has determined the basis for appropriately apportioning the common assets in to "Aeronautical" and "Non-Aeronautical", in a fair proportion.*

16.2.3 Principle for Segregation of Assets

The independent study reviewed the various asset categories and developed a basis for classification of the assets into Aeronautical and Non-Aeronautical activities. The study also determined the appropriate proportion of the Common Assets that may be included as part of Aeronautical activity in order to determine Aeronautical asset base. The principles of segregation used by the independent study are, broadly, as follows;

Aeronautical Assets

- *All assets that are exclusively utilised for Aeronautical activities under Schedule 5 of OMDA are treated as Aeronautical assets.*
- *Capital Expenditure incurred to improve the look and feel of the Airport except areas identified as Non-Aeronautical, which helps maintain the ASQ rating mandated by the OMDA are classified as Aeronautical assets.*
- *Capital Expenditure on Reserved Activities (as defined in OMDA) like Customs, Immigration, security, health meteorology, plant and animal quarantine and CNS/ATM services are classified as Aeronautical assets.*
- *Assets related to the services bought under the scope of Aeronautical Services through the decision of the Telecom Dispute Settlement and Appellate Tribunal (TDSAT) dated 23rd April 2018.*

Non-Aeronautical Assets

- *All assets that are exclusively utilised for Non-Aeronautical activities covered under Schedule 6 of OMDA are treated as Non-Aeronautical assets. Examples are Cargo, Ground Handling and Retail Spaces.*
- *Common Use Terminal Equipment (CUTE) and Common Use Self Service (CUSS) software are classified as Non-Aeronautical Assets in accordance with the DGCA Order number 7/2007 and OMDA.*

Common Assets

- *Assets for which the benefits or use cannot be exclusively linked to either Aeronautical or Non-Aeronautical are classified as Common Assets.*
- *Assets primarily used for provision of Aeronautical services but are also used for provision of Non-Aeronautical services are classified as Common Assets. Examples are Civil and Electrical Works for terminal building.*
- *Assets which are used for general corporate purposes including legal, administration, and management affairs are treated as Common Assets. Examples are Transit house and Corporate Headquarter expenditures.*
- *Common Assets which are situated within the terminal buildings are apportioned to Aeronautical activity in the ratio of the space allocated for Aeronautical and Non-Aeronautical services.*
- *Common assets which are situated outside the terminal buildings are apportioned to Aeronautical activity based on an appropriate cost driver. However, in the absence of any information regarding the location of the asset or a specific cost driver, a reasonable ratio is*

determined based on discussions with management and consultant's review of the Fixed Asset Register (FAR) and other records of the Airport.

16.2.4 Details of Adjustments to RAB

Based on the principles of segregation adopted, as seen in the above paragraphs, assets added by DIAL in the Second Control Period have been re-segregated towards aeronautical assets and non-aeronautical assets. The details of adjustments by the independent study are as follows;

Segregation of EPOS system integration to CCTV

DIAL has considered the assets pertaining to EPOS system integration to CCTV as 100% aeronautical. The independent study analysed DIAL's submissions and has made the following observation;

"Software for monitoring retail sales integrated to CCTV Camera with objective of plugging revenue leakage from retail stores are related to Non-Aeronautical activities. Hence the same is reclassified from 100% Aeronautical to 100% Non-Aeronautical Asset"

The re-segregation from 100% Aero to 100% Non-Aero reduces the RAB to the extent of Rs. 5.98 Cr in the Second Control Period.

New Udaan Bhavan

The support functions for the management of the entire airport operations are looked after from the administrative office at New Udaan Bhavan (NUB) near Terminal 3 of IGIA. DIAL has allocated the assets related to NUB based on the weighted average floor space of all the three terminals of the airport i.e. 84.10%. The independent study analysed DIAL's submissions and has made the following observation;

"The NUB premises are commonly utilized for the operations of the GMR group, this allocation is re-visited to exclude the total space and the costs related to such spaces rented out to the group entities. The balance costs are segregated on the weighted average terminal space."

The re-segregation of the assets pertaining to NUB after excluding the floor space rented out reduces RAB to the extent of Rs. 3.59 Cr in the Second Control Period.

Senior Management Development Operation

DIAL has considered the expenses incurred on the development of the office of the Business Chairperson and Group Chairperson as Common Expenses with aeronautical allocation done on the basis of weighted average terminal space of 84.10%. The independent study analysed DIAL's submissions and has made the following observation;

"Although the Senior Management is housed at New Udaan Bhawan (NUB), they are entrusted with responsibilities at the Group level."

Thus, the Consultant has reallocated the expenses on an assumption of 50:50 proportion as it is not feasible to determine the proportion of man hours spent by Senior Management for Group companies.

The total impact of segregation from 84% Aero to 50% Aero reduces RAB to the extent of Rs. 3.61 Cr during Second Control Period.

Common Transit Houses

DIAL has taken 10 transit houses on lease and they have been considered as common assets segregated on the basis of weighted average terminal space of 84.10%. The independent study analysed DIAL's submissions and has made the following observation;

"Since the purpose of visit of the transiting personnel could not be gauged, an assumption of 50:50 aeronautical and non-aeronautical services was done, and the expenses were segregated based on the above assumption/ logic."

The total impact of re-segregation from 84.10% Aero to 50% reduces RAB to the extent of Rs. 7.95 Cr during Second Control Period.

Re-Segregation of Aeronautical Assets to Common Assets

DIAL has considered a few assets pertaining to Terminal 2 as 100% aeronautical. The independent study analysed DIAL's submissions and has made the following observation;

"Expenditure incurred for the refurbishment and expansion of the Terminal Building includes development of Retail spaces. Hence these development costs are classified from 100% Aeronautical to Common assets."

The total impact of re-segregation from 100% Aero to 84.20% Aero based on floor space proportion of Terminal 2 reduces RAB to the extent of Rs. 2.76 Cr during Second Control Period.

Common Assets reclassified to Aeronautical Assets

DIAL has considered assets such as perimeter intrusion systems, the tetra mobile radio systems, sign boards and CISF assets as Common Assets segregated on the basis of weighted average floor space of the terminal. The independent study analysed DIAL's submissions and has made the following observation;

"As the above assets are classified as "Aeronautical" under Schedule 5 of the OMDA, the same are re-classified to 100% Aeronautical."

Thus, the total impact of re-segregation from Common Assets to Aeronautical Assets results in increase of the RAB to an extent of Rs. 0.31 Cr during Second Control Period.

