File No. AERA/20010/MYTP/DAFFPL/FF/CP-III/2021-26

Consultation Paper No. 12/2021-22

सत्यमेव जयते

Airports Economic Regulatory Authority of India

IN THE MATTER OF

DETERMINATION OF FUEL INFRASTRUCTURE CHARGES FOR DELHI AVIATION FUEL FACILITY PRIVATE LIMITED (DAFFPL) AT IGI AIRPORT, NEW DELHI

(01.04.2021 – 31.03.2026)

27th July, 2021

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110 003

STAKEHOLDERS’ COMMENTS

The Authority is aware of the fact that the Aviation Sector is undergoing unprecedented turbulence and uncertainty on account of the COVID 19 PANDEMIC and the associated lockdown situation in the major cities around the world has resulted in restrictions in air travel, both domestic and international. The Authority has released this Consultation Paper, after examining the impact of COVID 19 PANDEMIC on the various assumptions stipulated in the Multi Year Tariff Proposal (‘MYTP’) submitted by the ISPs. Accordingly, the Authority’s opinion on the various aspects forming part of the tariff determination process have been explained in detail in this Consultation Paper.

Thus, in accordance with the provisions of Section 13(4) of the AERA Act, the written comments on Consultation Paper No. 12/2020-21 dated 27th July, 2021 are invited from the Stakeholders, preferably in electronic form, at the following address:

Director (P&S, Tariff)
Airports Economic Regulatory Authority of India (AERA), AERA
Administrative Complex, Safdarjung Airports,
New Delhi – 110003, India
Email: gita.sahu@aera.gov.in and mravi.aera@govcontractor.in
Copy to: director-ps@aera.gov.in and secretary@aera.gov.in

Last Date for submission of Stakeholders’ comments: 26/08/2021

Last Date for submission of counter comments: 06/09/2021

Comments and counter comments will be posted on AERA’s website www.aera.gov.in

For any clarification/information, Director (P&S, Tariff) may be contacted at Telephone No. +91-11-24695048

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1. LIST OF ABBREVIATIONS

AAI	Airport Authority of India
AERA or the Authority	Airports Economic Regulatory Authority of India
Aero	Aeronautical
ARR	Aggregate Revenue Requirement
ATM	Air traffic movement
ATP	Annual Tariff Proposal
ATF	Aviation Fuel
BPCL	Bharat Petroleum Corporation Limited
CA	Concession & Operating Agreement between DAFFPL and DIAL
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
CGF	Cargo Facility, Ground Handling and Fuel Supply services
CGF Guidelines	Airports Economic Regulatory Authority of India [Terms and Conditions for Determination of Tariff for Services Provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft) Guidelines, 2011 dated 10.01.2011
Concession period	Concession term is for 25 years from date of commencement of CA i.e. 01.07.2010
CSR	Corporate Social Responsibility
DAFFPL/ Fuel Farm Operator	Delhi Aviation Fuel Facility Private Limited
DIAL/ Airport Operator	Delhi International Airport Private Limited
FIC or Infrastructure charge	Fuel Infrastructure Charge
FRoR	Fair Rate of Return
FY	Financial Year
GOI	Government Of India

IGI Airport	Indira Gandhi International Airport, New Delhi
IND AS	Indian Accounting Standard
CPI	Consumer Price Index
INR or Rs.	Indian rupees
IOCL	Indian Oil Corporation Limited
IOSL	Indian Oil SkyTanking Limited
IRR	Internal Rate of Return
ITP	Into Plane Service Provider
JVC	Joint Venture Company
Re	Cost of equity
KL	Kilo litre
MYTO	Multi Year Tariff Order
MYTP	Multi Year Tariff Proposal
O&M	Operating and Maintenance
OPEX	Operating Expenditure
P&L	Profit and Loss
p.a.	Per Annum
PAX	Passenger(s)
RAB	Regulatory Asset Base
SLM	Straight Line Method
Sq.m.	Square Metre

2. BACKGROUND

2.1. Delhi Aviation Fuel Facility Private Limited (DAFFPL) is a JVC between IOCL (37%), BPCL (37%) and DIAL (26%). DAFFPL undertakes the development, operation & maintenance of the fuel farm facility and fuel hydrant system at terminal 2 and 3 of the IGI Airport. DAFFPL is also catering partly to the flights at Terminal-I. The concession period is for 25 years from the date of commencement of its operation i.e. 01.07.2010. DAFFPL has submitted that the fuel farm facility is based on "*open access model*" wherein airlines may source the fuel from any oil company and use the fuel farm's storage facilities at agreed price levels. During the third control period the operation of DAFFPL is extending to Terminal-1 for which the major capital expenses are projected.

2.2 The Authority had considered the MYTP (for the second Control Period from 01.04.2016 to 31.03.2021) submitted by DAFFPL for providing fuel farm services at IGI Airport and issued Order No. 32/2017-18 dated 18.12.2017 which, inter alia, provided the following:

2.2.1 The infrastructure charge in respect of the fuel farm services provided by DAFFPL at IGI Airport for the second control period (01.04.2016 to 31.03.2021) would be INR 609/ KL (inclusive of operator's fee);

2.2.2 The tariff for the second control period from 01.04.2016 to 31.03.2021 would be determined under price cap regulation.

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

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

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

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

2.7 The Authority has reviewed the submissions made by DAFFPL with respect to various building blocks. The ensuing chapters in this Consultation Paper present the Authority's review of the MYTP submitted by DAFFPL, under its guidelines issued in this regard from time to time.

2.8 The final chapter summarizes Authority's proposals regarding each of the building blocks. The Authority invites views of the Stakeholders regarding proposals put forward for tariff determination for the third Control Period in this Consultation Paper.

3. METHODOLOGY FOR TARIFF CALCULATION

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

3.1.1 Materiality Assessment;

3.1.2 Competition Assessment;

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

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

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

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

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

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

3.3 Based on DAFFPL's submission, materiality index (based on the fuel throughput at IGI Airport in comparison to fuel throughput at other major airports) is more than 5% materiality index fixed for assessing the materiality of the subject regulated service. Hence the service is deemed to be "material".

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

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

3.6 The Authority has noted that as per the CGF Guidelines, based on the assessment of materiality and competition, when such regulated service is deemed "material and not competitive", the Authority shall then assess the reasonableness of existing User Agreement(s) and where the Authority is assured of the reasonableness of the existing User Agreement(s), the Authority shall determine Tariff(s) for the service providers based on a light touch approach.

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

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

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

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

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

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

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

Plus

3.8.2 Operation and Maintenance Expenditure (O)

Plus

3.8.3 Depreciation (D)

Plus

3.8.4 Taxation (T)

Minus

3.8.5 Revenue from services other than aeronautical services (NAR).

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

3.10 $ARR = \sum_{t=1}^{5}(ARR_t)$ and

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

Where

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

$\mathrm{ARR_t}$ is the Aggregate Revenue Requirement for year 't';

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

$\mathrm{RAB_t}$ is the Regulatory Asset Base for the year 't';

$\mathrm{D_t}$ is the Depreciation corresponding to the RAB for the year 't';

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

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

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

3.11 The present value of total aeronautical revenue that is estimated to be realized each year during the control period at proposed tariff levels is compared with the present value of the ARR during the control period. In case the present value of estimated aeronautical revenue during the control period is lower than the present value of ARR during the control period, the airport operator may opt to increase the proposed tariff. In case the present value of estimated aeronautical revenue is higher than the present value of the ARR then the airport operator will have to reduce its proposed tariff.

Basis of Tariff Determination and Till issue

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

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

3.14 Authority’s Proposal regarding Methodology of Tariff Determination for the third control period:

3.14.1 The Authority proposes to adopt “Price Cap Approach” on “Single Till” basis for Tariff determination of DAFFPL, Delhi for the third control period.

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

Authority’s Proposal regarding Methodology for Tariff Determination for Third Control Period:

3.16 Based on the material before it and based on its analysis, the Authority has proposed the following regarding Methodology for Tariff determination for DAFFPL, Delhi for the Third Control Period:

3.16.1 The Authority proposes to adopt “Price Cap Approach” on ‘Single Till’ basis for Tariff determination of DAFFPL, Delhi for the 3rd Control Period.

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

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

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

As submitted by DAFFPL, True-up for the 2nd control period (01.04.2016-31.03.2021) has been calculated as the difference between:

4.1.1. Permissible fuel revenue calculated based on actual fuel off take and financials; and

4.1.2. Actual fuel revenue received by DAFFPL for the 2nd control period

4.2. Based on DAFFPL's working, the following is the true-up calculated for the 2nd control period:

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

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

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

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

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

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

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

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

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

4.6 DAFFPL's actual revenue is in line with the projections approved by AERA (Order No. 32/2017-18 dated 18.12.2017) however, the discrepancies are attributed to impact of COVID-19 on aviation sector, wherein the strict lockdown was imposed on domestic and international travels.

4.7 During 2017, T2 got fully operational and lots of domestic flights were moved there from T1. Further, in April 2018, Indigo & SpiceJet domestic flights moved to T2 & T3. Due to this volume of DAFFPL for the second control period increased, and, was not in line with the projections. Due to facts above, the actual recovery for the entire 5 years has been on a higher side and has been offered in the true-up.

4.8 DAFFPL vide letter dated 16 December 2019, requested the Authority for considering WACC as fair return on security deposit wherein, AERA's response dated 16 January 2020 stated " *Authority is in the process of formulating the policy on the issues raised by DAFFPL in their aforesaid letter and till finalization on the same, the decision as per Order No. 32/2017-18 shall continue*". We request AERA to reconsider our request of FRoR return on security deposit. We once again reiterate that the deposit has been paid as a pre-condition for getting the concession rights. Further, based on Ministry of Civil Aviation letter No. F.No. AV-13030/216/2016-ER dated 8th Jan'2020 relating to discontinuation of FTC. The airport operator has withdrawn the deposit amount that would come back to minimum threshold of Rs. 75 Crores. DAFFPL requested the Authority to take a considerate view on Security Deposit since its impact on the tariff is incredibly significant. DAFFPL is in the midst of a capex cycle and a low tariff would have impact on our cash flow significantly. The Authority in its earlier order had classified the significant Security Deposit amount as an unusual transaction. Considering this, DAFFPL has made sincere efforts for reducing SD amount as detailed below:

4.8.1 Initially, DAFFPL was able to create an upper capping of Security Deposit amount to Rs. 285 Crores.

4.8.2 Further it was agreed with the Airport Operator (DIAL) for waiver of Security Deposit at Terminal 1 related volume.

4.8.3 Subsequently based on withdrawal of FTC, the deposit amount would now come down to minimum threshold of Rs. 75 Crores.

4.8.4 DAFFPL is still in discussion with the Airport Operator to further consider waiver of deposit and look for alternative mechanism.

