File No. AERA/20010/MYTP/DAFFPL/FF/CP-II/16-17/Vol-I

Consultation Paper No. 27/ 2017-18

सत्यमेव जयते

Airports Economic Regulatory Authority of India

In the matter of Determination of Fuel Infrastructure Charges in respect of Delhi Aviation Fuel Facility Private Limited at IGI Airport, New Delhi (01.04.2016 – 31.03.2021)

20 September 2017

AERA Building

Administrative Complex

Safdarjung Airport

New Delhi – 110 003

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1. LIST OF ABBREVIATIONS

AAI	Airport Authority of India
AERA or the Authority	Airport Economic Regulatory Authority of India
Aero	Aeronautical
ARR	Aggregate Revenue Requirement
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
Inflation CPI	5% per annum for 5 years from 01.04.2017 as per RBI's Survey of Professional Forecasters on Macroeconomic Indicators – Results of the 45th Round dated 6th April 2017
INR or ₹	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
Ke	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
YPP	Yield per passenger

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 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.

2.2 The Authority had considered the MYTP (for the first Control Period from 01.04.2011 to 31.03.2016) submitted by DAFFPL for providing fuel farm services at IGI Airport and issued Order No. 07/2011-12 dated 29.08.2011 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 period prior to first control period (interim period) from 28.07.2010 to 31.03.2011 would be ₹755/ KL (inclusive of operator's fee);

2.2.2 The tariff for the first control period from 01.04.2011 to 31.03.2016 would be determined under price cap regulation.

2.3 After issue of the above Order, DAFFPL was required to submit their MYTP in terms of Airport Guidelines. DAFFPL sought additional time for submission of information upto 20.10.2012. However, DAFFPL did not submit the data within the stipulated period during which more than one and a half years of the first control period had already elapsed. Hence, in view of the above and vide Order No. 19/ 2012-13 the Authority ordered that:

2.3.1 W.e.f. 01.04.2011, the tariff in respect of supply of fuel services provided by DAFFPL would be continued at the same rate as were existing as on 31.03.2011 i.e. ₹755/ KL for the first control period, i.e. upto 31.03.2016;

2.3.2 DAFFPL may approach the Authority for revision in the charges, if any, on the basis of material, they may like to produce before the Authority in accordance with the Guidelines. The Authority will undertake appropriate exercise to consider the same, subject to stakeholder consultation at the material time.

2.4 Subsequently DAFFPL has approached the Authority with its MYTP seeking approval on tariff for FIC of ₹755/ KL for the second control period from 01.04.2016 to 31.03.2021. DAFFPL has filed its MYTP submissions vide their letter dated 7th March 2016 before the Authority. DAFFPL filed auxiliary submissions dated 01.12.2016, 22.02.2017, 06.04.2017, 27.04.2017, 02.05.2017, 03.05.2017 and 12.05.2017.

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

3. METHODOLOGY FOR TARIFF CALCULATION

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

3.1.1 Materiality Assessment;

3.1.2 Competition Assessment;

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

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

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

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

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

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

3.3 Based on 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."

3.8 In pursuance of the same, DAFFPL submitted Minutes of the User Consultation Meeting along with consent letters from Jet Airways (India) Limited and Air India Limited agreeing on the proposed FIC of ₹755/ KL for the second control period ending on 31.03.2021.

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.

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

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

Plus

3.9.2 Operation and Maintenance Expenditure (O)

Plus

3.9.3 Depreciation (D)

Plus

3.9.4 Taxation (T)

Minus

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

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

3.11 $ARR = \sum_{t=1}^{5}(ARR_t)\ and$

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

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;

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

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

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

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

4. REGULATORY ASSET BASE (RAB) AND DEPRECIATION

4.1 As per clause 9.2 of the CGF guidelines, RAB assets shall be all fixed assets proposed by the Service Provider(s), after providing for such exclusions therefrom or inclusions therein as may be determined by the Authority.