16.2.5 Adjustments to RAB during Second Control Period

Considering the above adjustments, the summary of adjustments to aggregate assets of DIAL during the Second Control Period can be seen in the table below;

Fixed Asset Adjustment (Rs. Cr)	**FY 15-18**	**FY19**	**Total**
(1) Total Investment in Fixed Assets during Second Control Period	**397.61**	**686.21**	**1,083.82**
(2) Investments in RAB during Second Control Period			
(i) Aeronautical Assets, *included in (1) above*	220.48	629.02	849.50
(ii) Adjustments to (2)(i) above for settlement/sale/deletion	(0.65)	0	(0.65)
(iii) Common Assets, *to the extent apportioned as Aeronautical Assets*	106.26	23.03	129.29
(iv) Adjustment for Air Traffic Control Tower funded from DF, *included in (2)(i) above**	-	(350.00)	(350.00)

Fixed Asset Adjustment (Rs. Cr)	**FY 15-18**	**FY19**	**Total**
Total Investment in RAB during Second Control Period	**326.09**	**302.05**	**628.14**
(3) Proposed adjustments to RAB due to change in segregation logic, for reasons below:			
(i) Reworking based on the Hand Over – Take Over (HOTO) certificates	-	-	-
(ii) Segregation of the EPOS system integration to CCTV	(5.98)	-	(5.98)
(iii) New Udaan Bhavan Improvement	(3.27)	(0.32)	(3.59)
(iv) Senior Management Office Improvements	(3.26)	(0.35)	(3.61)
(v) Transit House Improvements	(4.80)	(3.15)	(7.95)
(vi) Segregation from Common to Aero	0.31	-	0.31
(vii) Segregation from Aero to Common	-	(2.76)	(2.76)
Total proposed adjustments to RAB	**(17.00)**	**(6.58)**	**(23.58)**
(4) Adjusted Investment in RAB during Second Control Period (4) = (2) + (3)	**309.09**	**295.47**	**604.56**
(5) Adjustments to the Opening RAB as on the 1st April 2014 for settlement/sale/deletion by DIAL.#	**(55.29)**	**(2.77)**	**(58.06)**
(6) Adjusted Investment in RAB during Second Control Period net of adjustments made to the opening RAB in the Second Control period (6) = (4) + (5)	**253.80**	**292.70**	**546.50**

** The total Investment in Gross Fixed Assets amounts to ₹ 733.82 crores. The number is arrived after deducting the Development Fee (DF) funding in ATC Tower for ₹ 350 crores from the total Investment in Gross Fixed Assets during Second Control Period (as per FAR of DIAL) of ₹ 1083.82 crores.*

 # The total adjustments on account of Sales/Deletions/Settlement with contractors sums to ₹ 58.71 crores. Out of the total value of such sales/deletions/settlement, ₹ 0.65 crores (Refer item 2(ii) of above table) pertain to assets of Second Control Period and the remaining ₹ 58.06 crores (Refer item 5 of above table) pertained to assets related to the First Control Period and were adjusted to the Gross Fixed Assets of the Second Control period. The adjustment of Rs 58.71 Cr gets covered under Depreciation (E) and Deletion (D) while arriving at the RAB for the Second Control Period.

As can be seen from the above table, the total adjustments on Aeronautical assets during Second Control Period as per the independent study commissioned by the Authority is Rs. 23.58 Cr, which have been reclassified from aeronautical assets to non-aeronautical assets.

16.3 Annexure 3 – Summary of Independent Study on Allocation of Assets for IT JV

16.3.1 Background

DIAL, in order to fulfill OMDA requirements, issued a RFP dated June 19, 2009 to interested parties inviting tenders to undertake the concession of IT system work at Terminal 3. The selected tender required the incorporation of a special purpose company, as concessionaire for the purpose of performance, execution and implementation of the concession.

After evaluation of the tenders by DIAL, the concession agreement was awarded to Wipro Limited. Consequently, Wipro Airport IT Services Limited (WAISL) was formed to act as the concessionaire.

The Authority had commissioned an independent study concerning allocation of costs for the IT JV for the Second Control Period including the assessment of efficiency of the JV structure

16.3.2 Scope and Service Monitoring Parameters of DIAL

The five categories of services provided by WAISL are;

- Data Centre services
- Application services
- Network services
- End User services
- Common services

The details of the services provided by WAISL can be seen in the table below;

Data Centre services	Server availability, SAN/NAS availability, Data Backup, Storage and Retrieval, Applications Performance, System Recovery and Availability
Application services	Application Module Availability and Application Quality Enhancement
Network services	Ensure Network Availability and in time resolution of network related complaints
End User services	IT helpdesk service for user and resolution of IT related queries within stipulated time.
Common services	Timely Configuration Updates, Change management, asset management, Virus Signature File Updates, Information Security Risk Event Notification and Mitigation, Firewall Security, Reporting Timeliness and Accuracy, Billing Timeliness and Accuracy and Customer Satisfaction.

16.3.3 Funding Structure of WAISL

As per terms of the Master Service Agreement, in case the receivables of WAISL exceed the subsistence level in the previous financial year, the concessionaire has to pay DIAL a concession fee equivalent to the excess of receivables over subsistence level.

Subsistence Level for the concessionaire shall be determined as the aggregate of the following elements:

- The total cost of Concessionaire IT Systems payable under the Master Service Agreement along with the additional cost incurred from time to time upon the occurrence of the Asset Refresh Event for renewal and replacement of the IT Systems.
- Charge for the performance, execution and implementation of the Services as detailed in the scope of WAISL under the Master Service Agreement.

The concession fee or premium is calculated as below:

- As per terms of the Master Service Agreement, in case the receivables of WAISL exceed the Subsistence Level in the previous financial year, the Concessionaire shall pay to DIAL, a concession fee equivalent to any such excess of the receivables over the subsistence level.
- In case the receivables of WAISL are less than the Subsistence Level of WAISL, DIAL shall pay a premium equivalent to such difference to the Concessionaire.
- The revenue streams identified by DIAL and the concessionaire are as follows: Communication & Tetra Mobile Radio Systems (TMRS), Wi-fi, Telephony, Network, Mobile Phone Antenna Systems (MPAS), Electronic Point of Sale (EPOS), Co-location, Common Use Passenger Processing Systems (CUPPS) and Customer Self Service (CUSS).

The premium/concession fee computation can be seen in the table below;

Particulars (Rs. Cr)	**FY 15**	**FY 16**	**FY17**	**FY18**
Subsistence Level (A)	168.73	158.64	172.97	143.47
End-User Revenue (B)	111.76	136.53	168.23	189.31
Difference (A-B)	**56.97**	**22.11**	**4.74**	**(45.84)**
Universal Flight Information System (UFIS)/ISP Adjustment	(3.71)	(4.00)	(2.05)	-
(Concession Fee)/ Premium Payable	**53.26**	**18.11**	**2.69**	**(45.84)**

16.3.4 Principle for Segregation of Premium and IT Concession Fee

The concession fee (Receivables>Subsistence Level) received by DIAL is entirely segregated as Non-Aeronautical revenue since the total revenue earned by WAISL are from CUTE and CUSS services. The total IT cost is subsidized through the total IT revenue with the excess revenue over cost being passed on to passengers in the form of 30% subsidization of non-aeronautical revenue from IT.

These services are classified non-aeronautical as per OMDA and aeronautical as per AERA act. But considering the following, the classification of CUTE and CUSS services as per OMDA would prevail:

- The OMDA has been in force between DIAL and AAI since 2006, prior to the enactment of the AERA Act in 2008
- There has been no explicit amendment to the OMDA in order to synchronize its clauses of agreement with the AERA Act, 2008
- While AERA Act, 2008 is a statutory pronouncement that provides general principles guiding the segregation of certain assets and their derivative income as aeronautical and non-aeronautical, OMDA specifically governs the terms of engagement of its constituent parties

The premium payable (Receivables < Subsistence Level) by DIAL is treated as Common Expense. The costs incurred by WAISL are for the upkeep and maintenance of the entire IT infrastructure at the Airport which includes both Aeronautical Assets and Non-Aeronautical assets. The IT cost is subsidized through the total IT revenue with the excess cost over revenue added to tariff computation cost of passengers and airlines.