4.8.5 The tariff order for Second Control Period came on 18th December 2017 and was applicable from 01st January 2018. So, from 01st April 2016 to 31st December 2017, DAFFPL continued to charge Rs. 755 per KL. The order states that all the building blocks would be trued up in the third control period. We request the regulatory authority to true-up the values from the date of the order i.e. 01st January 2018.

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

4.10 The depreciation used for 2nd Control period is as per Companies Act, 2013 and reported in Audited Financial by DAFFPL is considered in true-up.

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

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

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

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

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

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

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

4.14 Capital Expenditure

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

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

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

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

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

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

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

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

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

Table no.6 Status of CWIP as submitted by DAFFPL

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

4.15 Depreciation

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

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

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

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

4.15.5 DAFFPL has adopted different depreciation rates based on the agreement with the Airport Operator that the assets would be handed over to the Airport Operator without any compensation on expiry of the contract. In the second control period, the Authority indicated that if the agreement is not extended by the Airport Operator, the Authority would take this in to account to write off such assets during the relevant control period. The stand of the Authority was accepted by the Hon’ble TDSAT judgement dated 27th September 2019.

4.15.6 In view of the above, the Authority proposes to recalculate the depreciation in line with the rates specified in the order no.35/2017-18. The useful life of assets and the depreciation rates proposed for calculation of depreciation in line with order no.35/2017-18 are give below:

Table No.8 Depreciation Rates Proposed to be considered for True up of Second Control Period by the Authority

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

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

Table no.9 - Depreciation amount considered by the Authority for true up of the SCP.

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

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

4.16 Regulatory Asset Base (RAB)

4.16.3 The Regulated Asset Base recalculated after considering the depreciation proposed above for the second control period is given below:

Table no.10 RAB proposed to be considered by the Authority for true up of Second Control Period

Particulars (Rs. In lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	**Total**
Opening RAB	19755.00	17776.00	16520.00	15081.00	14153.00	**83285.00**
Capitalized Assets	18.00	538.00	287.00	771.00	1169.03	**2783.03**
Depreciation	1758.00	1693.00	1719.00	1699.00	1811.00	**8680.00**
Disposals	239.00	101	1	0	9.19	**350.19**
Closing RAB	17776.00	16520.00	15081.00	14153.00	13501.84	**77031.84**
Average RAB	18765.50	17148.00	15800.50	14617.00	13827.42	**80158.42**

4.17 Right of Use Assets

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

> "*The Company's lease asset classes primarily consist of lease for land. The Company, at the inception of contract, assesses whether the contract is a lease or not lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a time in exchange for a consideration. This policy has been applied to contracts existing and entered on or after April 1 , 2019 based on applicability of IndAS 116-Leases.*
>
> *The Company recognizes a right to use asset and a lease liability at the lease commencement date for lease which is previously classified as operating lease. The right-of-use asset is initially measured at an amount equal to the lease liability.*
>
> *The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the end of lease term.*
>
> *The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. It is re measured when there is a change in in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the company changes its assessment of whether it will exercise purchase, extension or termination option. When the lease liability is re measured in this way, a corresponding adjustment is made in the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero*."

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

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

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

4.18 Security Deposit

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

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

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

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

Table no.11 Details of return on SD claimed by DAFFPL during the Second Control Period.

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

Table no.12 Details of SD proposed to be considered for truing up of Second Control Period by the Authority.

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

4.19 Operating Expenses and CSR

4.19.1 The component wise details of the Operating expenses were not given in the MYTP submitted by DAFFPL though the financial model was submitted along with the MYTP. Subsequently the details were given vide mail dated 17.05.2021. It was also clarified by DAFFPL that the fuel farm operating expenses were netted from the revenue in the annual accounts. In addition, the licence fee paid to the airport operator was shown as opex in the years 2016-17, 2017-18 and 2018-19. In the years 2019-20 and 2020-21 the same has been taken as a part of right of use assets as per Ind AS 116. In order to maintain uniformity and also reflect the true cost of operations, the Authority proposes to consider the licence fee paid to the airport operator as a part of operating expenses. The expenses including CSR were also cross checked with the Annual Reports for the years 2016-17 to 2020-21.

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

Table no.13 Operating Expenses as submitted by DAFFPL for the Second Control Period.

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

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

Table no.14 Operating Expenses proposed to be considered for true up of Second Control Period by the Authority.

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

4.20 Income Tax

DAFFPL has submitted the income tax expenditure as given below:

Table no.15 Income Tax as submitted by DAFFPL for the second control period.

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

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

Table no.16 Income Tax proposed to be considered by the Authority for the true up of second control period.

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

4.21 Other Income

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

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

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

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

Table no.18 Other Income proposed to be considered by the Authority for the true up of second control period

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

4.22 Fair Rate of Return

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

Table no.19 Revised cost of Debt proposed to be considered for the Second Control Period by the Authority

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

Table No.20 FRoR proposed for true up of the second control period by the Authority

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

4.22.2 The average FRoR comes to 12.64% which is being used for working out the discounting factor.

4.23 Aggregate Revenue Requirement

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

Table no.21 ARR proposed for true up of the Second Control Period by the Authority

Particulars (Rs. In lakhs)	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Total**
Average RAB *(Refer table 10)*	18765.50	17148.00	15800.50	14617.00	13827.42	80158.42
FRoR *(Refer table 20)*	12.28%	12.50%	13.00%	12.93%	12.50%	
Return on RAB	2304.40	2143.50	2054.07	1889.98	1728.43	10120.37
Return on SD *(Refer table 12)*	846.46	846.46	1046.24	1046.24	812.29	4597.69
Depreciation*(Refer table 9)*	1758.00	1693.00	1719.00	1699.00	1811.00	8680.00
O&M *(Refer table 14)*	4077.29	4215.38	4371.58	4758.42	4625.05	22047.72
Income Tax *(Refer table 16)*	2448.93	3325.29	3333.98	1112.76	407.71	10628.67
Gross ARR	11435.08	12223.63	12524.87	10506.40	9384.48	56074.45
Less: Other Income *(Refer table 18)*	96.31	63.05	191.20	207.00	91.57	649.13
Net ARR	11338.77	12160.58	12333.67	10299.40	9292.91	55425.32

Discount Factor	1.8134	1.6099	1.4292	1.2688	1.1264	
NPV of ARR	20562.12	19577.43	17627.6	13068.1	10467.72	81302.97
FIC Revenue*	13476.93	14948.63	14510.95	14423.54	7534.59	64894.64
NPV of Actual Revenue	24439.52	24065.94	20739.43	18300.91	8487.11	96032.91
Over/(Under) recovery	**14729.95**					

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

4.23.2 The excess recovery (claw back) amounting to Rs. 14729.95 lakhs will be adjusted out of third control period. The total ARR recoverable for the second control period is more or less on the lines of ARR determined during the tariff determination for the second control period. The reasons for the excess recovery are:

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

b) The tariff order for the second control period determining the tariff of Rs.609/kl was issued on 18th December 2017 and implemented by DAFFPL from 1st January 2018. From 1st April 2016 to 31st December 2017, DAFFPL charged Rs.755/kl. The excess collection made during this period has also been considered in the true up for the second control period.

4.24 Authority's Proposal regarding True up for the second control period

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

4.24.1 The Authority proposes to consider depreciation for the second control period as per Table no. 8

4.24.2 The Authority proposes to true up the Regulatory Asset Base as per Table no.10

4.24.3 The Authority proposes to consider Security Deposit as per Table no.12 and also proposes to consider a nominal return of 5% on the same for the true up of second control period.

4.24.4 The Authority proposes to consider Operational expenses including CSR for true up of second control period as per Table no.14

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

4.24.6 The Authority proposes to consider Income Tax for the second control period as per Table no.16

4.24.7 The Authority proposes to consider the Other Income for true up of second control period as per Table no.18

4.24.8 The Authority proposes to true up FRoR for the second control period as per Table no.20

4.24.9 The Authority proposes to true up the Aggregate Revenue Requirement of DAFFPL for the second control period as per Table no.21 and also proposes to consider the claw back of Rs. 14729.95Lakhs for adjustment in the third control period.

5. RAB AND DEPRECIATION FOR THIRD CONTROL PERIOD:

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

5.1. **Regulatory Asset Base:-**

5.1.1. As stated in clause 9.2 of the CGF Guidelines in Direction 04/2010-11, RAB assets shall be all fixed assets proposed by the Service Provider(s), after providing for such exclusions therefrom or inclusions therein as may be determined by the Authority.

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

Table no.22 Capital Expenditure to be incurred during the Third Control Period as submitted by DAFFPL

Particulars (in Rs. Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Buildings	500	-	-	300	-	800
Plant and Equipment	775	400	550	-	200	1925
Computer and Data Processing Unit	5	5	5	-	-	15
Furniture and Fixtures	5	100	5	-	-	110
Dead stock	-	2,500	-	-	-	2500
T-1 (Project CWIP) P & M	5,400	5,900	3,000	-	-	14,300
Interest during construction	590	884	165	-	-	1,639
Total	**7,275**	**9,789**	**3,725**	**300**	**200**	**21,289**

5.1.3. DAFFPL has rationale for the capex as under:

5.1.3.1. **Setting Up of Aviation Fuel Hydrant System at Terminal 1 of IGI Airport:** Airport Operator has planned for revamping of complete Terminal 1 as per their master plan ,and, the capacity of T1 will be increased from 20 million to 40 million, the departure Terminal, T1D and arriving Terminal, T1 C, will be merged and expanded. The expansion works will be carried out alongside flight operations at T1. DIAL requested DAFFPL to lay ATF Hydrant System at T1 from the existing Fuel Farm. Proposal includes creation of 82 aircraft parking stands with Fuel Hydrant System. Accordingly, an agreement was executed between DAFFPL and L&T Limited for setting up of Aviation Fuel Hydrant System at Terminal 1 in coordination with DIAL EPC Contractor. Earlier the work was planned as a Green Field Project and later it was decided to execute the works as brown field project in various phases. The completion timeline of the project is June 2023. User Consultation meeting for the said project has been held by DAFFPL with the stakeholders on 3rd March 2021.

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

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

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

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

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

a. Future requirement as per volume growth projection.

b. T1 hydrant process testing and commissioning.

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

5.1.3.2. **Laying of New Receipt Header:** Currently DAFFPL has dedicated product receipt pipelines from IOCL and BPCL, for other suppliers there is a provision of Tank Truck receipt. These three sources are taken to 4 inlet filters with 08 dia lines. Currently, IOCL are operating one 08 Inch diameter pipeline for transfer of ATF from IOCL terminal at Bijwasan to Fuel Farm which is unable to meet their current demand even after utilization of BPCL pipeline. To ensure uninterrupted supplies to IGI Airport, IOCL proposed to replace the existing pipeline with a new 16 Inches pipeline to increase the ATF transfer capacity. The pumping capacity after enhancement is expected to be 593 KL per hour as against the existing level of 275 KL per hour. As per projections, the estimated daily consumption volume of jet fuel will exceed the received volume. As such new jet fuel delivery options are to be considered to cover the shortage in supply. Supply lines shall be upgraded to ensure a minimum rate equal to or exceeding the daily jet fuel consumption that can be safely supplied to the fuel farm.