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

DAFFPL's submission – RAB and Depreciation

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

Particulars	Added upto 31.03.16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Buildings	752	-	600	-	-	-
Plant & machinery (including deadstock)	27,782	1,030	683	349	738	681
Operating vehicles	45	-	-	-	-	-
Furniture & fixtures	12	-	-	20	-	-
Computer & IT assets	906	85	420	-	-	-
Intangible assets (including Security Deposits)	15,870	992	-	2,718	-	3,312
Total	**45,367**	**2,107**	**1,703**	**3,087**	**738**	**3,993**

4.3 As per DAFFPL, value of minimum level of fuel or deadstock ('Deadstock') stored in fuel storage tanks forming part of RAB during FY 15-16 was ₹2,068 lakhs. Deadstock has been considered as a part of plant & machinery and is being depreciated at the rate of depreciation of plant & machinery during the control period.

4.4 Further, Security Deposits considered as part of RAB by DAFFPL represent the interest-free security deposits paid upto and during the control period by DAFFPL to DIAL as per the terms and conditions of Concession & Operating Agreement. As per the CA, *"Subsequent to the Commencement Date, at the end of every two Financial Years, the amount of the Security Deposit shall be reset to the higher of the following:*

(i) Aggregate of the Airport Operator Fee paid during the preceding 18 (eighteen) months, or

(ii) Rs.750,000,000/- (Rupees Seven Hundred Fifty Million)."

Airport Operator Fee is defined as the fee due and payable to DIAL for each kilolitre of ATF delivered through the Facility. As per DAFFPL's submissions the ATF for FY15-16 was ₹688.17 per KL with escalation of 7% per annum.

4.5. DAFFPL in its submission has depreciated various assets as follows:

Table 2: Depreciation on opening balance during the second control period (in ₹ lakhs)

Particulars	Rate	Upto 31.03.16	2016-17	2017-18	2018-19	2019-20	2020-21
Buildings	4.70%	177	35	26	39	39	39
Plant & machinery	7.14%	8,626	1,984	1,957	1,817	1,842	1,895
Operating vehicles	12.50%	16	3	3	3	3	3
Furniture & fixtures	10.00%	4	1	1	1	3	3
Computer & IT assets	33.33%	904	1	28	168	168	57
Intangible assets (including Security Deposits)	100%[1]	4	-	-	-	-	-
Total		**9,731**	**2,025**	**2,016**	**2,029**	**2,056**	**1,997**

Table 3: Depreciation on additions to assets during the second control period (in ₹ lakhs)

Particulars	Rate	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Buildings	4.70%	-	-	14	-	-	-
Plant & machinery	7.14%	3	36	24	12	26	24
Operating vehicles	12.50%	1	-	-	-	-	-
Furniture & fixtures	10.00%	-	-	-	1	-	-
Computer & IT assets	33.33%	-	14	69	-	-	-
Intangible assets (including Security Deposits)	100%	-	-	-	-	-	-
Total		**4**	**51**	**108**	**13**	**26**	**24**

Table 4: Disposals (net of depreciation) during the second control period (in ₹ lakhs)

Particulars	Upto 31.03.16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Buildings	1	141	224	-	-	-
Plant & machinery	2	855	1,409	-	-	161
Operating vehicles	8	-	-	-	-	-
Furniture & fixtures	-	-	-	-	-	-
Computer & IT assets	-	-	-	-	-	-
Intangible assets (including Security Deposits)	-	-	-	-	-	-
Total	**11**	**996**	**1,633**	**-**	**-**	**161**

[1] Depreciation at 100% provided on intangibles (excluding security deposits)