All the major assets held by WAISL were categorized to analyze the purpose and segregate the assets into Aero, Non-Aero, Common based on its purpose;

- Such assets which directly supported in rendering services listed under Schedule 5 of the OMDA were classified as Aeronautical.
- Such assets which supported services listed under Schedule 6 of the OMDA were classified as Non-Aeronautical.
- Such assets neither directly allocable to aero nor non-aero services and had common usage for supporting the overall functioning of the airport like administrative laptops, networks, etc. were classified as "Common" and segregated into aero and non-aero basis the floor space determined in the Jacob's report 2011.

The broad category of IT assets with reference to the purpose and segregation into aero and non-aero is as per the below table;

Aeronautical	Non-Aeronautical	Common
Flight Information Display System	CUPPS	Computer
TMRS	MPAS	Software License
Public Address Voice Alarm system	EPOS	Server
Airport Operation Control Centre	Telephony	Networking
CCTV		IBMS
MATV		Administrative

The gap funding of Rs. 73.89 Cr paid during Second Control Period was segregated based on the terminal space considered under Jacobs Report by DIAL. The independent study has analyzed DIAL's submissions and proposed the following solution;

"We had reviewed the Asset base of WAISL (from FY 2011 till FY 2019) and segregated them in to Aeronautical and Non- Aeronautical assets. A segregation ratio of Aeronautical and Non-Aero assets (78% and 22%) was arrived at and the same was used for segregating the Gap Funding expenses incurred by DIAL".

16.3.5 Implication of IT JV Funding Structure for DIAL Tariff Computation

To determine the impact of IT related capital expenditure and operating costs and non-aeronautical revenue from airport IT infrastructure for fixing tariffs, the following assumptions were made to analyse two distinct scenarios, one where IT operations generate a surplus and another where they result in a deficit;

	Particulars (Rs. Cr)	Scenario 1	Scenario 2
A	Total Cost of Operation and Maintenance of IT Infrastructure	350	500
B	Total Aeronautical Cost (78% of (A), segregated based on the proportion of IT Assets), *approx.*	275	390
C	Total Non-Aeronautical Cost (22% of (A), segregated based on the proportion of IT Assets)	75	110
D	Total Revenue Collection from the Operation of IT Infrastructure	500	350
E	Total Aeronautical Revenue (20% of (D), segregated based on the components of Revenue)	100	70
F	Total Non-Aeronautical Revenue (80% of (D), segregated based on the components of Revenue – Since 80% of the total revenue is from CUTE and CUSS, 80% of the total is considered Non-Aero	400	280
G	Net Non-Aeronautical Revenue for DIAL/ (Aeronautical Deficit to be funded by DIAL) from WAISL (D)-(A)	150	(150)

The Master Service Agreement provides for the surplus to accrue entirely to, or the deficit to be funded entirely by DIAL only.

Scenario 1 - Concession Fee payable to DIAL – Receivables are higher than subsistence level of WAISL:

Particulars (Rs. Cr)	Current Structure - With JV (A)	Alternate Structure – If there was no IT JV (B)
Total IT Aeronautical Operating Cost in DIAL's books	NA	300
Total IT Non-Aeronautical revenue from IT services in the books of DIAL	NA	400
Net Revenue contributing to lower Tariff as per formula	150*30% = **45**	NA
Net Cost contributing to incremental Tariff as per formula	NA	275- 30% of 400= **155**

Scenario 2 - Premium payable by DIAL – Receivables are lesser than the subsistence level of WAISL:

Particulars (Rs. Cr)	Current Structure - With JV (A)	Alternate Structure – If there was no IT JV (B)
Total IT Aeronautical Operating Cost in DIAL's books	NA	390
Total IT Non-Aeronautical revenue in DIAL's books	NA	280
Net Revenue for Tariff Computation/ (Net Cost for Tariff Computation)	NA	NA
Net Cost contributing to incremental Tariff as per formula	500-350 = **150**	390- 30% of 280= **306**

From the above table, it can be clearly seen that in the current structure with JV, only the excess costs over the revenue are passed on to the passengers and airlines. The costs passed on to the passengers are lower than costs applied for tariff determination in the alternate structure without JV.

16.3.6 Segregation of Premium/Concession Fee of DIAL

Based on the above adjustments to cost allocation, the independent study has proposed reclassification of Rs. 8.20 Cr worth aeronautical expense to non-aeronautical expense during Second Control Period as can be seen in the table below;

Particulars (Rs. Cr)	FY15	FY16	FY17	FY18	FY19	Total
IT JV Payment	53.00	18.14	2.75	-	-	73.89
% Split by DIAL	89.27%	89.20%	89.08%	89.04%	89.04%	
Aeronautical IT Expenses	47.31	16.18	2.45	-	-	65.94
Revised % on assets	78.15%	78.15%	78.15%	78.15%	78.15%	
Revised Aero IT Expenses	41.42	14.18	2.15	-	-	57.74
Differential to Non-Aero	**5.89**	**2.00**	**0.30**	-	-	**8.20**

The adjustment in Aeronautical expenses of the IT JV would be considered as part of Efficient Operation and Maintenance costs for the Second Control Period.

16.4 Annexure 4 –Summary of Independent Study on Efficient Operation and Maintenance Costs

16.4.1 Background

Establishing efficient operation and maintenance costs and their reasonableness is pivotal to the effective execution of tariff determination for aeronautical services. This expenditure has consistently been increasing, driven by investments in expanding, modernizing and improving the efficiency and excellence of the airport.

Assessment of Operation and Maintenance cost requires AERA to examine the financial information submitted by the airport operator, and also independently examine the baseline operating cost levels, cost reduction, efficiency initiatives and benchmarking exercises undertaken by the airport operator etc.

The Authority had commissioned an independent study to determine Efficient Operations & Maintenance costs for the Second Control Period as per the decision it had taken in the Tariff Order for Second Control Period.

16.4.2 Classification of Operation and Maintenance Expenses

The Independent study, based on their analysis, classified the Operation and Maintenance expenses under the following categories;

- **Terminal Operating Expenses** such as Utilities, Consumables, Housekeeping, Insurance, Repairs and Maintenance, Security and Landside expenses, IT JV expenses (Gap Funding) etc.
- **Administration and General Expenses** such as Advertising and Sales Promotion, Charities and Donations, Consultancy, Office Maintenance, Rent, Traveling and Conveyance, Chartering expense, allocation of Corporate costs etc.
- **Manpower expenses**

16.4.3 Principle for Segregation of Costs

The principle for segregation of costs used by the independent study can be seen below;

Aeronautical Costs

- *Expense incurred for operation and maintenance of aeronautical assets.*
- *All costs incurred for Aeronautical activities under Schedule 5 of OMDA are segregated as Aeronautical Costs.*

Non-Aeronautical Costs

- *Expense incurred for operation and maintenance of non-aeronautical assets.*
- *Costs incurred for Non-Aeronautical activities covered under Schedule 6 of OMDA are treated as Non-Aeronautical expenses. Examples are Cargo, Ground Handling and Retail Spaces.*