5.1.3.3. **Construction of New ATF Storage Tanks:** With revamp of T1 there will be requirement of increased number of stands equipped with Fuel Hydrant System. DAFFPL has undertaken the project for setting up of Fuel Hydrant System at Terminal 1. During the tenure of testing and commissioning of T1 Hydrant System only Four tanks of 6060 KL capacity will be available for operations. It would be difficult for operation of complete T3, T2 and Cargo Terminals with 04 No of Tanks. In addition to the existing four storage tanks two additional storage tanks are proposed during third control period. The above upgradation of IOCL Receipt Header will also add an additional benefit to ensure a minimum supply rate equal to or exceeding the daily jet fuel consumption.

5.1.3.4. **Construction of New Administrative Building:** The current facility of administrative building measuring 13,500 Sqft is not in good state and based on analysis of external consultant hired by DAFFPL, the beams and columns are found to be deficient, considering this there is a requirement of construction of new administrative building. The expenditure incurred during the second control period under Buildings consists of, construction of the following:

(a) Transformer room

(b) Firewater Pump house

(c) Store room

(d) Driver rest room

(e) Control room

(f) Sewage and Electrical works

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

5.1.3.5. **Aviation Fuel Hydrant Pump sets:** The current non-inverter duty type motors have been in use for about 28 years which is theoretically more than the normal expected efficient life cycle of motors i.e. 25 years. As the existing motors of VFD operated pump sets are of non-inverter duty type (i.e. general purpose motors) without insulated bearing at NDE, it has been observed for quite some time in the past that bearings of these motors were getting heated up and ultimately getting damaged and thereby affecting the smooth operation of the Fuel Facility.

5.1.3.6. **Safety Considerations:** Following items have been envisaged for Safety within the Fuel Farm Premises:

a) Revamping of existing Fire Fighting Control system and redesign the system.
b) Designing, Engineering and Detailing for Smoke Detection & Water Sprinkler System
c) Adequate lighting in operational area
d) Gas Flooding System in Control Room
e) Upgradation of CCTV system

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

Table no.23 CWIP during the Third Control Period as submitted by DAFFPL

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

Table no.24 RAB during the Third Control Period as submitted by DAFFPL

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

5.2.1. Company has considered a suitable timeline for their capex project schedule, but the following factors are beyond their control which may cause delay in achieving the capex target.

5.2.2. Any restrictions on construction from state government or central government due to increase in pollution levels in Delhi NCR. During FY20 Supreme Court of India banned the construction activities in Delhi NCR by from 26th October 2019 to 17th December 2019 due to rising levels of pollution.

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

5.2.4. Operational hurdles and security constrain of an operating airport.

5.3. Authority's examination of the Capital Expenditure for the Third Control Period:-

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

(i) Construction of new administrative building

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

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

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

Table no.25 Details of Capital Expenditure proposed to be considered by the Authority for the third control period:

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

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

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

5.4. **Depreciation:**

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

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

Table no. 26 Depreciation rates adopted by DAFFPL during Third Control Period

Particulars	**Useful life (# years)**	**Rate**	**Useful life (# years)**	**Rate**
	Existing assets		Additional assets	
Building	21	4.70%	13	7.69%
Plant and Equipment	15	6.67%	13	7.69%
Computer and Data Processing Unit	100	1.00%	3	33.33%
Furniture and Fixtures	10	10.00%	10	10.00%
Vehicles	8	12.50%	8	12.50%
Dead stock	-	-	-	-

5.4.2. Depreciation is considered based on guidance provided under Companies Act, 2013 based on their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

5.4.3. DAFFPL has been granted a concession right for operating the integrated fuel farm for 25 years, at the end of concession period DAFFPL have to transfer all the assets at 'Nil' cost to DIAL. Accordingly, the useful life of any asset of DAFFPL would be maximum up to the end of concession period i.e. 30th June 2035. As per depreciation schedule of Companies Act 2013, depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Further, the useful life of an asset is the period over which an asset is expected to be available for use by an entity.

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

Table no.27 Net Block during Third Control Period as submitted by DAFFPL

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

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

Table no.28 RAB for the Third Control Period as submitted by DAFFPL

Particulars (in Rs. Lakhs)	**FY 21-22**	**FY 22-23**	**FY 23-24**	**FY 24-25**	**FY 25-26**	**Total**
Opening RAB	14,643	14,686	15,159	41,958	37,754	124,200
Add: Financing allowance	1,231	1,846	184	0	0	3,261
Add: Asset Capitalization	885	905	31,100	300	200	33,390
Less: Depreciation	2,073	2,278	4,485	4,505	4,516	17,857
Closing RAB	**14,686**	**15,159**	**41,958**	**37,754**	**33,438**	**142,995**

5.5. Authority's examination of the Depreciation for the Third Control Period:-

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

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

Table no.29 Useful life and Depreciation rates proposed to be considered by the Authority during for the third control period

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

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

Table no. 30 Depreciation amount proposed to be considered by the Authority for the third control period

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

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

5.5.5. The Authority noted that DAFFPL has claimed Financing Allowance Rs 2856 lakhs on the CWIP in addition to the IDC of Rs 1639 lakhs during the third control period. The Authority is of the view that such allowance is essentially the IDC for a project and should be provided only on the Debt portion of the project fund. Accordingly the Authority has considered only the IDC amounting to Rs 1639 lakhs.

Table no. 31 CWIP re-calculated by the Authority for the third control period.

Particulars (in Rs. Lakhs)	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Opening CWIP	11,294	17,684	26,568	0	0	55,546
Capex during the period	7,275	9,789	3,725	300	200	21,289
Commissioned assets	(885)	(905)	(30,293)	(300)	(200)	(32,583)
Closing CWIP	**17,684**	**26,568**				

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

Table no. 32 Regulated Asset Base proposed to be considered for third control period by the Authority

Particulars (in Rs. Lakhs)	**FY 21-22**	**FY 22-23**	**FY 23-24**	**FY 24-25**	**FY 25-26**	**Total**
Opening RAB	13501.84	12,584.84	11,582.84	38,080.70	34,583.85	110,334.07
Add: Asset Capitalization	885.00	905.00	30,293.00	300.00	200.00	32,583.00
Less: Depreciation	1,822.00	1,887.00	3,795.14	3,796.85	3,806.13	15,107.12
Closing RAB	**12,584.84**	**11,582.84**	**38,080.70**	**34,583.85**	**30,977.72**	**127,809.95**
Average RAB	**13,043.34**	**12,083.84**	**24,831.77**	**36,332.275**	**32,780.785**	**119,072.01**

5.6. Right of Use Assets

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

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

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

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

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

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

5.7. Authority's Proposals regarding RAB and Depreciation for the Third Control Period

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

5.7.1. The Authority proposes to consider the revised depreciation for the third control period as per Table no.30.

5.7.2. The Authority proposes to consider the Regulated Asset Base of DAFFPL for the third Control period as per Table no.32.

5.7.3. The Authority proposes to true up Depreciation, RAB and Financing allowance during the Tariff determination for the fourth control period.

5.7.4. The Authority proposes to re work the RAB of DAFFPL, Delhi for the fourth control period by reducing the RAB by 1% of the delayed cost of the projects, if DAFFPL fails to Commission and capitalize the projects as per MYTP submitted.

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

6. FAIR RATE OF RETURN FOR THE THIRD CONTROL PERIOD

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

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

Table no.33 FroR adopted by DAFFPL for the Third Control Period

Particulars (in Rs. Lakhs)	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**
Debt	9,470	12,743	11,786	9,428	7,071
Equity	27,505	34,054	38,156	43,251	49,080
Debt+ Equity	36,976	46,798	49,942	52,679	56,151
Cost of debt	8.05%	8.05%	8.05%	8.05%	8.05%
Cost of Equity	18.00%	18.00%	18.00%	18.00%	18.00%
FroR	**15.94%**	**15.94%**	**15.94%**	**15.94%**	**15.94%**

Cost of Equity

6.2. As per clause AI.5.2.3 of the CGF guidelines in accordance with the Direction No. 4/2010-11, the "Service Provider(s) shall submit its assessment of cost of equity based on the Capital Asset Pricing Model (CAPM)."

The CAPM model states that:

$Re = Rf + \beta(R \quad - Rf)$

Where,

Re is the cost of equity;

Rf is the risk-free rate;

β is the market volatility; and

Rm is the market risk

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

Table no.34 Basis for Cost of Equity as submitted by DAFFPL.

Cost of Equity		
Variable	**Gearing Based on Target Gearing Ratio**	**Basis**
Asset Beta	0.591199	The equity betas for listed airports were estimated from the comparables' set, viz. AoT, MAHB and Sydney Airport from Bloomberg. The equity betas were un-levered to find the corresponding asset betas. The proximity score weighted average unlevered asset beta for DIAL was arrived at as 0.591199.
Gearing Ratio (D/E)	0.9231	As a benchmark, the Indian Infrastructure space was examined and it was found that infrastructure firms employ, on average, a market debt to (debt + equity) ratio of 47.86%. The estimate from this analysis is reasonably close to the 48% gearing ratio used on average by international airports
Gearing Ratio (D/D+E)	48.00%	
Equity Beta	0.9732	The proximity score weighted asset beta of DIAL, was re-levered to calculate equity beta whose value is arrived at 0.9732.
Risk Free Rate	7.56%	10-Year GOI Bonds, 18-Year Daily Avg.
Equity Risk	8.06%	Equity Risk Premium (ERP) was derived as the simple average of

Premium		the three independent study estimates (historical average, based on CDS and bond ratings, forward looking estimate as suggested by Grant Thornton) i.e. 8.06%
DIAL's Cost of Equity	15.41%	Risk free rate + Equity Risk Premium*Equity beta
Additional Risk for DAFFPL	2.5%	Details in Para 6.7
DAFFPL's Cost of Equity	18.00%	

Source: DIAL Consultation Paper No. 15/2020-21 Table No 86

6.4. The risk-free rate and market risk rates can be obtained based on government bonds and 5-year CAGR of Sensex. However, since there is no listed 31perati service provider in India, suitable beta value for DAFFPL's operations cannot be arrived at.

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

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

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

6.5.3. Since DAFFPL depends on airport operator for utilities and other complementary services, any failure by the Airport Operator in providing the same would directly impact DAFFPL's operations;

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

6.5.5. Execution of an Integrated Fuel Farm project at the brownfield airport will require more precautions and clearances from regulatory bodies. This is likely to result in hindrance in project execution;

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

6.6. Due to the higher levels of risk involved in DAFFPL's operations, business conditions, and environment, DAFFPL proposes 18% Cost of Equity rate to be considered for the 3rd control period. It may also be noted that, as per Concession & operating agreement, the return on equity has also been agreed at 18%.