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

Particulars	Upto 31.03.16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Opening RAB	-	35,620	34,656	32,602	33,647	32,302
Less: Depreciation on opening assets		2,025	2,016	2,029	2,056	1,997
Add: Additions	45,367	2,107	1,703	3,087	738	3,993
Less: Depreciation on additions to assets	9,735	51	108	13	26	24
Less: Disposals (net of depreciation)	11	996	1,633	-	-	161
Closing RAB	35,620	34,656	32,602	33,647	32,302	34,114
Average RAB	**-**	**35,138**	**33,629**	**33,124**	**32,974**	**33,208**

Authority's Examination – RAB and depreciation

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

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

Particulars	Added upto 31.03.16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Buildings	752	-	-	-	-	-
Plant & machinery	25,714	17	807	1,038	738	861
Operating vehicles	45	-	-	-	-	-
Furniture & fixtures	12	-	-	20	-	-
Computer & IT assets	906	1	-	-	-	-
Deadstock	2,068	-	-	-	-	-
Intangible assets	4	-	-	-	-	-
Total	**29,501**	**18**	**807**	**1,058**	**738**	**861**

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

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

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

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

4.9. The Authority noted that security deposits paid by DAFFPL to DIAL are not related to the operations of the fuel farm and cannot be considered as a part of RAB. Accordingly the Authority has proposed to exclude the amount of security deposits up to and during the second control period from RAB. However, the Authority has proposed to allow a nominal return equal to the 5-year projected inflation rate of 5% per annum (as per RBI's Survey of Professional Forecasters on Macroeconomic Indicators – Results of the 45th Round dated 6th April 2017) on the outstanding amount of Security Deposits each year during the control period as addition to the ARR.

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

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

4.12. Revised depreciation during the control period is as follows:

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

Particulars	Rate	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Buildings	3.33%	25	19	8	8	8
Plant & machinery	6.67%	1,714	1,621	1,499	1,568	1,617
Operating vehicles	10.00%	2	2	2	2	2
Furniture & fixtures	10.00%	1	1	1	3	3
Computer & IT assets	33.33%	1	0	0	0	0
Deadstock	0.00%	109	109	109	109	109
Intangible assets	100%	-	-	-	-	-
Total		**1,744**	**1,644**	**1,511**	**1,582**	**1,630**

Table 8: Revised Depreciation on additions to assets during the second control period (in ₹ lakhs)

Particulars	Rate	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Buildings	3.33%	0	0	0	0	0
Plant & machinery	6.67%	1	27	34	24	28
Operating vehicles	10.00%	0	0	0	0	0
Furniture & fixtures	10.00%	-	0	1	0	0
Computer & IT assets	33.33%	0	0	0	0	0
Deadstock	0.00%	-	0	0	0	0
Intangible assets	100%	-	0	0	0	0
Total		**1**	**27**	**35**	**24**	**28**

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

Table 9: Revised RAB during the second control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Opening RAB	19,755	17,032	14,536	14,048	13,179
Depreciation on opening assets	1,744	1,644	1,511	1,582	1,630
Additions	18	807	1,058	738	861
Depreciation on additions to assets	1	27	35	24	28
Disposals (net of depreciation)	996	1,633	-	-	161
Closing RAB	17,032	14,536	14,048	13,179	12,221
Average RAB	**18,393**	**15,784**	**14,292**	**13,614**	**12,700**

Proposal No. 1 Regarding RAB and depreciation

1.a. The Authority in this regard has proposed to treat deadstock (the minimum level of fuel in pipeline) as a non-depreciable asset and consider appropriate adjustment in tariff at the time of disposal of such Deadstock in the last control period related to the concession period of the fuel farm operator.

1.b. The Authority has proposed to exclude the amount of security deposits upto and during the second control period from RAB and allow a nominal return equal to the long term inflation rate of 5% per annum (as per RBI's Survey of Professional Forecasters on Macroeconomic Indicators – Results of the 45th Round dated 6th April 2017) on the outstanding amount of Security Deposits during the control period as addition to the ARR.

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

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

1.e. The Authority has proposed to consider revised average RAB during the second control period for calculation of ARR as shown in Table 9.