Common Costs

- *Costs for which the benefits or use cannot be exclusively linked to either Aeronautical or Non-Aeronautical are segregated as Common Costs.*
- *Costs primarily incurred for provision of Aeronautical services but are also used for provision of Non-Aeronautical services are segregated as Common Costs. Examples are costs for Civil and Electrical Maintenance for Terminal Building.*
- *Costs which are used for general corporate purposes including legal, administration, and management affairs are treated as Common Costs. Examples are Transit House and Corporate Headquarters.*
- *Common costs are apportioned to Aeronautical activity based on an appropriate cost driver. However, in the absence of any specific information regarding the purpose of incurring the cost, a reasonable ratio is determined based on discussions with management and our review of other records of the Airport."*

16.4.4 Details of Adjustments to O&M Expenses

The independent study on the basis of the expense classification and principles of segregation adopted, as can be seen in the above paragraphs, has considered re-segregation of Operation and Maintenance expenses to determine efficient O&M costs. The independent study has proposed the following adjustments;

IT Systems Maintenance Costs for Terminals 1 and 2

DIAL has considered the IT systems maintenance cost for Terminal 1 and Terminal 2 as 100% aeronautical in their submissions. The independent study has considered DIAL's submissions and proposed adjustments to IT systems maintenance costs, which can be seen below;

"These are common facilities used for both Aeronautical and Non-Aeronautical services. Hence, the total IT expense of ₹ 8.22 Crores are segregated to "Common" and segregated in the proportion of the Adjusted Gross Fixed Assets ratio of 89:11."

The total impact of segregation from 100% Aero to 88.92% reduces aeronautical expense to the extent of **₹ 2.26 Cr**.

Landscaping Costs

DIAL has considered the Landscaping Costs as 100% aeronautical in their submissions. The independent study has considered DIAL's submissions and has proposed adjustments to Landscaping costs, which can be seen below:

"It includes costs for entire Terminal, approach roads to Terminals and the admin office serving both Aero and Non-Aero facilities. Hence this expense is segregated as "Common" and segregated in the proportion of the weighted average terminal space."

The total impact of segregation from 100% Aero to 84.10% reduces aeronautical expense to the extent of **₹ 4.42 Cr**.

Quality Management Costs

DIAL has considered the Quality Management Costs as 100% aeronautical in their submissions. The independent study has considered DIAL's submissions and has proposed adjustments to Quality Management costs, which can be seen below:

"Quality Management team, work towards the overall improvement of Airport operations and aren't specific to Aeronautical Operations. Hence the costs are segregated to "Common" and segregated in proportion of Adjusted Gross Fixed Asset Ratio of 88.91%."

The total impact of segregation from 100% Aero to 88.92% reduces aeronautical expense to the extent of **₹ 1.60 Cr**.

Segregation of Common Costs within the Terminal

DIAL, in their submissions, have considered segregation of common costs within the terminal into aero and non-aero in the proportion of floor area measurement of aeronautical and non-aeronautical space i.e. 82%:18%. The independent study has considered DIAL's submissions and has proposed adjustments to segregation of common costs within the terminal, which can be seen below:

"The total floor area measurements for the terminals were drawn from M/s Jacob's Consultancy report dated 14th June 2011 detailing the area measurements for each component into Aeronautical / Non-Aeronautical. However, Order number 28 of AERA dated 14th November 2011 directed the elimination of 8652 sqm from the gross area calculation and the total let-out area to the concessionaires at Terminal 3 which were not considered in the 14th June 2011 report.

Considering the impact of the adjustment of 8652 sqm in line with the order number 28 of AERA, the proportion of aeronautical floor space was revised from 82% to 84%."

The total impact of segregation from 82% Aero to 84% increases aeronautical expense to the extent of **₹ 8.11 Cr.**

Segregation of Common Costs outside the Terminal

DIAL have considered the costs related to the offices of Senior Management, allocated costs from group companies and costs related to support functions like IT, finance, etc. in the proportion of Gross Fixed Asset Base i.e. 89.27%:10.73%. The independent study has considered DIAL's submissions and has observed;

"However, owing to the revision in the segregation logics under RFP 03/2018-19 for assets related the New Udaan Bhavan, the office development of the Business and Group Chairperson and the common guest houses, the aeronautical proportion of the assets was reduced from 89% to 88.91%. (Refer Annexure 1 of Pre-Final report on segregation of assets for workings on Adjusted Gross Fixed Assets ratio)."

Thus, the independent study has proposed adjustments to the Gross Fixed Asset Ratio i.e. 88.92:11.08, thereby reducing aeronautical expense for support functions and senior management costs to the extent of **₹ 2.05 Cr**.

Chartering Costs

DIAL has considered chartering costs used by Business and Group Chairperson of DIAL in the proportion of Gross Fixed Asset Base i.e. 89%:11%. The independent study has considered DIAL's submissions and has observed;

"Since the purpose of these chartering services cannot be accurately segregated to Aeronautical and Non-Aeronautical services, it is assumed that the chartering services are used by the senior management in a 50:50 proportion for Aeronautical and Non-Aeronautical services."

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

Thus, the independent study has proposed adjustments to reduce the proportion of aeronautical expense from Gross Fixed Asset Ratio (89%) to 50%, thereby reducing aeronautical portion of Chartering Costs to the extent of **₹ 10.61 Cr**.

Transit House

DIAL has considered expenses incurred for transit houses, taken on lease and used by corporate members of the company in the proportion of Gross Fixed Asset Base i.e. 89%:11%. DIAL has incurred ₹ 45 Cr for Second Control Period on rental and maintenance of the transit house. The independent study has considered DIAL's submissions and has observed;

"Since the purpose of use of these guest houses cannot be accurately segregated to Aeronautical and Non-Aeronautical services, it is assumed that the guest house is used in a 50:50 proportion for Aeronautical and Non-Aeronautical services."

Thus, the independent study has proposed adjustments to reduce the proportion of aeronautical expense from Gross Fixed Asset Ratio (89%) to 50%, thereby reducing aeronautical portion of expense related to Transit House by **₹ 17.91 Cr**.

Charities and Donations

DIAL, in its submissions, has considered the segregation of costs incurred on account of Charities and Donations in the proportion of the Gross Fixed Asset Ratio i.e. 89%:11%. The independent study has considered the submissions by DIAL and has made the following observation;

"As these expenses are not related to passenger or airline services, these costs are segregated as 100% Non-Aeronautical."

Thus, the independent study has proposed to re-segregate the costs incurred due to Charities and Donations as 100% non-aeronautical, thereby reducing the aeronautical portion of Charities and Donations by **₹ 7.27 Cr**.

Legal Costs

DIAL, in its submissions, has considered the segregation of Legal expenses at the Gross Fixed Asset Ratio i.e. 89%:11%. The independent study has analysed the submissions by DIAL and has made the following observation;

"Review of legal cases for Second Control Period up to FY 17-18 (costing Rs. 44 crores), showed that 19% of the total legal cases were Non-Aeronautical in nature, while the remaining were either Aeronautical or Common in nature. Considering the above fact, the segregation of costs was revised from 89% proportion of Gross Fixed Asset to 74.84% proportion of Aeronautical cases to Total Cases."

Thus, the independent study has proposed to reduce the aeronautical proportion from 89% to 74.84% which would reduce the aeronautical portion of legal costs by **₹ 7.71 Cr**.

Common HR/Manpower Costs

DIAL has segregated the Common HR and Manpower Costs based on the manpower count per department. The independent study has analysed the submissions by DIAL and has made the following observation;

"However, since the segregation is based on the manpower count per department aren't representative to the proportion of the associated cost of the department, the segregation logic has been revisited to ensure more accuracy.

