Multi Year Tariff Proposal for third control period for IGI Airport, New Delhi

1st April'2019 to 31st March'2024

27th Nov'2018

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1 Background

The Civil Aviation industry in India has emerged as one of the fastest growing industries in the country during the last three years. India is currently considered the third largest domestic civil aviation market in the world. India is expected to become the world's largest domestic civil aviation market in the next 10 to 15 years.

According to International Air Transport Association IATA, India will displace the UK for the third place in 2025.

The Civil Aviation industry has ushered in a new era of expansion, driven by factors such as low-cost carriers (LCCs), modern airports, Foreign Direct Investment (FDI) in domestic airlines, advanced information technology (IT) interventions and growing emphasis on regional connectivity.

Airport privatization played a key role in growth of aviation industry in India. With a success of existing PPP projects government had further privatized Goa and Navi Mumbai Airport and looking forward private participation in future industry growth.

Prime examples of PPP in Indian aviation are new and redeveloped metro airports in the past decade. The largest of these, the Indira Gandhi International Airport (IGIA) in New Delhi, handling 65.69 million passengers in 2017-18, has also emerged as the largest airport in South Asia, and one of the world's fastest growing ones.

<u>Indira Gandhi International Airport Delhi</u>

Airport Authority of India (AAI) pursuant to Airport Infrastructure policy 1997 had initiated the process of selecting a lead partner for executing the modernization projects through a competitive bidding process for the IGI Airport, New Delhi. A consortium led by the GMR Group was awarded the bid for operating, maintaining, developing, designing, constructing, upgrading, modernizing, financing and managing the Airport. Post selection of the consortium, on 1st March'2006, a special purpose vehicle, namely Delhi International Airport Pvt Ltd (DIAL), was incorporated with AAI retaining 26% equity stake and balance 74% of equity capital acquired by members of consortia.

DIAL executed the Operation, Management and Development Agreement (OMDA) with AAI on 4th April'2006 and commenced operations from 3rd May'2006. Under OMDA, AAI granted DIAL the exclusive right and authority to undertake some of the functions of AAI being the functions of operations, maintenance, development, design, construction, up gradation, modernizing, finance and management of the IGI Airport and to perform services and activities constituting aeronautical services and non-aeronautical services (but excluding Reserved activities) at the airport in accordance with terms and conditions of OMDA.

Simultaneously several agreement were entered into such as Lease Deed dated 25th April'2006, Shareholders' Agreement dated 4th April'2006, State Support Agreement dated 26th April'2006, State Government Support Agreement dated 26th April'2006, Airport Operator Agreement dated 1st May'2006 between DIAL and Fraport AG, CNS/ ATM Facilities and Services Agreement dated 25th April'2006 and Escrow

Agreement dated 28th April'2006 for smooth and efficient functioning of the grant under the principal agreement. OMDA and these agreements are collectively known/ treated as Concession Agreements and meet the criteria for the concession offered by central government in terms of clause 13 (1) (a) (vi) of the AERA Act 2008.

The State Support Agreement dtd. 26th April'2006 ("SSA") signed with Government of India outlined the support from Government of India and also laid down the principles of for tariff fixation. Clause 3.1 read with Schedule 1, 6 and 8 to SSA inter-alia lay down the methodology and the principles by the Regulatory Authority for while fixing the tariff for the provision of aeronautical services and the recovery of the costs relating to Aeronautical Assets at IGI Airport.

This process is now also governed by the principles set by the TDSAT and the observations made by it in its order dated 23rd April, 2018 with respect to certain building blocks in the tariff determination.

TDSAT in its said order has noted that the Central Government laid down the policy to attract private and public participation and investments to have world class airports facilities at the major airports. Unless there be anything contrary in the Act, the Policy needs to be viewed as a promise so that the ultimate bidders and investors may feel secure and confident of a fair treatment after they have agreed to make or made heavy investments. The concession offered through any Agreement or Memorandum of Understanding or even otherwise needs to be viewed accordingly. Since a contractual right/claim has the backing of law, it deserves clear respect.

Since inception DIAL had pressed that the Concession Agreement awarded to DIAL are of utmost importance and same have to be considered for tariff determination purpose. The concession provided under this agreement has to be respected by the Authority during the tariff determination exercise.

Accordingly we request AERA to regard the provisions of OMDA in the current tariff determination exercise.

1.1 List of dates pertaining to determining of Tariff at IGI Airport:

Date	Activity
01.03.2006	DIAL was incorporated with Airports Authority of India ("AAI") and the GMR consortium holding equity in the ratio 26:74 in it.
04.04.2006	OMDA executed between the AAI and DIAL.
20.06.2011	DIAL submitted proposal for tariff determination for first control period i.e. 01.04.09 to 31.03.2014
24.04.2012	AERA issued the First Tariff Order determining the Aeronautical Tariffs for the IGI Airport for the First Control Period, i.e., from 01.04.2009 to 31.03.2014.
23.05.2012	DIAL filed Appeal No.10/2012 before the Hon'ble Tribunal challenging the First Tariff Order on various grounds.
11.11.2013	DIAL filed its tariff proposal for the Second Control Period (without prejudice to its rights and contentions in the appeal pending before this Hon'ble Tribunal).