5. **FAIR RATE OF RETURN (FRoR)**

DAFFPL's submission - FRoR

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

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

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Equity (A)	16,400	16,400	16,400	16,400	16,400
Reserves & Surplus (B)	5,118	6,481	8,788	11,091	13,237
Shareholders Fund (A+B)	**21,518**	**22,881**	**25,188**	**27,491**	**29,637**
Debt	10,163	8,443	6,330	4,439	2,389
Debt + Equity	**31,681**	**31,324**	**31,518**	**31,930**	**32,026**
Average Gearing	20%				
Interest Cost	1,114	1,027	855	660	449
Average Debt	10,619	9,303	7,386	5,384	3,414
Average cost of debt	**11.70%**				
Cost of equity	**20.50%**				
Fair Return	**18.73%**				

Authority's Examination - FRoR

5.2. The Authority has proposed to consider fair return on equity at 14% p.a. since the business operations of fuel farms are inherently monopolistic with virtually no risk where returns are guaranteed by back to back agreements. The above rate shall be considered in the tariff determination process for other fuel farms as well.

5.3. The Authority noted that DAFFPL has considered an annual increase of 0.5% in interest cost during the second control period. The actual interest cost for FY15-16 as submitted by DAFFPL was 9.65% per annum. In the absence of any basis for the proposed annual increase of 0.5% in interest cost during the control period, the Authority has proposed to consider the interest cost of 9.40% per annum for FY15-16 as the interest cost for all the years during the second control period.

5.4. FRoR on the basis of revised return on equity at 14% p.a. and interest cost of borrowings at 9.83% p.a. works out to 13.26% p.a as shown below:

Table 11: Revised capital structure, funding mechanism and FRoR of DAFFPL during the second control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Equity (A)	16,400	16,400	16,400	16,400	16,400
Reserves & Surplus (B)	9,994	11,539	14,238	16,945	19,627
Shareholders Fund (A+B)	**26,394**	**27,939**	**30,638**	**33,345**	**36,027**
Debt	10,163	8,410	6,617	4,768	2,760
Debt + Equity	**36,557**	**36,350**	**37,255**	**38,113**	**38,787**
Average Gearing	17.67%				
Interest Cost	1,032	904	730	561	380
Average Debt	10,619	9,287	7,514	5,693	3,764
Average cost of debt	**9.83%**				
Cost of equity	**14.00%**				
Fair Return	**13.26%**				

Proposal No. 2 **Regarding FRoR**

2.a. The Authority has proposed to consider the Cost of Equity at 14% p.a., interest cost of borrowings at 9.83% p.a. and FRoR at 13.26% p.a. for DAFFPL for the second control period.

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

6. OPERATION AND MAINTENANCE EXPENDITURE

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

DAFFPL's submission - Operating and Maintenance expenditure

6.2 DAFFPL has submitted details and basis for each of the proposed O&M expenditure in their submission. The details of the assumptions made by DAFFPL for each item of operation and maintenance expenditure are provided in the following paras.

Table 12: Actual and projected aeronautical O&M expenditure by DAFFPL for the second control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Operating Cost	1,726	1,899	2,089	2,298	2,527
Lease rent	1,714	1,843	1,981	2,130	2,290
Loss on Sale value of old/discarded asset	930	1,462	-	-	135
Manpower / Employee Cost	120	138	159	182	210
CSR	96	127	156	183	189
Other business administrative Cost	59	68	79	90	104
Insurance Cost	51	58	67	77	89
Professional, Legal, Audits & Consultancy Cost	14	16	19	22	25
Staff Welfare Expenses	2	3	4	4	5
Foreign Exchange loss	1	1	1	2	2
Interest on Short term loan	5	-	-	-	-
Total	**4,720**	**5,616**	**4,555**	**4,988**	**5,576**

Table 13: Assumptions made by DAFFPL for each item of Operation and Maintenance Expenditure