The segregation was revised from a proportion of 89.79% to 88.91% in the proportion of Aeronautical Gross Fixed Asset to the Total Gross Fixed Assets."

Thus, the independent study has reduced the Aeronautical expenses to the extent of **Rs. 5.97 Cr** for Manpower Costs and **₹ 2.52 Cr** for Common HR Costs.

Property Tax

DIAL, in its submissions, has considered the segregation of Property Tax on the proportion of asset base. The independent study has analysed the submissions by DIAL and has made the following observation;

"However due to the changes in the segregation logics for the assets held outside the Terminal, the proportion of Aeronautical assets to the total assets changed resulting in an adjustment to the Aeronautical costs pertaining to property tax."

Thus, the independent study has reduced the Aeronautical portion of Property Tax to the extent of **Rs. 1.10 Cr** for the Second Control Period.

Payment to AAI for VRS

As per clause 6.1.1 of OMDA, the operation support period of 3 years has expired on 02.05.2009. AAI permitted DIAL to pay the retirement compensation in respect of employees who have not opted for absorption in terms of OMDA spread over a period of ten years from 1 May 2009. Accordingly, AAI had raised two invoices towards the total retirement compensation of ₹ 288.83 Cr. DIAL has segregated the expense in the ratio of 89.79:10.21 over the Second Control Period, on the basis of manpower count. The independent study has analysed the submissions by DIAL and has made the following observation;

"Since the segregation on the basis of the manpower count per department aren't representative to the proportion of the associated cost of the department (Example: the headcount in operations may be higher to the head count of the Senior management office but the costs of the latter would be higher), the segregation logic has been revisited to ensure more accuracy in the segregation of the costs into Aeronautical and Non-Aeronautical."

Thus, the independent study has revised the segregation to Gross Fixed Asset Ratio i.e. 88.92%:11.08% thereby reducing the aeronautical portion of Payment to AAI for VRS to the extent of **₹ 0.72 Cr.**

Finance Charges

DIAL, in its submissions, has considered the segregation of Finance Charges on the basis of Gross Fixed Asset Ratio. The independent study has analysed the submissions by DIAL and has made the following observation;

"However due to the changes in the segregation logics for the assets held outside the Terminal, the proportion of Aeronautical assets to the total assets changed resulting in an adjustment to the Aeronautical costs pertaining to these finance costs."

Thus, the independent study has revised the aeronautical portion of Finance Costs, reducing them to an extent of **Rs. 0.57 Cr** for Second Control Period.

Airports Economic Regulatory Authority of India

16.4.5 Efficient O&M Costs of Second Control Period

Based on the above adjustments, the independent study has proposed the revised O&M costs considered as efficient for Second Control Period as can be seen in the table below;

FY ending March 31 (Rs. Cr)	2015	2016	2017	2018	2019	Total
Manpower cost (salaries, wages and manpower)	117.48	111.45	116.11	146.26	166.53	657.83
Operating expense	248.15	250.77	261.42	313.76	332.68	1,406.78
Administrative expense (Admin and General expense	135.14	128.45	153.38	193.22	200.65	810.84
Property tax (including additional property tax)	20.09	5.18	28.36	6.35	6.93	66.91
Utility cost	112.31	121.66	106.54	113.20	103.35	557.06
Payment to AAI for VRS	16.65	16.24	15.66	15.18	14.70	78.43
Airport Operator fee	80.15	84.56	97.97	113.33	51.16	427.17
Finance Charges	118.13	14.75	80.90	10.40	10.16	234.34
Total	**848.10**	**733.06**	**860.33**	**911.70**	**886.16**	**4,239.36**

The Efficient Operation and Maintenance costs computed in the above table also include the adjustments made to aeronautical expenses worth Rs. 8.20 Cr pertaining to IT JV.

भा.वि.आ.वि.प्रा.
AERA

16.5 Annexure 5 – Summary of Independent Study on analysis of Capital Expenditure on Expansion of IGIA

16.5.1 Background

Indira Gandhi International Airport (IGIA), situated in Delhi is the primary civil aviation hub for India and the National Capital Region. It is the busiest airport in India in terms of passenger traffic and second busiest in terms of cargo traffic. As of FY 2018, the airport has the capacity to handle passenger traffic of 62 MPPA and cargo traffic of 1.5 MMTPA.

Expecting a higher growth rate for passenger traffic and cargo traffic, DIAL has proposed to expand the existing Terminal and airside facilities along with associated facilities to enhance the passenger handling capacity of IGIA from 62 MPPA to 109 MPPA and cargo handling capacity from 1.5 MMTPA to 2.2 MMTPA. The proposed expansion plan would be carried out in three phases namely Phase 3A, Phase 3B and Phase 4.

The Authority has commissioned an independent study concerning capital expenditure proposed by DIAL for Phase 3 A expansion of IGIA.

16.5.2 Scope of Engagement

The proposal for analysis of capital expenditure on IGIA comprises of the following packages;

i. Expansion of Terminal 1 and Apron
ii. Airfield works including 4th Runway
iii. Landside/ Connectivity Works
iv. Eastern Parallel Cross Taxiways
v. Modifications to Terminal 3 and associated facilities

The scope of services to be carried out in the independent study includes;

- To examine the proposal of the airport and assess the need for the proposed project and its capacity / scope with reference to Passenger growth/Cargo volumes/Air Traffic movement and also to suggest cost effective alternatives.
- To examine the building standards and designs proposed by the airport operator in line with IMG norms/IATA/ICAO norms.
- To analyse the reasonableness of the proposed cost with reference to the tentative ceiling decided by Authority vide order no 7 dated 13/06/2016 based on the details of the rates and quantity as per government / industry approved norms and advise the Authority on the justification of the costs.
- To review designs and specifications proposed in case the costs are assessed to be excessive where the Projects are already in progress or the contracts are already awarded. Further to examine whether proper procedures have been followed in the award of work.
- To assist AERA in case any litigation arises in future in connection with the reasonableness of the cost estimates.
- To review and justify the reasonableness of time schedule of completion of work of proposed by DIAL
- To perform any other duties as may be deemed necessary and specified in the award letter.
- To assist AERA in Stakeholder Consultation process.

16.5.3 Need for Phase 3 A Expansion

The independent study analyzed the submissions made by DIAL regarding Phase 3 A expansion and examined the need for the proposed Project and its capacity including assessment of cost effective alternatives, whether the building standards and designs are in line with IMG/IATA norms and the reasonableness of the proposed cost with reference to the tentative ceiling as decided by the Authority.