Cost of Debt

6.7. The project loan has been sanctioned by State Bank of India at their MCLR rate of 8.05% (variable) amounting to Rs. 165 Crores mainly to fund the requirements of T1 hydrant expansion project. This loan would significantly help in leveraging the company's financials. Rate would change based on prevailing rate as on renewal date (which is done annually). During November 2020, due to COVID-19 impact the bank rates have been at nearly all time low and the rate got revised to 7.05%. For a period of 5 years i.e. the third control period we have assumed the average borrowing rate to be 8.05% i.e. the pre-COVID borrowing rate which is significantly lower than our actual borrowing cost for the second control period.

Debt-Equity Ratio

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

Table no.35 DE Ratio during Third Control Period as submitted by DAFFPL

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

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

Table no.36 FroR during the Third Control Period as adopted by DAFFPL

Particulars (in Rs. Lakhs)	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Total shareholder's funds	27,506	34,055	38,156	43,251	49,079
Debt	9,470	12,743	11,786	9,428	7,071
Cost of equity	18.00%	18.00%	18.00%	18.00%	18.00%
Cost of debt	8.05%	8.05%	8.05%	8.05%	8.05%
Applicable FROR for the control period	**15.94%**	**15.94%**	**15.94%**	**15.94%**	**15.94%**

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

6.10. **Cost of Equity**

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

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

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

6.11. **Cost of Debt**

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

6.12. Fair Rate of Return

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

Table no.37 Revised FroR proposed to be considered by the Authority for the third control period

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

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

6.13. **Security Deposit**

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

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

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

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

Table no.38 Return on SD proposed by DAFFPL for the Third Control Period.

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

Table no.39 Return on SD proposed to be considered for the Third Control Period by the Authority.

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

6.14. **Authority's proposal regarding FRoR for the third control period**:

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

6.14.1. The Authority proposes to maintain the cost of equity at 14% for the third control period

6.14.2. The Authority proposes to adopt the cost of debt at 7.05% for the third control period

6.14.3. The Authority proposes to adopt the revised FRoR as calculated in Table no.37 for the Third control period.

6.14.4. The Authority proposes to maintain the return on Security Deposit at 5%

6.14.5. The Authority proposes to adopt the security deposit amount as per Table no.39

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

7. O&M FOR THE THIRD CONTROL PERIOD

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

7.1. As provided in Clause 9.4 of the CGF Guidelines mentioned in Direction No. 04/2010-11, the operational and maintenance expenditure incurred by the Service provider(s) include expenditure incurred on security, operating costs, other mandated operating costs and statutory operating costs.

7.2. Operation and Maintenance expenditure submitted by DAFFPL has been segregated into:

7.2.1. Employee costs

7.2.2. Utilities and Outsourced expenses

7.2.3. Repair and Maintenance expenses

7.2.4. Administration and General expenses

7.2.5. Other O&M expenses

7.3. The following table contains the proposed operation and maintenance expenditure for the 3rd control period:

Table no.40 Details of Operating Expenses for the Third Control period as submitted by DAFFPL

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

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

Table no.41 Assumption made by DAFFPL in projecting Opex

S No	Item	Assumptions and basis
A	**Employee Expenses**	Based on inflation adjustment and to ensure continuity of employees having experience in the field of oil and gas, it is expected that there would be at least 10% average annual salary increase going forward
B	**Operating expenses**	Operating expenses were deferred during 2020-21 on account of liquidity concerns caused due to business disruption from Covid-19 pandemic. Subsequently it is estimated that the operating expenses would gradually come back to pre-covid levels since the Delhi fuel farm is a very old location and regular maintenance activities are required to ensure smooth operations. There has been a major increase in operating expenses from 2023-24 after commissioning of T1 Hydrant line. There would be additional manpower and other maintenance budget requirement for the new asset which would be required to be operated. Further with growing age of T2 & T3 terminals, the maintenance expenses are also increasing.
C	**Other expenses**	Employee benefit expense projected at 10.0% p.a. escalation on FY21. During 2020-21 insurance premium which is the major component of other expenses increased more that 40% due to change in guidelines by IRDAI (Insurance Regulatory). Subsequently during 2023-24 again once T1 hydrant system is commissioned, there would be additional outgo of insurance premium.

7.5. As per the Judgement of Telecom Disputes Settlement & Appellate Tribunal New Delhi, dated 16th December 2020 with reference to AERA Appeal No.8 of 2018, AERA Appeal No.3 of 2014 and AERA Appeal No.1 of 2014 the Telecom Disputes Settlement & Appellate Tribunal New Delhi has directed that "*The decision of the Authority to not allow CSR expenditure as a cost of the Airport Operator is not proper and is set aside. The Authority shall pass consequential orders so as to prevent loss of or reduction in the determined fair return to the equity holders. Necessary truing-up exercise shall be done accordingly*". Considering this the CSR expenses have been considered for computing True-up and for computation on Tariff for this Control period.

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

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

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

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

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

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

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

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

Table no.42 Operating Expenses including CSR proposed to be considered by the Authority for the Third Control Period

Particulars (Rs. In lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	**Total**
Employee Expenses	193.00	207.48	223.04	239.77	257.75	**1121.04**
Operating Expenses	1978.90	2137.21	2393.68	2585.17	2791.98	**11886.94**
Other Expenses	176.00	193.60	232.32	255.55	281.10	**1138.57**
Interest on working capital loan	56.00	0	0	0	0	**56.00**
CSR	76.43	30.23	3.76	8.23	8.23	126.87
Sub Total	**2480.33**	**2568.52**	**2852.80**	**3088.72**	**3339.06**	**14329.43**
Lease Expenses	2461.56	2646.18	2844.65	3057.99	3287.34	**14297.72**
Grand Total	**4941.89**	**5214.70**	**5697.45**	**6146.71**	**6626.40**	**28627.15**

7.8. **Authority's Proposal regarding FroR for the Third Control Period**

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

7.8.1. The Authority proposes to consider the Operating and Maintenance expenditure as per Table no.42

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

8. PROJECTED VOLUMES FOR THE THIRD CONTROL PERIOD

8.1. Following are the projected fuel off take volumes for the 3rd control period:

Table no.43 Fuel volume projected by DAFFPL for the Third control Period

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

8.2. The above projections are made based on the recovery expectations given Aviation experts including the projections given by IATA wherein they have stated that pre-COVID volumes are expected to be by 2023-24. Since FY 2020-21 was an unusual year due to the impact of the Covid-19 pandemic on air traffic, the escalation rates have been adjusted accordingly. In 2020-21 we have reached nearly 50% of Pre-COVID volumes. Further going forward, once T1 gets commissioned in 2023-24 (June), additional volume which is currently handled by oil marketing companies at T1 would get added to DAFFPL volumes.

8.3. As per the current proposition Jewar Airport is expected to be commissioned in 2023-24. So, it is expected that there would be a definite impact on the volume. Since the said airport is going to be in the vicinity of NCR and the IGI Airport, there can be a significant change in the volumes. Further with the increasing use online meeting platforms there is a significant risk of reduction in business meetings & travels. This is going to impact the ATF fuel consumption pattern.

8.4. Volumes pertaining to operations from T1 were already shifted to T2 hence it was added to DAFFPL business since 2017-18. Therefore we expect that airlines which were originally operating out of T1, will move back to T1 once the T1 will be fully operational. Hence there may not be that significant volume increase after the completion of hydrant system in T1. However, it may have long term benefits for secured operations of the Airport. The volume break-up is as given below for reference:

Table no.44 Historical volumes handled during Second Control Period as submitted by DAFFPL

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

Table no.45 Throughput volumes projected for the Third control Period by DAFFPL

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

8.5. Authority's examination of the Projected Volumes for the Third Control Period:-

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

Table no.46 Growth Rate adopted during the Third Control Period regarding Throughput volume

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

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

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

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

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

Table no.47 Throughput volume proposed to be adopted by the Authority for the Third Control Period

In (TKL)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Yearly volume	1184	1658	2468	2591	2721	10622

8.6. Authority's proposal regarding Fuel Throughput (Volumes) for the Third Control Period

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

8.6.1. The Authority proposes consider the projected Fuel Throughput (Volume) for determination of tariff for the third control period as per Table no.47

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

9. OTHER INCOME FOR THE THIRD CONTROL PERIOD

9.1. DAFFPL has projected the other for the third control period as given below for the Third Control Period

Table no.48 Other Income projected by DAFFPL for the Third Control Period

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

9.2. Authority's examination on other income

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

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

9.2.3. This is also subject to true up in the next control period.

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

Table no.49 Other Income proposed to be adopted for the Third Control Period by the Authority

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

9.3. Authority's proposal regarding Other Income for the Third Control Period

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

9.3.1. The Authority proposes to consider other income as per Table no.49 for the third control period.

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

10. TAXATION FOR THE THIRD CONTROL PERIOD

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

10.1. As per clause 9.5 of CGF Guidelines, taxation represents payments by the Service Provider in respect of corporate tax on income from assets and services taken into consideration for determination of ARR.

10.2. Following are the tax liabilities for DAFFPL for the 3rd control period:

Table no.50 Income Tax as projected by DAFFPL for the Third Control Period

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

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

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

10.4.1. After considering the changes proposed in the building blocks of tariff determination, taking in to account the revised FIC charges proposed, the revised tax liability proposed to be considered for the third control period is given below:

Table no.51 Income Tax proposed to be adopted for the Third Control Period by the Authority

Particulars (Rs. In Lakhs)	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	Total
Revised Income	5920.00	6881.15	9730.73	9704.90	9682.24	41919.02
Expenditure (Opex)	4865.46	5184.47	5693.69	6138.48	6618.17	28500.27
Profit before Depreciation	1054.54	1696.68	4037.04	3566.42	3064.07	13418.75
Depreciation - IT	1189	1133	3366	5214	4466	15368.00
PBT	-134.46	563.68	671.04	-1647.58	-1401.93	-1949.25
Carried forward loss	0.00	134.46	0.00	671.04	-976.54	-171.04
Profit subject to Tax	-134.46	429.22	671.04	-976.54	-2378.47	-2389.21
Income Tax	0.00	108.03	168.90	0.00	0.00	276.93

10.5. **Authority's Proposal regarding Income Tax for the Third Control Period**

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

10.5.1. The Authority proposes considers Income Tax for determination of tariff for the 3rd Control Period as per Table no. 51;

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

11. ARR FOR THE THIRD CONTROL PERIOD

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

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

Table no.52 Calculation of ARR for the Third Control Period as submitted by DAFFPL

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

11.2. Authority's examination of the Aggregate Revenue Requirement for the Third Control Period

11.2.1. Considering the changes proposed in various building blocks of tariff determination the revised ARR for the third control period has been worked out in the following table.