Item	Assumption and basis
Operating cost	The Operating cost is reimbursement of Fuel farm operator's expenses plus operating fee of 16% on the actual reimbursement. The reimbursement is the sum of the costs incurred by Operator in providing the services as per the best industry practice and in line with the procedures, standards and requirements for maintaining quality standards at fuel farm facility it is pertinent to mention here that older the facility, higher will be the operating cost. As per the terms, the cost incurred by operator towards (a) Manpower expenses- Apart from the dedicated manpower of IOSL, It includes the cost of staff deployed by Bharat Petroleum for fuel farm facility. (b) Facility operating expenses –Inspection and testing, utilities, security, insurance, waste disposal etc. (c) Facility Maintenance expense – It includes the cost incurred in maintaining the facility and related facility, Hydrant system, IT software maintenance, vehicle etc. (d) Administrative expenses – It includes the expenses related to travelling, telecom,

Item	Assumption and basis
	bank charges, office expenses and other miscellaneous expenses.
Lease rent	• As per the terms of the concession and operating agreement, lease rent is to be paid to the Airport operator with an annual incremental of 7.5%
Loss on Sale value of old/discarded asset	• To upgrade the facility and make it to global standard, further to comply the safety and security norms, company has undertaken the projects to modernize the facility and during the process the old and obsolete assets will be discarded and will replace those assets with new improved assets. The realizable value of assets company is assumed at 5% of the gross value and the anticipate loss on account of sale of assets is Rs 25.27 crore during the period.
Other expenses	• Annual increment of 15% has been considered for all other expense heads.

Authority's Examination - Operating and Maintenance expenditure

6.3. The Authority has proposed to revise estimates for operating and maintenance expenditure during FY16-17 based on audited figures provided by DAFFPL.

6.4. The Authority has noted that more than 50% expenses of total expenses are on account of operating cost and lease rent.

6.5. The Authority has proposed to consider annual increment of 8% in case of other expenses instead of DAFFPL's proposed annual increment of 15% to reflect a more conservative impact of inflation.

6.6. Further the Authority has proposed to exclude CSR expenses from operating and maintenance expenses as the same are in the nature of appropriation of profits rather than an expense related to operations.

6.7. Accordingly, the reworked Operating and Maintenance expenditure is shown in the table below.

Table 14: Revised Operation and Maintenance Expenditure as per the Authority (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Operating Cost	1,768	1,944	2,139	2,353	2,588
Lease rent	1,723	1,852	1,991	2,141	2,301
Loss on Sale value of old/discarded asset	226	1,462	-	-	135
Manpower / Employee Cost	124	134	144	156	168
CSR	-	-	-	-	-
Other business administrative Cost	45	49	52	57	61
Insurance Cost	38	41	44	48	52
Professional, Legal, Audits & Consultancy Cost	31	33	36	39	42
Total	**3,954**	**5,515**	**4,407**	**4,792**	**5,347**

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

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

3.a. The Authority has proposed to accept DAFFPL's submissions relating to Operating and Maintenance expenditure as shown in Table 14.

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

7. TAXATION

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

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

DAFFPL's submissions - Taxation

Table 15: Tax liability as per DAFFPL's submission

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Profit before Tax	8,907	8,339	9,797	9,805	9,568
Add: Depreciation – Companies Act	2,076	2,123	2,042	2,082	2,021
Add: Loss on fixed assets	930	1,462	-	-	135
Add: CSR Expenditure disallowed	95	125	153	180	186
Less: Depreciation - I T Act	1,874	1,949	1,640	1,450	1,319
Profit chargeable to tax	**10,135**	**10,101**	**10,352**	**10,617**	**10,592**
Average corporate tax rate	34.61%	34.61%	34.61%	34.61%	34.61%
Tax - Normal provisions	**3,507**	**3,496**	**3,583**	**3,674**	**3,666**
Tax – MAT					
Profit before Tax	8,907	8,339	9,797	9,805	9,568
MAT @ 21.34% p.a.	1,901	1,780	2,091	2,092	2,042
Higher of a & b	**3,507**	**3,496**	**3,583**	**3,674**	**3,666**

Authority's examination – Taxation

7.3. The Authority has proposed to revise tax as per the provisions of Income Tax Act, 1961. Tax has been computed on revised revenue based on revised tariff and revised book depreciation.