The independent study has the following observations with regards to the necessity of Phase 3 A Expansion Project;

Particulars	Summary
Need for Package 1 – Expansion of Terminal 1	The proposed Terminal 1 after expansion would have a total area of 1,92,985 m^2 i.e. an increase of 200% from the existing area of 64,140 m^2 along with upgrades to existing facilities which would now include 13 entry gates, 5 islands for check-in, 108 CUSS counters, 20 hand baggage x-ray machines, enhanced screening capacity of 5000-6000 bags/hr, 9 baggage carousels, flexible baggage system to flight wise rather than airline wise. The passenger growth at T1 is projected to reach 35 MPPA by 2024-25. According to L&B report, maximum capacity of T1 is 30 MPPA which mandates the expansion to meet the forecast of 35 MPPA. The expected peak hour passenger under the projected traffic is expected to be 9793 and along with the proposed area of 1,92,985 m^2 would translate into an area of 19.7 sq.m per passenger which is consistent with the IMG norms of 20 sq.m per passenger. The new Terminal 1 would also have an increased area of 18,000 m^2 for arrival with the arrival terminal now integrated and baggage belts increasing to 10 nos of 70m each which is consistent with the expansion in Terminal area.
Need for Package 1 – Apron Development	The proposed apron development would result in an increase in apron area from 282,000 m^2 to 716,288 m^2. The Terminal 1 apron has 55 aircraft stands fit for Code C aircraft for scheduled operations and 28 aircraft stands fit for general aviation aircraft without any contact stands and hence the aircrafts have to be remotely parked and operations through buses are carried out for conveying passengers from terminal to aircrafts. As the existing apron area of Terminal 1 is of varying age and design, it is recommended to redo the entire pavement area for optimum design layout.
Need for Package 2 & 4 – Airfield works	DIAL proposes as part of Phase 3 A Expansion 4th runway with associated taxiways links to cater to the demand and a new parallel taxiway to runway 10-28 and associated taxiway links to suit Code E aircrafts. IGIA handled 344,000 schedule movements in FY 2015-16 at a growth rate of 14.4%. With average aircraft sizes and load factors expected to increase, the aircraft movement is expected to rise from 281,034 movements in 2013-14 to 726,000 movements in 2033-34. The estimated airfield capacity is 75 ATMs per hour for the existing 3 runway system. ATC and taxiway improvements to existing runways would let the runway system handle between 593,500 and 620,500 annual ATMs at a delay of 10 to 15 minutes per ATM which is equivalent to 77.5 MPPA to 81.8 MPPA. An additional fourth runway would let the airport handle 776,000 to 790,500 annual ATMs i.e. 108 MPPA to 110.7 MPPA and would accommodate demand till 2033-34 and hence could be deemed necessary.

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण Airports Economic Regulatory Authority of India

Particulars	Summary
Need for Package 3 – Landside works	The projected increase in air traffic and terminal expansion necessitates the augmentation of land side connectivity and other terminal kerb side facilities. The independent study found that the widening of existing northern access road and central spine road to 2X5 configuration is necessary as they have reached breakdown condition. The independent study also found that the proposed kerb widening of Terminal 1 is justifiable based on average occupancy, hourly traffic volume, and annual demand of 35 MPPA.
Need for Package 5 – Assessment of Terminal 3 capacity enhancement	Terminal 3 is currently handling 34 MPPA and DIAL proposes to upgrade infrastructure to 40 MPPA for the design year 2022. The shortage in each process area was evaluated based on ADRM calculations and LOS C levels with shortage being found in number of check-in counters, arrival hall baggage belts, and kerb length requirements in arrival & departure concourse. The independent study found DIAL's proposal to upgrade infrastructure of Terminal 3 to be justifiable and necessary.

16.5.4 Cost Effectiveness assessment

The independent study also analyzed several cost effective alternatives/options for the expansion of the airport which are detailed below;

- **Option 1 – Alternative option instead of new runway**: Option of enhancing the existing runway capacities by adding a northern parallel taxiway to Runway 10/28 and eastern cross taxiway from Runway 11/29 is analysed. The ATM's that can be handled is enhanced only marginally.
- **Option 2- Alternate option instead of north side parallel taxiway**: Option of providing new runway 11/29 and cross taxiway without providing northern parallel taxiway to runway 10/28 is analysed. In this case, the aircraft movements to T1 affects the efficiency of runway 10/28 considerably and the ATM distribution is south centred and in favour of T3 only. In this option, refurbishment of runway 9/27 is inevitable.
- **Option 3 - Alternate option instead of Eastern cross taxiway**: Option considering the development without eastern cross taxiway, which warrants the relocation of T1 to T2 is analysed. The northern parallel taxiway is also not required in this option. But in this option the central spine road widening is beyond what is possible to cater the demand of passenger flow to T3 & T1. Therefore the option may be discarded.

Package	Description (Rs. Cr)	DIAL's Estimate as originally submitted	Option 1	Option 2	Option 3
1	Terminal Building	2512.00	2512.00	2512.00	**2941.55**
1, 2 & 4	Airside works	4681.00	**4371.56**	**4531.63**	**3413.63**
3	Landside works	366.00	366.00	366.00	**1148.60**
5	Terminal 3	233.00	233.00	233.00	233.00
5	Others	911.00	875.00	894.00	905.00
Total cost		**8703.00**	**8357.56**	**8536.63**	**8641.78**
Savings			**345.44**	**166.37**	**61.22**

Though Option 1 is the most cost-effective option as can be seen in the above table, the construction of new runway would become inevitable by FY 2025-26. Deferring the construction works of runway till that time is not a recommendable option due to the escalation in construction costs.

Hence the proposal by DIAL for construction of new runway, parallel taxiway, cross taxiway and associated connection taxiways is found justified as per the independent study.

16.5.5 Cost Analysis of Passenger Terminal Building – Package 1

The independent study analysed the new passenger terminal building, which is part of Package 1, and has the following observations;

- Construction of a new passenger terminal building includes building code for fire protection system, alarms and sprinklers, water supply and sanitation, air conditioning, power supply equipment, passenger facilitation, flight information systems, security, airline related services, CUTE, CUSS, baggage reconciliation system, x-ray screening, escalators, travellators, elevators, passenger boarding bridges, aircraft operational services as part of terminal processing facilities.
- After reviewing DIAL's costing and considering several factors impacting the capital costs, the rate/sqm for passenger terminal building is revised to Rs. 125,968/sqm instead of Rs. 137,472/sqm for area of 192,985 sqm. An amount of Rs. 2513 Cr proposed for civil works, MEP & Airport systems by DIAL has been reworked to Rs. 2431 Cr as per the details of costing sheet.

16.5.6 Cost Analysis of Airfield works including Eastern Cross Taxiway Package 1 (Apron), Package 2 and Package 4

The cost distribution of airfield works can be seen in the table below;

Package	Proportion
Apron (Package 1)	17.46%
New Runway (Package 2)	6.00%
Taxiways (Package 2)	24.01%
Drainage (Package 2)	13.50%
AGL (Package 2)	15.15%
Eastern cross taxiway (Package 4)	23.88%

The independent study had considered the ceiling cost of Rs. 4700/sqm as per AERA for construction of pavement (apron, taxiway, runway) and pavement for Code E Aircraft. The costing proposed by DIAL is Rs. 4,681 Cr. Considering factors like operational difficulties, constrained material conveyance, anticipated cost escalation, design for heavier aircraft (Code F) while evaluating the airfield costing;

- The rate/sqm recommended for apron is Rs. 9778/sqm for 629685 sqm against Rs. 11,127/sqm for an area of 7,16,255 sqm.
- The rate/sqm recommended for taxiway is Rs. 8306/sqm against Rs. 8754.08 sqm for an area of 931461 sqm.
- The rate/sqm for runway is Rs. 5978/sqm against Rs. 6848.50/sqm for 505086 sqm.

The revised cost as estimated by the independent study works out to Rs. 4320 Cr.