11.2.2. The Authority observes that FIC will have to be decreased from the existing level of Rs.609/kl to Rs.355/kl to meet the ARR requirement. This is mainly due to the excess recovery during the second control period which is adjusted in the third control period.

Table no.53 ARR proposed to be considered by the Authority for the Third Control Period

Particulars (Rs.in lakhs)	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Average RAB (*Refer Table no.32)*	13,043.34	12,083.84	24,831.77	36,332.28	32,780.79	1,19,072.01
FRoR (*Refer Table no.37*)	12.22%	12.11%	12.36%	12.75%	13.13%	62.57%
Return on RAB	1593.90	1463.35	3069.21	4632.37	4304.12	15062.94
Return on SD (*Refer Table no.39*)	812.29	375.00	375.00	375.00	375.00	2312.29
Depreciation (Refer Table no.30)	1822	1887	3795.14	3796.85	3806.13	15107.12
O & M (Refer Table no.42)	4865.46	5184.47	5693.69	6138.48	6618.17	28500.27
Income Tax (Refer Table no.51)	0.00	108.03	168.90	0.00	0.00	276.93
CSR Expenses (Refer Table no.42)	76.43	30.23	3.76	8.23	8.23	126.87
Gross Aggregate Revenue Requirement	9170.07	9048.08	13105.69	14950.93	15111.65	61386.43

Less Other Income (Refer Table no.49)	40.00	43.00	46.23	49.70	53.43	232.36
Excess Recovery in SCP	14729.95					
Net ARR Recoverable	-5599.88	9005.08	13059.46	14901.23	15058.22	46424.12
Discounting Factor	1.0000	0.8888	0.7899	0.7021	0.6240	
NPV of ARR	-5599.88	8003.52	10316.02	10461.70	9396.09	32577.46
Current FIC Rate	609.00	609.00	609.00	609.00	609.00	
Fuel volume in lakhs KL (Refer Table no.47)	11.84	16.58	24.68	25.91	27.21	106.22
FIC Income at current rate	7210.56	10097.22	15030.12	15779.19	16570.89	64687.98
Revised Rate	500.00	415.03	394.28	374.56	355.83	
Revised FIC Income	5920.00	6881.15	9730.73	9704.90	9682.24	41919.02
NPV of Revised Income	5920.00	6115.82	7686.56	6813.52	6041.57	32577.46

Based on the detailed analysis and approach on each building blocks, The Authority noted that the ARR recoverable calculated as above results in a one time decrease of 35 % on the existing tariff. However, in order to reduce the impact of drastic reduction in the tariff, the Authority proposes to stagger the decrease over the entire third control period. The year wise decrease from the existing tariff during the third control period are given below:-

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Decrease %	18%	32%	35%	38%	42%

Table No. 54 - FIC Rate proposed to be considered by the Authority for Third Control Period

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revised rate (In INR)	500.00	415.03	394.28	374.56	355.83

11.3. Authority's proposal regarding ARR and Tariff for the Third control Period

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

11.3.1. The Authority proposes to consider the Aggregate Revenue Requirement for the Third Control Period as calculated in Table no.53.

11.3.2. The Authority proposes FIC rate for the Third Control Period as per Table no.54.

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

12. FUEL THROUGHPUT AND REVENUE FROM AERONAUTICAL SERVICES

12.1. Following table summarizes the projected fuel throughput during the 3rd control period:

Table no.55 Details of Year wise Throughput volume

Particular (KL)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Uplift of fuel in a year	1,184,199	1,657,879	2,468,000	2,591,400	2,720,970	10,622,448

12.2. Following table summarizes the project revenue from aeronautical services during the 3rd control period:-

Table no.56 Revenue from FIC during the Third Control Period

Particular (in INR lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Total revenue	5920.00	6881.15	9730.73	9704.90	9682.24	41919.02

12.3. Following table consists the assumptions and basis for the aeronautical revenue projected by DAFFPL.

Table no. 57 Basis of calculation of FIC during Third Control Period

S No.	Particulars	Assumptions/Basis
1	Fuel Revenue	Revenue from FIC has been projected on the basis of the projected fuel offtake volumes for the 3rd control period assuming the tariff as given in table No 54 above for the 3rd control period.

13. LIST OF TABLES

14. SUMMARY OF PROPOSALS

Para No.	Details of Proposals	Page No
3.16	3.16.1 The Authority proposes to adopt "Price Cap Approach" on 'Single Till' basis for Tariff determination of DAFFPL, Delhi for the 3rd Control Period.	8
4.24	Authority's Proposal regarding True up for the second control period 4.24.1 The Authority proposes to consider depreciation for the second control period as per Table no. 8 4.24.2 The Authority proposes to true up the Regulatory Asset Base as per Table no.9 4.24.3 The Authority proposes to consider Security Deposit as per Table no.12 and also proposes to consider a nominal return of 5% on the same for the true up of second control period. 4.24.4 The Authority proposes to consider Operational expenses including CSR for true up of second control period as per Table no.14 4.24.5 The Authority proposes to consider the lease payments during the entire second control period as operating expenses. 4.24.6 The Authority proposes to consider Income Tax for the second control period as per Table no.16 4.24.7 The Authority proposes to consider the Other Income for true up of second control period as per Table no.18 4.24.8 The Authority proposes to true up FRoR for the second control period as per Table no.20 4.24.9 The Authority proposes to true up the Aggregate Revenue Requirement of DAFFPL for the second control period as per Table no.21 and also proposes to consider the claw back of Rs. 14729.95Lakhs for adjustment in the third control period.	20
5.7	Authority's Proposals regarding RAB and Depreciation for the Third Control Period 5.7.1 The Authority proposes to consider the revised depreciation for the third control period as per Table no.30. 5.7.2 The Authority proposes to consider the Regulated Asset Base of DAFFPL for the third Control period as per Table no.32. 5.7.3 The Authority proposes to true up Depreciation, RAB and Financing allowance during the Tariff determination for the fourth control period. 5.7.4 The Authority proposes to re work the RAB of DAFFPL, Delhi for the fourth control period by reducing the RAB by 1% of the delayed cost of the projects, if DAFFPL fails to Commission and capitalize the projects as per MYTP submitted. 5.7.5 The Authority proposes that the lease payments made to the airport operator will be treated as operating expenses during the third	28

	control period.	
6.14	Authority's proposal regarding FRoR for the third control period: 6.14.1 The Authority proposes to maintain the cost of equity at 14% for the third control period 6.14.2 The Authority proposes to adopt the cost of debt at 7.05% for the third control period 6.14.3 The Authority proposes to adopt the revised FRoR as calculated in Table no.37 for the Third control period. 6.14.4 The Authority proposes to maintain the return on Security Deposit at 5% 6.14.5 The Authority proposes to adopt the security deposit amount as per Table no.39 6.14.6 The Authority also proposes to true up FRoR during the tariff determination for the fourth control period.	34
7.8	Authority's Proposal regarding FRoR for the Third Control Period 7.8.1. The Authority proposes to consider the Operating and Maintenance expenditure as per Table no.42 7.8.2. The Authority also proposes to true up the Operation and Maintenance expenditure during the tariff determination for the fourth control period	37
8.6	Authority's proposal regarding Fuel Throughput (Volumes) for the Third Control Period 8.6.1. The Authority proposes consider the projected Fuel Throughput (Volume) for determination of tariff for the third control period as per Table no.47 8.6.2. The Authority also proposes to true up the Fuel Throughput (Volume) during the tariff determination for the next control period.	39
9.3	Authority's proposal regarding Other Income for the Third Control Period 9.3.1. The Authority proposes to consider other income as per Table no.49 for the third control period. 9.3.2. The Authority also proposes to true up other income during the tariff determination for the Fourth control period.	40
10.5	Authority's Proposal regarding Income Tax for the Third Control Period 10.5.1.The Authority proposes considers Income Tax for determination of tariff for the 3rd Control Period as per Table no. 51; 10.5.2.The Authority also proposes to True up Income Tax during the tariff determination for the Next Control Period	41
11.3	Authority's proposal regarding ARR and Tariff for the Third control Period 11.3.1 The Authority proposes to consider the Aggregate Revenue Requirement for the Third Control Period as calculated in Table no.53	43

	11.3.2 The Authority proposes FIC rate for the Third Control Period as per Table no.54 11.3.3 The Authority also proposes to true up ARR during the tariff determination for the fourth Control period.	

15. STAKEHOLDERS' CONSULTATION TIMELINE

15.1 In accordance with the provision of Section 13(4) of the AERA Act, 2008, the proposals contained in the Chapter 14 – Summary of proposals read with the relevant discussion in the other chapters of the paper is hereby put forth for Stakeholders' Consultation.

15.2 For removal of doubts, it is clarified that the contents of this consultation paper may not be construed as any Order or Direction by the Authority. The Authority shall pass an Order, in the matter, only after considering the submissions of the stakeholders' in response hereto and by making such decisions fully documented and explained in the tariff Order in terms of the provisions of the Act.

15.3 The Authority welcomes written evidence-based feedback, comments and suggestions from stakeholders on the proposal made in Chapter 14 above, latest by **26/08/2021**

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(Chairperson)

Annexure-I

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

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

DELHI AVIATION FUEL FACILITY PRIVATE LIMITED

(Joint Venture of IOCL, BPCL & DIAL)

DAFFPL

Regd. Office : Aviation Fuelling Station, Shahbad Mohammad Pur, Near Dwarka Sector-8 Metro Station Indira Gandhi International Airport, New Delhi-110061, India

BEFOFE THE AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

AT NEW DELHI

SUBMISSION OF MULTI YEAR TARIFF PROPOSAL FOR AND ON BEHALF OF:

M/S DELHI AVIATION FUEL FACILITY PRIVATE LIMITTED

I, Manish Parikh aged thirty nine years (39) resident of New Delhi, India acting in my official capacity as Chief Financial Officer in M/s Delhi Aviation Fuel Facility Pvt. Ltd. having its registered office at Aviation Fuelling Station, Shahbad Mohammadpur, IGI Airport, New Delhi - 110061 do hereby state and affirm as under that :

1. That I am duly authorized to act for and on behalf of M/s Delhi Aviation Fuel Facility Pvt. Ltd. in the matter of making this submission before the Airports Economic Regulatory Authority of India, New Delhi ('the Authority');

2. I am competent to make this submission before the Authority;

3. I am making this submission in my official capacity and the facts stated herein are based on official records;

4. The contents of this submission which include inter alia (i) Business Plan; (ii) Information relating to the Regulatory Building Blocks; (iii) Competition Assessment; (iv) Historical and Forecasted Volumes; and (v) Historical Revenue, are correct and true to my knowledge and belief and nothing material has been concealed there from.