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

Table 16: Revised tax liability as per the Authority for the second control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Profit before Tax	3,732	2,720	4,418	4,587	4,391
Add: Depreciation – Companies Act	1,745	1,670	1,546	1,606	1,659
Add: Loss on fixed assets	226	1,462	-	-	135
Add: CSR Expenditure disallowed	66	90	81	72	78
Less: Depreciation - I T Act	1,727	1,517	1,452	1,362	1,282
Profit chargeable to tax	**4,042**	**4,425**	**4,593**	**4,904**	**4,981**
Average corporate tax rate	34.61%	34.61%	34.61%	34.61%	34.61%
Tax - Normal provisions (a)	1,399	1,531	1,590	1,697	1,724
Tax – MAT (b)					
Profit before Tax	3,732	2,720	4,418	4,587	4,391
MAT @ 21.34% p.a.	796	580	943	979	937
Higher of a & b	**1,399**	**1,531**	**1,590**	**1,697**	**1,724**

Authority's Examination - Taxation

7.5. The Authority has proposed to consider tax as given in Table 16.

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

Proposal No. 4 **<u>Regarding taxation</u>**

4.a. The Authority has proposed to consider tax as given in Table 16

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

8. AGGREGATE REVENUE REQUIREMENT (ARR) AND ANNUAL FIC

DAFFPL's submissions – ARR and Annual FIC

Table 17: ARR as per DAFFPL for the second control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Total
Uplift projections	16.81	16.99	17.17	17.35	17.53	**85.58**
Return on RAB	**6,581**	**6,299**	**6,204**	**6,176**	**6,220**	**31,480**
Add: Depreciation	2,076	2,123	2,042	2,082	2,021	**10,344**
Add: Tax as per I.T. Act	3,507	3,496	3,583	3,674	3,666	**17,926**
Add: Lease Rent	1,714	1,843	1,981	2,130	2,290	**9,958**
Add: Operating Cost	1,726	1,899	2,089	2,298	2,527	**10,539**
Add: Other Admin Expenses	1,278	1,873	482	558	756	**4,947**
Less: Other (Rental) Income	(24)	(26)	(28)	(30)	(33)	**(142)**
Aggregate Revenue Requirement	**16,859**	**17,506**	**16,352**	**16,887**	**17,446**	**85,051**
Discount Factor	**1.00**	**0.84**	**0.71**	**0.60**	**0.50**	
Present Value (PV) of Target Revenue	**16,859**	**14,744**	**11,600**	**10,090**	**8,779**	**62,072**
Tariff yield	993	993	993	993	993	

Authority's Examination

8.1 As discussed in proposal 1.a, a nominal return equal to 5-year projection CPI inflation rate of 5% per annum on the amount of security deposits paid by DAFFPL to DIAL has been added to the ARR during the control period.

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

8.3 The Authority has proposed to revise the ARR (earlier ₹755/ KL as submitted by DAFFPL) and consider the recomputed annual FIC of ₹605/ KL as shown in table below:

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

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Total
Average RAB [1] as per Table 9	18,393	15,784	14,292	13,614	12,700	**74,783**
FRoR [2] (%) as per Table 11Table 11	13.26%	13.26%	13.26%	13.26%	13.26%	
Discount Factor (#)	1.08	0.95	0.84	0.74	0.65	
Return on Average RAB [3] = [1] * [2]	2,439	2,093	1,895	1,805	1,684	**9,916**
Add: Nominal return on Security Deposit [3A] as per proposal 1.a	843	843	1,011	1,011	1,227	**4,935**
Add: Depreciation [4] as per Table 9	1,745	1,670	1,546	1,606	1,659	**8,226**
Add: Operating expenses [5] as per Table 14	3,954	5,515	4,407	4,792	5,347	**24,016**
Add: Taxation [6] as per Table 16	1,399	1,531	1,590	1,697	1,724	**7,941**