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

16.5.7 Cost Analysis – Others

The details of cost analysis performed by the independent study for other works of Phase 3 A expansion of IGIA can be seen below;

- **Preliminary works include demolition, relocation, enabling, diversions etc.**: DIAL's proposal considers the cost of preliminary works as 2% of the estimated costs. This is catered towards demolition, relocation & re-routing of utilities, traffic management systems, temporary signage, temporary roads & access gates etc. As per the independent study, these sums generally vary from 1% to 5% of the total costs. Thus the independent study considers the provision of 2% as reasonable.
- **Design development and supervision**: Fee for design, development and supervision is considered at 4% of the estimated cost of works. The independent study considers the proposal as reasonable and justified.
- **Permits, Survey & Insurance**: A lumpsum amount of Rs. 30 Cr is provisioned in the capital cost proposal towards insurance & permits which is reasonable.
- **Operational Capex**: An amount of Rs. 30.00 Cr is provisioned towards operational capex which is accounted for equipment like Runway sweeping machine, runway paint marking machines (big & small), runway rubber removal machines, passenger trolleys, motorized lifting platform, etc. The independent study has reviewed the costs and observed that the revenue generated after creation of assets would cover the operational expense incurred. Hence the cost towards operational capex is not justified.
- **Contingencies**: DIAL has provisioned cost of contingencies at 5% of the capital cost. This cost has been revised to 3% of capital cost as per the independent study.

16.5.8 Revised Capital Expenditure for Phase 3 A Expansion of IGIA

Based on the above methodology and analysis, the Project Cost with all design and construction plan was independently reviewed and the recommended capital cost for phase 3A expansion is as below;

Package	Capex for Expansion (Rs. Cr)	Recommended cost
1	Expansion of Terminal 1	2,431.00
1, 2&4	Airfield works including 4th Runway, Aprons & eastern parallel cross taxiways and expansion of Aprons under Package 1	4,318.45
3	Landside/connectivity works	366.17
5	Modification of Terminal 3	166.98
	Total	**7,282.60**
	Others	686.00
	Grand Total	**7,968.60**

16.6 Annexure 6 – Summary of Independent Study on Determination of Cost of Equity

16.6.1 Background

The airport infrastructure sector has been undergoing a phased change during the past 15 years. The first Public Private Partnership (PPP) model of airport operations was implemented in Delhi, Mumbai, Bangalore and Hyderabad airports starting in 2004. While Delhi and Mumbai were brownfield projects, the other two were greenfield in nature. As with any infrastructure project, these projects involved high Capital Expenditure (CAPEX) and Operational Expenditure (OPEX) mobilization. To ensure viability of airport investment, it is standard practice to provide a reasonable return to investors by charging airport users an appropriate tariff.

The Authority had determined 'Cost of Equity' for private sector in the year 2011. After 7 years, the Authority intended to conduct a fresh study in the current scenario to perform its statutory regulatory functions.

The Cost of Capital of FRoR (Fair rate of Return) is a significant influencer when Rate of Return Regulation is the opted method of Economic Oversight. The intent of such rate of return is to embody the reasonable return expectation of all investors in the project. Regulatory precedents at the time of choosing such Economic Oversight in India favored the use of WACC in which the COE would be determined with the help of the CAPM model.

As per Hon'ble TDSAT order dated April 23, 2018 in the matter of issues raised by DIAL with regards to decisions taken by AERA in the First Control Period, the Authority has commissioned an independent study for evaluation of Cost of Capital for DIAL for the Third Control Period.

16.6.2 Scope of Engagement

The scope of the engagement as stipulated under original terms of reference from the Authority can be seen below;

- Study of relevant environment, trends in airport capitalization
- Study airport-specific determinants of Cost of Capital with specific focus on Cost of Equity
- Recommendations on Cost of Equity
- Follow-on activities

The objective of the independent study is to provide recommendations on Cost of Equity including;

- Cost of Equity – Risk-free return, risk premium and beta levels
- Feasibility of adopting a normative approach with regards to the optimum capital structure and debt-equity gearing
- Alternative models for determination of cost of equity
- Reasonable/fair return to be provided on RSD as applicable for Delhi Airport is also to be determined.

16.6.3 Determination of Cost of Equity

The independent study compared the regulatory authorities of 12 countries and over 25 airports to understand the regulatory framework across the world, and assigned weights to the 25 international airports in 12 countries to estimate their comparability to IGIA based on the following parameters;

- **Revenue Till Structure**:
  - 1 – Single Till or where information is not available
  - 2 – Dual Till
  - 3 – Hybrid Till
- **Ownership Structure**:
  - 1 – if 100% Government owned/funded
  - 2 – if Government/private owned/funded, not being Public Private Partnership
  - 3 – if Public Private Partnership funded
- **Operations Scale (OpS)**: For each comparable international airport, the independent study computed the ratios of passenger, cargo and aircraft movement of these airports to that of DIAL in each of the years from 2015 to 2017.

The airports shortlisted for comparative study with IGIA are Sydney, Changi, Gatwick, Auckland, MAHB, AoT, and Dublin. MAHB is the holding company for Kuala Lumpur airport and AoT is the holding company for Thailand Airport. The proximity score with IGIA for these airports is as shown in the table below;

Airport	Revenue Till	Ownership Structure	Operations	Proximity Scores
Delhi	0.00	0.00	0.00	0.0000
Sydney	1.00	1.00	0.84	1.6465
Changi	0.00	2.00	-1.43	2.4580
Gatwick	2.00	1.00	1.37	2.6222
Auckland	1.00	1.00	2.24	2.6477
MAHB	2.00	1.00	-2.29	3.2001
AoT	1.00	1.00	-2.97	3.2852
Dublin	2.00	2.00	1.83	3.3669

The independent study then studied the returns of the airport over the period from 2013 to 2017 and computed the Internal Rate of Return (IRR) for all the airports.

Methodology to compute Cost of Equity and Fair Rate of Return

The independent study analyzed the month-on-month passenger growth rate of IGIA to understand the demand risk of the airport, regressing the growth rate as a function of monthly stock returns of DIAL. The stock returns signify external economic conditions. The independent study analyzed the impact on demand if the external conditions change significantly, and found very low regression coefficients (~0.3) thereby establishing that demand in India is inelastic and highly constrained by supply.

The independent study has used CAPM to determine the Cost of Equity, stating that though it is a theoretical model based on assumptions that do not hold true in the real world, its simple and intuitive appeal have made it the model most used by airport regulators to determine Cost of Equity.

The standard approach in CAPM methodology is to find a set of comparable firms and compute a cost of capital based on the comparable cost of capital of those firms. The approach accounts for idiosyncratic differences in financial leverage, operations scale, revenue till arrangement, and ownership structure. The independent study has considered actual data rather than plausible motivations for drivers of cost of equity.

There are three components required for computing the cost of equity using CAPM – risk-free rate (R_f), equity beta and equity risk premium (ERP). R_f and ERP are macro-economic in nature and can be derived from using time series analysis with R_f being considered from public sources and estimates for ERP available from an independent study by Anshuman, Biswas, Jain and Sharma, 2019. Equity beta for an unlisted company like DIAL is more challenging and the methodology used by the independent study is described below;

- ✓ Un-lever the betas of the comparable airports.
- ✓ Estimate asset betas for DIAL with proximity distance scores as inputs.
- ✓ Re-lever asset betas to get equity betas for DIAL with target gearing ratios as inputs.
- ✓ Evaluate cost of equity with R_f and ERP as inputs.
- ✓ Estimate Fair Rate of Return with cost of equity and cost of debt as inputs.