For **Delhi Aviation Fuel Facility Pvt Ltd**

M Parikh

Delhi Aviation Fuel Facility Private Limited New Delhi

Authorized Signatory

Place : New Delhi

Date : 10.02.2021

BEFOFE THE AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

AT NEW DELHI

SUBMISSION OF PROPOSAL FOR DETERMINATION OF ANNUAL TARIFF FOR AND ON BEHALF OF :

M/S DELHI AVIATION FUEL FACILITY PRIVATE LIMITTED

I, Manish Parikh aged thirty nine years (39) resident of New Delhi, India acting in my official capacity as Chief Financial Officer in M/s Delhi Aviation Fuel Facility Pvt. Ltd. having its registered office at Aviation Fuelling Station, Shahbad Mohammadpur, IGI Airport, New Delhi - 110061 do hereby state and affirm as under that :

1. That I am duly authorized to act for and on behalf of M/s Delhi Aviation Fuel Facility Pvt. Ltd. in the matter of making this submission before the Airports Economic Regulatory Authority of India, New Delhi ('the Authority');

2. I am competent to make this submission before the Authority;

3. I am making this submission in my official capacity and the facts stated herein are based on official records;

4. The contents of the Annual Tariff Proposal submission which include inter alia

   (i) Estimated Maximum Allowed Yield per Unit and the proposed detailed break-up of Tariff(s) (in context to Estimated Maximum Allowed Yield per Unit where determined by the Authority) where the Authority has specified a price cap approach for the duration of the Control Period, pursuant to Clause 3.2;

   (ii) Justifications, are correct and true to my knowledge and belief and nothing material has been concealed there from.

For **Delhi Aviation Fuel Facility Pvt Ltd**

Delhi Aviation Fuel Facility Private Limited New Delhi

Authorized Signatory

Place : New Delhi

Date : 10.02.2021

Delhi Aviation Fuel Facility Private Limited (DAFFPL)

Multi Year Tariff Proposal

10 February, 2021

Contents

List of Abbreviations

AERA	Airport Economic Regulatory Authority of India
ARR	Aggregate Revenue Requirement
BPCL	Bharat Petroleum Corporation Limited
CAPM	Capital Asset Pricing Model
CGF	Cargo Facility, Ground-handling & Fuel Supply Services
FRoR	Fair Rate of Return
IOCL	Indian Oil Corporation Limited
JVC	Joint Venture Company
DAFFPL	Delhi Aviation Fuel Facility Private Limited
DIAL	Delhi International Airport Limited
MoCA	Ministry of Civil Aviation
MoP&NG	Ministry of Petroleum and Natural Gas
MYTP	Multi Year Tariff Proposal
PSU	Public Sector Undertakings
RAB	Regulated Asset Base

Units

INR / ₹	Indian National Rupee
KL	Kilo litre

1. Background

1.1. Delhi Aviation Fuel Facility Private Limited (DAFFPL) is a JVC between IOCL (37%), BPCL (37%) and DIAL (26%). DAFFPL undertakes the development, operation & maintenance of the fuel farm facility and fuel hydrant system at the IGI Airport pursuant to Concession & Operating Agreement (CA) between DAFFPL and DIAL for a period of 25 years from date of commencement of CA i.e. 01.07.2010. DAFFPL has submitted that the fuel farm facility is based on open access model wherein airlines may source their own fuel from any oil company and use the fuel farm's storage facilities at agreed price levels.

1.2. The Authority had considered the MYTP (for the second Control Period from 01.04.2016 to 31.03.2021) submitted by DAFFPL for providing fuel farm services at IGI Airport and issued Order No. 32/2017-18 dated 18.12.2017 which, inter alia, provided the following:

1.2.1. The infrastructure charge in respect of the fuel farm services provided by DAFFPL at IGI Airport for the second control period from 01.04.2016 to 31.03.2021 would be ₹609/ KL (inclusive of operator's fee);

1.2.2. The tariff for the second control period from 01.04.2016 to 31.03.2021 would be determined under price cap regulation.

1.3. DAFFPL is approaching the Authority with its MYTP seeking approval on tariff for FIC of ₹804 /KL for third control period (01.04.2021 to 31.03.2026). DAFFPL has suggested FY20 to be considered the base year instead of FY21 as base year as FY21 has been an abnormal year because of the COVID-19 pandemic affecting fuel off take of DAFFPL.

2. Methodology for Tariff Calculation

2.1. The methodology adopted by the Authority to determine Aggregate Revenue Requirement ("ARR") has been based on AERA Act, 2008 and the Airport Guidelines issued by AERA.

2.2. As stipulated in the CGF Guidelines in Direction 04/2010-11, which states the Authority shall follow a three-stage process for determining its approach to the regulation of a regulated service-

2.2.1. Materiality Assessment;

2.2.2. Competition Assessment;

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

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

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

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

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

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

2.4. The Authority deemed DAFFPL's fuel farm services to be "material" and "not competitive" during the 2nd control period's tariff application. Moreover, since the Authority noted that DAFFPL was set up essentially to provide common access to all suppliers of fuel and remains a monopoly provider of infrastructure of fuel supply, the Authority decided to determine tariff for fuel supply service under price cap regulation for the second control period.

2.5. Keeping in line with the second control period's approach, DAFFPL is submitting its MYTP under the price cap approach for the third control period. However, DAFFPL requests the Authority to consider a light touch approach basis the User Consultation and considering the capex plan during this control period.

2.6. The Authority determined the Aggregate Revenue Requirement (ARR) for the 3rd Control Period on the basis of the following Regulatory Building Blocks:

2.6.1. Fair Rate of Return applied to the Regulatory Asset Base (FRoR x RAB); plus

2.6.2. Depreciation (D); plus

2.6.3. Operation and Maintenance Expenditure (O); plus

2.6.4. Taxation (T); minus

2.6.5. Revenue from services other than aeronautical services (NAR).

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

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

$$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - 30\% \; of \; NAR_t$$

Where

‘t’ is the Tariff Year in the Control Period;

$\mathrm{ARR_t}$ is the Aggregate Revenue Requirement for year ‘t’;

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

$\mathrm{RAB_t}$ is the Regulatory Asset Base for the year ‘t’;

$\mathrm{D_t}$ is the Depreciation corresponding to the RAB for the year ‘t’;

$\mathrm{O_t}$ is the Operation and Maintenance Expenditure for the year ‘t’, which includes all expenditures incurred by the Airport Operator(s) including expenditure incurred on statutory operating costs and other mandate operating costs;

$\mathrm{T_t}$ is the corporate tax for the year ‘t’ paid by the airport operator on the aeronautical profits; and

$\mathrm{NAR_t}$ is revenue from services other than aeronautical services for the year ‘t’

2.8. The present value of total aeronautical revenue that is estimated to be realized each year during the control period at proposed tariff levels is compared with the present value of the ARR during the control period. In case the present value of estimated aeronautical revenue during the control period is lower than the present value of ARR during the control period, the airport operator may opt to increase the proposed tariff. In case the present value of estimated aeronautical revenue is higher than the present value of the ARR then the airport operator will have to reduce its proposed tariff.

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

3. True Up for 2nd control period (01.04.2016-31.03.2021)

3.1. True-up for the 2nd control period (01.04.2016-31.03.2021) has been calculated as the difference between:

3.1.1. Permissible fuel revenue calculated based on actual fuel off take and financials; and

3.1.2. Actual fuel revenue received by DAFFPL for the 2nd control period

3.2. Based on DAFFPL's working, the following is the true-up calculated for the 2nd control period:

Table 3-1

Particulars (in ₹ lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21
FRoR return on avg. RAB	2,546	2,322	2,113	3,871	5,649
Notional return allowed on SD by AERA	69	138	397	655	637
Depreciation	2,496	2,454	2,949	4,699	4,491
Operating expenses	2,312	2,308	2,249	2,451	2,412
Lease payment	1,723	1,852	1,981	-	-
Interest on working capital loan	42	55	142	177	153
Taxes	2,539	3,044	3,463	1,643	293
Less: Interest income on FD	(3)	(2)	(131)	(172)	-
Less: 30% of non-aero revenue	(93)	(61)	(60)	(35)	(36)
Actual ARR: Based on RAB working	11,631	12,110	13,102	13,290	13,598
Discounted ARR	18,939	17,458	16,722	15,011	13,598
Discounted ARR for the control period	**81,729**				
Actual volume (in KL)	1,806,135	2,101,535	2,382,854	2,368,398	1,200,000
Discounted fuel volumes for the control period (in KL)	**12,886,874**				
Tariff for the control period	**634**				

3.3. Based on the working, DAFFPL earned a revenue of ₹647 crores during the second control period through FIC:

Table 3-2

Particulars (in ₹ lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21
ARR as per Actual tariff	13,477	15,832	17,991	14,424	7,308
Provision for FD	-	(379)	(3,447)	-	-
Provisions for Bad debt	-	(504)	(32)	-	-
ARR as per Actual tariff (adj.)	13,477	14,948	14,512	14,424	7,308
ARR as per actual tariff for the control period					64,668

3.4. Correspondingly, DAFFPL has observed a surplus of ₹39 crores for the second control period as follows:

Table 3-3

Particulars (in ₹ lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21
Actual volume (in KL) [A]	1,806,135	2,101,535	2,382,854	2,368,398	1,200,000
Tariff for the control period [B]	634	634	634	634	634
ARR as per true-up computation [A x B]	11,455	13,328	15,112	15,020	7,610
ARR as per actual tariff	**13,477**	**14,948**	**14,512**	**14,424**	**7,308**
Surplus (+) / shortfall (-)	(2,023)	(1,621)	600	597	302
Present value of surplus (+) / shortfall (-)	(3,293)	(2,336)	766	674	302
Present value of surplus (+) / shortfall (-) for the 2nd control period			**(3,886)**		

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

3.6. DAFFPL's actual ARR is in line with the projections approved by AERA (Order No. 32/2017-18 dated 18.12.2017) however, the discrepancies are attributed to impact of COVID-19 on aviation sector, wherein the strict lockdown was imposed on domestic and international travels.

3.7. During 2017, T2 got fully operational and lot of domestic flights were moved there from T1. Further in April 2018, again substantial Indigo & SpiceJet domestic flights moved to T2 & T3. Due to this volume of DAFFPL for the second control period increased and was not in line with the projections and due to this the actual recovery for the entire 5 years has been on a higher side and has been offered in the true-up.