Add: Under / (Over) Recovery from Previous Control Period [7]	-	-	-	-	-	**-**
Less: Other income and Interest income [8]	(80)	(26)	(28)	(31)	(33)	**(199)**
ARR [9] = [3] + [3A] + [4] + [5] + [6] + [7] - [8]	10,299	11,627	10,420	10,881	11,608	**54,835**
Discounted ARR	11,083	11,047	8,741	8,057	7,589	**46,516**
∑ PV (Discounted ARR) [10]	**-**	**-**	**-**	**-**	**-**	**46,516**
Fuel throughput [11] (lakhs KL)	**17.14**	**17.65**	**18.18**	**18.72**	**19.28**	**91**
Annual FIC [12] (₹)	**605**	**605**	**605**	**605**	**605**	**605**
Revenue from FIC [13] = [12] * [11]	10,362	10,672	10,992	11,321	11,660	55,007
PV of revenue from FIC	11,150	10,140	9,221	8,382	7,623	46,516
∑ PV of revenue from FIC [14]	-	-	-	-	-	**46,516**

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

Proposal No. 5 **<u>Regarding ARR and annual FIC</u>**

5.a. The Authority has proposed to consider ARR and recomputed annual FIC of ₹605/ KL as shown in Table 18.

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

9. FUEL THROUGHPUT AND REVENUE FROM AERONAUTICAL SERVICES

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

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

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Uplift of fuel in a year	16.81	16.99	17.17	17.35	17.53

9.1 As per DAFFPL, fuel throughput is projected to increase by 1.06% per annum during the control period based on the historical CAGR of fuel volume at IGI Airport.

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

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Fuel Infrastructure charges	16,700	16,876	17,054	17,234	17,416
Other revenue	24	26	28	30	33
Total	**16,724**	**16,902**	**17,082**	**17,264**	**17,449**

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

S. No.	Item	Assumption and basis
A	Fuel Infrastructure charges	Revenue from FIC has been calculated based on the projected fuel throughput multiplied by per KL charge of ₹933
B	Other income	A small portion of the administrative building is provided to users i.e Oil marketing companies and Into Plane Agents for better operational coordination. Company charge rental, which is treated as other income and being deducted from ARR.

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

9.2 The Authority has noted that growth in projected fuel throughput should be assumed as 50% of the projected growth in historical ATM traffic as furnished in IGI airport, Delhi tariff order. Accordingly the Authority has revised the growth rate assumed for fuel throughput projections to 2.99% p.a. i.e. 50% of 5.99% p.a. of growth of projected ATM traffic in IGI airport, Delhi tariff order.

Table 22: Revised projected fuel throughput during the control period (lacs KL)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Uplift of fuel in a year	17.14	17.65	18.18	18.72	19.28

9.3 Further, the Authority notes that revenue from FIC is subject to change as and when FIC is approved by the Authority pursuant to the ongoing tariff review of DAFFPL for the second control period. Hence, such revenues will be trued up in the third control period based on the actual revenue from aeronautical services during the second control period.

Proposal No. 6 <u>Regarding fuel throughput and revenue from aeronautical services</u>

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

10. SUMMARY OF PROPOSALS

11. **STAKEHOLDERS' CONSULTATION TIMELINE**

11.1. The Authority welcomes written evidence- based feedback, comments and suggestions from Stakeholder's on the proposal made in (Para 10 above), latest by **09.10.2017** at the following address.

Secretary

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(S. Machendranathan)
Chairperson