Step 1: Unlevering of Beta for Comparable Airports

The Independent Study considered 6 airports from the comparable set of airports as Changi airport did not have an estimate of asset beta in the public domain. Of these airports, Sydney, Auckland, AoT and MAHB are listed airports for which the independent study evaluated equity betas based on market data. The equity betas of these airports are then un-levered to determine the corresponding asset beta of the listed airports. Dublin and Gatwick airports are unlisted but have the estimates for asset betas from their respective regulators. The asset betas for the comparable set of airports can be seen in the table below;

Airport	Asset Beta
Sydney	0.4000
MAHB	0.7693
AoT	0.8582
Auckland	0.6000
Dublin	0.5500
Gatwick	0.5600

Step 2: Estimation of Asset Beta for DIAL based on Proximity score of the Comparable Airports

Based on the Table above and considering the proximity scores as determined by the independent study, the proximity score weighted average unlevered asset beta for DIAL has been arrived at as 0.5911.

Step 3: Re-levering of Beta for DIAL using target value of D: E ratio

The independent study recommends using a lower target gearing ratio than the gearing ratio suggested by actual D/E values of DIAL as WACC should reflect a long term steady gearing ratio rather than the current gearing ratio. WACC should also be determined using market value of D/E ratios as equity tends to increase over time, thereby resulting in lower market D/E ratios than book D/E ratios. The independent study considers this factor to be a significant reason for airports using lower target gearing ratios.

The independent study, to estimate market value of D/E (MDE) ratio for DIAL, has examined the relation between MDE and BDE of infrastructure firms in India. Based on the established empirical relationship between MDE and BDE, the conversion multiplier to determine MDE from BDE has been estimated as 0.459. The independent study then assumed BDE of 2:1, which gave an MDE of 0.918 for a typical infrastructure firm in India. It translated in a target gearing ratio of 47.86% which is close to average gearing ratio of comparable set of airports. Thus, the independent study considers the target gearing ratio at a notional value of 48% for computing cost of equity.

Based on this target gearing ratio, the Proximity Score Weighted (PSW) asset beta of DIAL (0.5911) has been re-levered to calculate **equity beta** whose value is arrived **at 0.9732.**

Step 4: Estimation of Cost of Equity with R_f and ERP as inputs

To arrive at the cost of equity, Equity Risk Premium (ERP) is derived as the simple average of the three independent study estimates (historical average, based on CDS and bond ratings, forward looking estimate as suggested by Grant Thornton) i.e. 8.06% as this simple average technique helps eliminate the effect of biases implicit in each of the three independent studies.

After computing all the components required, the cost of equity using CAPM has been determined and the variables used to estimate the cost of equity and fair rate of return can be seen in the table below;

Variables	**Gearing based on Target Gearing ratio**
Asset Beta	0.591199
Gearing Ratio (D/E)	0.9231
Gearing Ratio (D/D+E)	48.00%
Equity Beta	0.9732
Risk Free Rate	7.56%
Equity Risk Premium	8.06%
Cost of Equity	**15.41%**

Step 5: Estimation of Fair Rate of Return with Cost of Equity and Cost of Debt as inputs

To arrive at the fair rate of return, the independent study has computed an estimate of cost of debt. The estimated cost of debt arrived at is 9.97% by taking the simple average of the yields of thirteen debt instruments issued by infrastructure companies rated AA- or equivalent by credit rating agencies between 01/01/2018 and 15/02/2019. Based on the variables computed in the above steps, as can be seen in the above table, the independent study has computed the Fair Rate of Return as **12.80%.**

Thus, the independent study has computed the Cost of Equity at 15.41% using Capital Asset Pricing Model at a notional D:E ratio of 48:52 and using as benchmark, a comparable set of airports with more than 50% private ownership.

16.7 Annexure 7 – Summary of Independent Study on Opportunity Cost of RSD

16.7.1 Background

Under OMDA, DIAL has been given the right of commercial development of the 5% of the total land parcel. DIAL, in the first phase of development licensed 45.08 acres of land and got an amount of refundable deposits of Rs. 1471.5 Cr on Phase 1 of lease of CPD.

Contractually, DIAL was not bound to use the refundable deposits for funding the project. The amount collected was part of Non Transfer Assets which are not used for cross-subsidizing the aero charges, but DIAL used them for financing the project cost.

As these funds utilised for financing the project cost, a fair rate of return i.e. opportunity cost needs to be provided. DIAL has treated these funds as quasi-equity in nature. The Authority decided to treat RSD as a means of finance at zero cost as they felt that there were no costs involved in raising RSD. DIAL filed an appeal in Hon'ble TDSAT regarding certain contentions on the decisions taken by AERA while determining the tariff for the First Control Period.

As per Hon'ble TDSAT order dated April 23, 2018 in the matter of issues raised by DIAL with regards to decisions taken by AERA in the First Control Period, the Authority had commissioned an independent study concerning Opportunity Cost of Capital of Refundable Security Deposits.

16.7.2 Assessment and Opportunity Cost of RSD

The Independent study, based on their analysis, assessed the opportunity cost of RSD as can be seen below;

RSD was raised from concessionaires for operating non-transfer assets. As per OMDA/SSA, DIAL is free to use the proceeds in whatever manner they deem appropriate, emphasised in the Hon'ble TDSAT order as can be seen below:

- *There is no dispute that this investment amounting to Rs. 1471 crores belongs to DIAL', **TDSAT Order dated 23.04.2018 on AERA Tariff Order for DIAL, paragraph 101).***
- *It ignores the liabilities which DIAL undertook by bidding for the project in view of clear stipulations as to rights in respect of such land as part of Non-transfer Assets." **(TDSAT Order dated 23.04.2018, Para 103).***

DIAL was able to procure lower cost of financing of aero assets as the explicit cost of financing RSD is 0%. DIAL, being the rightful owners of RSD amount, could have utilized it in alternative investment opportunities instead of financing aero assets. Thus, DIAL needs to be provided opportunity cost for investment in aeronautical assets.

As the beneficiaries of the opportunity cost incurred by DIAL with regards to RSD are airport users, an equivalent compensation ought to be provided to DIAL.

16.7.3 Compensation to DIAL for bearing the Opportunity Cost of deploying RSD

The independent study based on their assessment of the opportunity cost of RSD has come up with two options, the details of which can be seen below:

Option 1:

If DIAL had raised the amount equivalent to RSD amount to invest in aero assets, the cost of financing would have been equal to cost of debt. Thus, the opportunity cost of RSD would be equal to the cost of debt at the time RSD was invested in aeronautical assets.

Option 2:

The RSD amount could have been invested in an escrow account in funds having required ratings from CRISIL, as specified in OMDA/SSA. The potential earnings from escrow account would be the loss incurred by DIAL by investing RSD amount in aeronautical assets for which they ought to be compensated. Thus, the opportunity cost of RSD amount should be equivalent to returns from the escrow account, as suggested in the Hon'ble TDSAT order.

Thus, while Option 1 recommends cost of debt to be the equivalent opportunity cost for RSD, Option 2 recommends the opportunity cost to be an equivalent return from a suitable escrow account. The Option 2 is more difficult to implement as the returns from a specified CRISIL rated fund would vary over time and be subject to estimation whereas Option 1 is relatively stable and frequently estimated by the Authority while determining the cost of capital.

भा.वि.आ.वि.प्रा.
AERA