3.8. With reference to DAFFPL's letter dated 16 December 2019, the DAFFPL has requested for considering WACC as fair return on security deposit wherein the AERA replied via letter dated 16 January 2020 and mentioned " Authority is in the process of formulating the policy on the issue raised by DAFFPL in their aforesaid letter and till finalisation on same, the decision as per Order No. 32/2017-18 shall continue". We request AERA to reconsider our request of FRoR return on security deposit. We once again reiterate that the deposit has been paid as a pre-condition for getting the concession rights. Further based on Ministry of Civil Aviation and subsequent order, since the airport operator fees (thru-put charges) has been withdrawn the deposit amount would come back to minimum threshold of Rs. 75 Crores. We request the Authority to take a considerate view on Security Deposit since its impact on our tariff is incredibly significant. DAFFPL is in the midst of a capex cycle and a low tariff would have impact on our cashflow significantly. The Authority in its earlier order had classified the significant Security Deposit amount as an unusual transaction. Considering this, DAFFPL has made sincere efforts for reducing SD amount as detailed below:

3.8.1. Initially DAFFPL was able to create an upper capping of Security Deposit amount to Rs. 285 Crores.

3.8.2. Further it was agreed with the Airport Operator (DIAL) for waiver of Security Deposit at Terminal 1 related volume.

3.8.3. Subsequently based on withdrawal of FTC, the deposit amount would now come down to minimum threshold of Rs. 75 Crores.

3.8.4. DAFFPL is still in discussion with the Airport Operator to further consider waiver of deposit and look for alternative mechanism.

3.9. The tariff order for CP-2 came on 18th December 2017 and was applicable from 01st January 2018. So, from 01st April 2016 to 31st December 2017, DAFFPL continued to charge Rs. 755 per KL. The order states that all the building blocks would be trued up in the third control up. We request the honourable regulatory authority to true-up the values from the date of the order i.e. 01st January 2018.

3.10. Finance cost included the finance cost on long term borrowings as well as the total capitalisation of interest cost.

3.11. The depreciation used for 2nd Control period is as per Companies Act, 2013 and reported in Audited Financial by DAFFPL is considered in true-up.

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

4. Regulatory Asset Base (RAB)

4.1. As stated in clause 9.2 of the CGF Guidelines in Direction 04/2010-11, RAB assets shall be all fixed assets proposed by the Service Provider(s), after providing for such exclusions therefrom or inclusions therein as may be determined by the Authority.

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

Table 4-1

Particulars (in ₹ lakhs)	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	Total
Buildings	500	-	-	300	-	**800**
Plant and Equipment	775	400	550	-	200	
Computers and Data Processing Unit	5	5	5	-	-	**15**
Furniture and Fixtures	5	100	5	-	-	**110**
Deadstock	-	2,500	-	-	-	**2,500**
T-1 (Project CWIP) P & M	5,400	5,900	3,000	-	-	**14,300**
Interest during construction	590	884	165	-	-	**1,639**
Total	**7,275**	**9,789**	**3,725**	**300**	**200**	**21,289**

4.3. The company's rationale for capex are:

4.3.1. **Setting Up of Aviation Fuel Hydrant System at Terminal 1 of IGI Airport:** Airport has planned for revamping of complete Terminal 1. As per the DIAL master plan, the capacity of T1 will be increased from 20 million to 40 million and departure Terminal, T1D and arriving Terminal, T1 C, will be merged and expanded. The expansion works will be carried out alongside flight operations at T1. DIAL requested DAFFPL to lay an ATF Hydrant System at T1 from our existing Fuel Farm. Proposal includes creation of 82 aircraft parking stands with Fuel Hydrant System. Accordingly, an agreement was executed between DAFFPL and L&T Limited for setting up of Aviation Fuel

Hydrant System at Terminal 1 in coordination with DIAL EPC Contractor. Earlier the work was planned as a Green Field Project and later it was decided to execute the works as brown field project in various phases. The completion timeline of the project is June 2023. DAFFPL is in process of a User Consultation with all the applicable users of the fuel farm.

4.3.2. **Laying of New Receipt Header:** Currently DAFFPL has dedicated product receipt pipelines from IOCL and BPCL, for other suppliers there is a provision of Tank Truck receipt. These three sources are taken to 4 inlet filters with 08" dia lines. Currently, IOCL are operating one 08 Inch diameter pipeline for transfer of ATF from IOCL terminal at Bijwasan to Fuel Farm which is unable to meet their current demand even after utilization of BPCL pipeline. To ensure uninterrupted supplies to IGI Airport, IOCL proposed to replace the existing pipeline with a new 16 Inches pipeline to increase the ATF transfer capacity. The pumping capacity after enhancement is expected to be 593 KL per hour. As per projections, the estimated daily consumption volume of jet fuel will exceed the received volume. As such new jet fuel delivery options are to be considered to cover the shortage in supply. Supply lines shall be upgraded to ensure a minimum rate equal to or exceeding the daily jet fuel consumption that can be safely supplied to the fuel farm.

4.3.3. **Construction of New ATF Storage Tanks:** With revamp of T1 there will be requirement of increased number of stands equipped with Fuel Hydrant System. DAFFPL has undertaken the project for setting up of Fuel Hydrant System at Terminal 1. During the tenure of testing and commissioning of T1 Hydrant System only Four tanks of 6060 KL capacity will be available for operations. It would be difficult for operation of complete T3, T2 and Cargo Terminals with 04 No of Tanks. In addition to the above upgradation of IOCL Receipt Header will also add an additional benefit to ensure a minimum supply rate equal to or exceeding the daily jet fuel consumption.

4.3.4. **Construction of New Administrative Building:** The current facility of administrative building measuring 13,500 SqFt is not in good state and based on analysis of external consultant hired by DAFFPL the beams and columns are found to be deficient, considering this there is a requirement of construction of new administrative building.

4.3.5. **Aviation Fuel Hydrant Pump sets :** The current non-inverter duty type motors have been in use for about 28 years which is theoretically more than the normal expected efficient life cycle of motors i.e. 25 years. As the existing motors of VFD operated pump sets are of non-inverter duty type (i.e. general purpose motors) without insulated bearing at NDE, it has been observed for quite some time in the past that bearings of these motors were getting heated up and ultimately getting damaged and thereby affecting the smooth operation of the Fuel Facility.

4.3.6. **Safety Considerations:** Following items have been envisaged for Safety within the Fuel Farm Premises:

a) Revamping of existing Fire Fighting Control system and redesign the system.
b) Designing, Engineering and Detailing for Smoke Detection & Water Sprinkler System
c) Adequate lighting in operational area
d) Gas Flooding System in Control Room
e) Upgradation of CCTV system

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

Table 4-2

Particulars (in ₹ lakhs)	**FY21-22**	**FY22-23**	**FY23-24**	**FY24-25**	**FY25-26**
Opening CWIP	12,102	18,492	27,376	-	-
Capex during the period	7,275	9,789	3,725	300	200
Commissioned assets	(885)	(905)	(31,100)	(300)	(200)
Closing CWIP	**18,492**	**27,376**	**-**	**-**	**-**

4.5. Following is the summary of the RAB during the 3rd control period:

Particulars (in ₹ lakhs)	**FY21-22**	**FY22-23**	**FY23-24**	**FY24-25**	**FY25-26**
Opening RAB	14,643	14,686	15,159	41,958	37,754
Financing allowances	1,231	1,846	184	-	-
Commissioned Assets	885	905	31,100	300	200
Depreciation	(2,073)	(2,278)	(4,485)	(4,505)	(4,516)
Disposals					
Closing RAB	**14,686**	**15,159**	**41,958**	**37,754**	**33,438**

4.6. Company has considered a suitable timeline for their capex project schedule, but the following factors are beyond their control which may cause delay in achieving the capex target.

4.6.1. Any restrictions on construction from state government or central government due to increase in pollution levels in Delhi NCR. During FY20 Supreme Court of India banned the construction activities in Delhi NCR by from 26th October 2019 to 17th December 2019 due to rising levels of pollution.

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

4.6.3. Operational hurdles and security constrain of an operating airport.

5. Depreciation

5.1. Following are the depreciation rates assumed for the third control period (in%):

Table 5-1 (New and existing assets)

Particulars	Useful life (# years)	Rate	Useful life (# years)	Rate
	Existing assets		Additional assets	
Buildings	21	4.70 %	13	7.69 %
Plant and Equipment	15	6.67 %	13	7.69 %
Computers and Data Processing Unit	100	1.00 %	3	33.33 %
Furniture and Fixtures	10	10.00 %	10	10.00 %
Vehicles	8	12.50 %	8	12.50 %
Deadstock	-	-	-	-

5.2. Depreciation is considered based on guidance provided under Companies Act, 2013 based on their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

5.3. DAFFPL has been granted a concession right for operating the integrated fuel farm for 25 years, at the end of concession period DAFFPL have to transfer all the assets at Nil cost to DIAL. Accordingly, the useful life of any asset of DAFFPL would be maximum up to the end of concession period i.e. 30th June 2035. As per depreciation schedule of Companies Act 2013, depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Further, the useful life of an asset is the period over which an asset is expected to be available for use by an entity.

5.4. Following is the summary of netblock during third control period

Table 5-2 (Net block)

Particulars (in ₹ lakhs)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Gross asset	32,526	33,431	64,531	64,810	64,067
Accumulated depreciation	(21,944)	(24,149)	(28,741)	(33,332)	(36,881)
Net block[1]	**10,582**	**9,281**	**35,790**	**31,478**	**27,185**

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

Table 5-3 (RAB)

Particulars (in ₹ lakhs)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Opening RAB	14,643	14,686	15,159	41,958	37,754
Add: Financing allowance	1,231	1,846	184	-	-
Add: Additions	885	905	31,100	300	200
Less: Depreciation	(2,073)	(2,278)	(4,485)	(4,505)	(4,516)
Closing RAB	**14,686**	**15,159**	**41,958**	**37,754**	**33,438**

[1] This is as per Company's Accounting Policy of depreciating the Deadstock. However, the same has been excluded in RAB workings.

6. Fair Rate of Return

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

Table 6-1

Particulars (in ₹ lakhs)	**FY21-22**	**FY22-23**	**FY23-24**	**FY24-25**	**FY25-26**
Debt	9,470	12,743	11,786	9,428	7,071
Equity	27,505	34,054	38,156	43,251	49,080
Debt + Equity	36,976	46,798	49,942	52,679	56,151
Cost of debt	8.05%	8.05%	8.05%	8.05%	8.05%
Cost of equity	18.00 %	18.00 %	18.00 %	18.00 %	18.00 %
FRoR	**15.94 %**	**15.94 %**	**15.94 %**	**15.94 %**	**15.94 %**

Cost of Equity

6.2. As per clause AI.5.2.3. of the CGF guidelines in accordance with the Direction No. 4/2010-11, the "Service Provider(s) shall submit its assessment of cost of equity based on the Capital Asset Pricing Model (CAPM)."

6.3. The CAPM model states that:

$$R_e = R_f + \beta(R_m - R_f)$$

6.4. Where,

6.4.1. R_e is the cost of equity;

6.4.2. R_f is the risk-free rate;

6.4.3. β is the market volatility; and

6.4.4. R_m is the market risk

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

Table 6-2

Cost of Equity		
Variable	**Gearing Based on Target Gearing Ratio**	**Basis**
Asset Beta	0.591199	The equity betas for listed airports were estimated from the comparables' set, viz. AoT, MAHB and Sydney Airport from Bloomberg. The equity betas were un-levered to find the corresponding asset betas. The proximity score weighted average unlevered asset beta for DIAL was arrived at as 0.591199.
Gearing Ratio (D/E)	0.9231	As a benchmark, the Indian Infrastructure space was examined and it was found that infrastructure firms employ, on average, a market debt to (debt + equity) ratio of 47.86%. The estimate from this analysis is reasonably close to the 48% gearing ratio used on average by international airports
Gearing Ratio (D/D+E)	48.00%	
Equity Beta	0.9732	The proximity score weighted asset beta of DIAL, was re-levered to calculate equity beta whose value is arrived at 0.9732.
Risk Free Rate	7.56%	10-Year GOI Bonds, 18-Year Daily Avg.
Equity Risk Premium	8.06%	Equity Risk Premium (ERP) was 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%
DIAL's Cost of Equity	15.41%	Risk free rate + Equity Risk Premium*Equity beta
Additional Risk for DAFFPL	2.5%	Details in Para 6.7
DAFFPL's Cost of Equity	18.00%	

Source: DIAL Consultation Paper No. 15/2020-21 Table No 86

6.6. The risk-free rate and market risk rates can be obtained based on government bonds and 5-year CAGR of Sensex. However, since there is no listed fuelling service provider in India, s suitable beta value for DAFFPL's operations cannot be arrived at.

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

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

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

6.7.3. Since DAFFPL depends on airport operator for utilities and other complementary services, any failure by the Airport Operator in providing the same would directly impact DAFFPL's operations;

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

6.7.5. Execution of an Integrated Fuel Farm project at the brownfield airport will require more precautions and clearances from regulatory bodies. This is likely to result in hindrance in project execution;

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

6.8. Due to the higher levels of risk involved in DAFFPL's operations, business conditions, and environment, DAFFPL proposes a 18% Cost of Equity rate to be considered for the 3^{rd} control period. It may also be noted that, as per Concession & operating agreement, the return on equity has also been agreed at 18%.

Cost of Debt

6.9. The project loan has been sanctioned by State Bank of India at their MCLR rate of 8.05% (variable) amounting to Rs. 165 Crores mainly to fund the requirements of T1 hydrant expansion project. This loan would significantly help in leveraging the company's financials. Rate would change based on prevailing rate as on renewal date (which is done annually). During November 2020, due to COVID-19 impact the bank rates have been at nearly all time low and the rate got revised to 7.05%. For a period of 5 years i.e. the third control period we have assumed the average borrowing rate to be 8.05% i.e. the pre-COVID borrowing rate which is significantly lower than our actual borrowing cost for the second control period.

Debt-Equity Ratio

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

6.11. Table 6-3

Particulars (in ₹ lakhs)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Debt to equity ratio	0.34	0.37	0.31	0.22	0.14

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

6.13. Table 6-2 (FROR summary)

Particulars (in ₹ lakhs)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Total shareholder's funds	27,506	34,055	38,156	43,251	49,079
Debt	9,470	12,743	11,786	9,428	7,071
Cost of equity	18.00 %	18.00 %	18.00 %	18.00 %	18.00 %
Cost of debt	8.05%	8.05%	8.05%	8.05%	8.05%
Applicable FRoR for the control period	**15.94 %**	**15.94 %**	**15.94 %**	**15.94 %**	**15.94 %**

7. Operation and Maintenance Expenditure

7.1. As provided in Clause 9.4 of the CGF Guidelines mentioned in Direction No. 04/2010-11, the operational and maintenance expenditure incurred by the Service provider(s) include expenditure incurred on security, operating costs, other mandated operating costs and statutory operating costs.

7.2. Operation and Maintenance expenditure submitted by DAFFPL has been segregated into:

7.2.1. Employee costs
7.2.2. Utilities and Outsourced expenses
7.2.3. Repair and Maintenance expenses
7.2.4. Administration and General expenses
7.2.5. Other O&M expenses

7.3. The following table contains the proposed operation and maintenance expenditure for the 3rd control period:

Table 7-1

S No.	Particulars (in INR lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26
A	Employee Expenses	193	212	233	256	282
B	Operating expenses	2,246	2,461	2,813	3,071	3,353
C	Other expenses	176	194	253	278	306
F	CSR	60	46	67	126	142
G	**Total**	**2,675**	**2,913**	**3,366**	**3,732**	**4,083**

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

Table 7-2

S No.	Item	Assumptions and basis
A	**Employee Expenses**	Based on inflation adjustment and to ensure continuity of employees having experience in the field of oil and gas, it is expected that there would be at least 10% average annual salary increase going forward.
B	**Operating expenses**	Operating expenses were deferred during 2020-21 on account of liquidity concerns caused due to business disruption from Covid-19 pandemic. Subsequently it is estimated that the operating expenses would gradually come back to pre-covid levels since the Delhi fuel farm is a very old location and regular maintenance activities are required to ensure smooth operations. There has been a major increase in operating expenses from 2023-24 after commissioning of T1 Hydrant line. There would be additional manpower and other maintenance budget requirement for the new asset which would be required to be operated. Further with growing age of T2 & T3 terminals, the maintenance expenses are also increasing.
C	**Other expenses**	Employee benefit expense projected at 10.0% p.a. escalation on FY21. During 2020-21 insurance premium which is the major component of other expenses increased more that 40% due to change in guidelines by IRDAI (Insurance Regulatory). Subsequently during 2023-24 again once T1 hydrant system is commissioned, there would be additional outgo of insurance premium.

7.6. As per the Judgement of Telecom Disputes Settlement & Appellate Tribunal New Delhi, dated 16th December 2020 with reference to AERA Appeal No.8 of 2018, AERA Appeal No.3 of 2014 and AERA Appeal No.1 of 2014 the Telecom Disputes Settlement & Appellate Tribunal New Delhi has directed that "The decision of the Authority to not allow CSR expenditure as a cost of the Airport Operator is not proper and is set aside. The Authority shall pass consequential orders so as to prevent loss of or reduction in the determined fair return to the equity holders. Necessary truing-up exercise shall be done accordingly". Considering this the CSR expenses have been considered for computing True-up and for computation on Tariff for this Control period.

8. Projected Volumes

8.1. Following are the projected fuel offtake volumes for the 3rd control period:

Table 8-1

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

8.2. The above projections are made based on the recovery expectations given Aviation experts including the projections given by IATA wherein they have stated that pre-COVID volumes are expected to be by 2023-24. Since FY 2020-21 was an unusual year due to the impact of the Covid-19 pandemic on air traffic, the escalation rates have been adjusted accordingly. In 2020-21 we have reached nearly 50% of Pre-COVID volumes. Further going forward, once T1 gets commissioned in 2023-24 (June), additional volume which is currently handled by oil marketing companies at T1 would get added to DAFFPL volumes.

8.3. As per the current proposition Jewar Airport is expected to be commissioned in 2023-24. So, it is expected that there would be a definite impact on the volume. Since the said airport is going to be in the vicinity of NCR and the IGI Airport, there can be a significant change in the volumes. Further with the increasing use online meeting platforms there is a significant risk of reduction in business meetings & travels. This is going to impact the ATF fuel consumption pattern.

8.4. Volumes pertaining to operations from T1 were already shifted to T2 hence it was added to DAFFPL business since 2017-18. Therefore we expect that airlines which were originally operating out of T1, will move back to T1 once the T1 will be fully operational. Hence there may not be that significant volume increase after the completion of hydrant system in T1. However, it may have long term benefits for secured operations of the Airport. The volume break-up is as given below for reference:

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

Particulars (KL)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Due to shift from T1	300,000	360,000	378,000	396,900	416,745
DAFFPL Volume at T1	-	-	200,000	210,000	220,500
Other volume	1,500,000	1,800,000	1,890,000	1,984,500	2,083,725
Total Volume	1,800,000	2,160,000	2,468,000	2,591,400	2,720,970

9. Taxation

9.1. As per clause 9.5 of CGF Guidelines, taxation represents payments by the Service Provider in respect of corporate tax on income from assets and services taken into consideration for determination of ARR.

9.2. Following are the tax liabilities for DAFFPL for the 3rd control period:

Table 9-1

Particulars	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Adjusted Earning before tax	7,154	9,683	8,333	8,758	9,548
Add: Book Depreciation	2,135	2,205	4,592	4,612	4,493
Less: IT Depreciation	(1,189)	(1,133)	(3,366)	(5,214)	(4,466)
Taxable Profit / (Loss)	8,102	10,756	9,559	8,156	9,574
Taxable Income post set off losses	8,102	10,756	9,559	8,156	9,574
Corporate Tax	**2,039**	**2,707**	**2,406**	**2,053**	**2,410**

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

10. Aggregate Revenue Requirement

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

Table 10-1

Particulars (in ₹ Lakhs)	**FY21-22**	**FY22-23**	**FY23-24**	**FY24-25**	**FY25-26**
Average RAB	14,664	14,922	28,559	39,856	35,596
Average lease asset	27,195	25,222	23,249	21,276	19,304
Average fair value of security deposit	4,650	3,659	2,573	2,818	3,086
FROR	15.94 %	15.94 %	15.94 %	15.94 %	15.94 %
Return on avg. RAB	6,670	6,397	8,256	9,742	8,748
Add: Security deposit	741	583	410	449	492
Add: Depreciation	4,655	4,520	6,727	6,747	6,758
Add: Operating expenses	2,675	2,913	3,366	3,732	4,083
Add: Interest on WC loan	56	-	-	-	-
Add: Taxes	2,039	2,707	2,406	2,053	2,410
Less: Other income	(39)	(42)	(45)	(49)	(52)
Add: True-up for next CP	(3,887)	-	-	-	-
ARR	**12,911**	**17,078**	**21,119**	**22,674**	**22,438**
Fuel throughput (KL)	1,800,000	2,160,000	2,468,000	2,591,400	2,720,970
Annual FIC	**804**	**804**	**804**	**804**	**804**

11. Fuel Throughput and Revenue from Aeronautical Services

11.1. Following table summarizes the projected fuel throughput during the 3rd control period:

Table 11-1

Particulars (in KL)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Uplift of fuel in a year	1,800,000	2,160,000	2,468,000	2,591,400	2,720,970

11.2. Following table summarizes the projected revenue from aeronautical services during the 3rd control period:

Table 11-2

Particulars (in ₹ Lakhs)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Total revenue	14,514	17,411	19,891	20,887	21,933

11.3. Following table consists the assumptions and basis for the aeronautical revenue projected by DAFFPL:

Table 11-3

S No.	Particulars	Assumptions/Basis
1	**Fuel Revenue**	Revenue from FIC has been projected on the basis of the projected fuel offtake volumes for the 3rd control period. A tariff of ₹804/KL was assumed for the 3rd control period.