Date	Activity
22.01.2015	The Division Bench of Hon'ble High Court allowed the LPA No.670/2014 and directed that the tariff determined by the AERA for the First Control Period shall continue till the disposal of the appeals pending against the First Tariff Order by this Hon'ble Tribunal.
28.01.2015	AERA issued Consultation Paper No.16/2014-2015 on Determination of Aeronautical Tariff in respect of IGI Airport for the Second Control Period from 01.04.2014 to 31.03.2019
10.12.2015	AERA issued order no 40/2015-16 for second control period from 01.04.2014 to 31.03.2019 with an X factor of (-) 96.08% and (-) 89.40% post considering cash support. However, same was not implementable due to High Court order.
11.01.2016	DIAL filed appeal against the order no 40/2015-16 dtd. 10.12.2015 before the AERAAT/TDSAT
03.07.2017	The Hon'ble Supreme Court of India, on SLP filed by Air India, has vacated the order of Hon'ble High Court of Delhi and directed TDSAT to dispose of the appeals of DIAL no 10/2012 for first control period.
08.07.2017	DIAL implemented the Tariff order No. 40/2015-16 dated December 10, 2015
23.04.2018	TDSAT pronounced order on DIAL appeal no 10/2012.
21.07.2018	DIAL has filed a limited appeal in the Hon'ble Supreme Court of India for certain issues qua TDSAT judgment dated April 23, 2018.
15.11.2018	TDSAT order on MIAL Appeal no 4 of 2013
19.11.2018	AERA accorded DIAL to charge Base Airport Charges (BAC) + 10% of BAC from 1st December 2018. The order acknowledged the eligibility of DIAL to charge minimum tariff of BAC +10% of BAC any year during the term of the concession.

1.2 TDSAT order and its impact on current tariff filing:

The First tariff order appeal of DIAL and other stakeholders pending before TDSAT was decided and TDSAT had pronounced order for DIAL appeal 10/2012 on 23rd April'2018. And the same is annexed herewith as **Annexure – 1** for ready reference. Following is the relevant extract of the TDSAT order referred:

"Some of the salient observations and directions on material issues are summarized hereinbelow for the purpose of easy reference so that these directions and observations are carried out and/or kept in mind by AERA at the time of tariff formulation for Aeronautical Services for the next control period that may be falling for consideration:

(i) In exercise of powers under Section 13 of the Act, AERA is required to respect rights/concessions etc. (See Para 31).

(ii) Contractual rights can be voided only on the basis of explicit statutory provisions or implications from statutory provisions permitting no other option (See Paras 34 and 36)

(iii) Even when the Airport Operator engages in providing an Aeronautical Service through its servants or agents, the service must be deemed to be one provided by the Airport operator. The colour of revenue from Aeronautical Service cannot get changed to that of revenue from Non-Aeronautical Service, by an act of delegation or leasing out by the Concessionaire. (See Paras 57 and 59)

(iv) Revenue from Cargo and Ground Handling charges are required to be treated as non-Aero revenue (See Para 84)

(v) For future, the exercise for Assets allocation has to be redone, if not redone already (See Para 86).

(vi) Levy and determination of User Development Fee (UDF) is lawful but its use and appropriation must also be transparent lawful and accounted for in the future exercise for tariff determination (See Para 96).

(vii) RSD of Rs.1471 crores cannot be a zero cost debt. Its cost needs to be ascertained and made available to DIAL through appropriate fiscal exercise at the time of next tariff redetermination (See Para 106)

(viii) Although rate of 16% as return on Equity not interfered with, AERA may redo the exercise through a scientific and objective approach, independently of any observations in the Third Control Period. (See Para 113)."

DIAL also relies on the Judgment dated 15th November 2018, in the matter of Appeal no 4 of 2013 filed by Mumbai International Airport Ltd (MIAL). The referred order is attached herewith as **Annexure-2**. Since the provisions of the concession at DIAL are similar to that of MIAL, the direction of the order shall be also applicable to DIAL. The relevant portion of the order are reproduced below for ready reference:

"*To conclude, we find no good reason to interfere with the impugned tariff order, except to the extent indicated below –*

(i) In respect of decision XV.a, the question of 'S' as an element of revenue pertaining to aero services for the purpose of calculating 'T' is remanded back. Only to this limited extent, we direct AERA to consider the issue afresh through a consultative process in the next control period that may be falling for consideration.

(ii) We direct AERA not to exclude the amount of Upfront Fee from the equity share capital of MIAL while determining WACC.

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

(iv) In view of facts and stand of the appellants noted in paragraphs 3 and 4 of this order, it is clarified that in respect of relevant issues not pressed in these appeals but decided in DIAL's appeal No. 10/2012, that judgment dated 23-4-2018 shall govern the parties herein."

DIAL in the present submission has considered the impact of above referred judgment at appropriate places. In view of the above judgments DIAL has considered the following issues in the present tariff application:

- **Return on Refundable Security Deposit (RSD)** : In view of the judgment dated 23rd April 2018 considered return on RSD in its WACC calculation from the first control period
- **Adjustment of WACC on account of Upfront Fee**: DIAL has considered the Upfront Fee in the WACC calculations as part of the equity in view of the judgment dated 15th November 2018
- **Aeronautical tax calculation including S- Factor**: TDSAT has remanded the matter toe AERA for reconsideration. DIAL has considered the S-Factor as part of the revenue for calculation of the aeronautical tax computation. It is pertinent to note that the aeronautical target revenue is achieved through a combination of cross subsidy (S-Factor) and revenue from aeronautical tariff. Hence the revenue for calculation of tax should consider the S-Factor and revenue from aeronautical tariff as part of income.

Further, the Target Revenue calculated for the first control period and the second control period would have to be revised and effect of change on account of various factors enumerated hereinafter needs to be trued up in the determination of Aeronautical tariff for Third control period.

DIAL would also like to state that the certain issues arising out the orders of the AERA and subsequently TDSAT with respect to the aeronautical tariff of DIAL for the first period, and consequently which has equivalent effect on the tariff of second control period, have been subjected by DIAL to the further adjudication by the Hon’ble Supreme Court in the Civil Appeal no. 8378 of 2018. DIAL reserves the right to submit any further or revised submissions pertaining to the matters in appeal, if and when such appeal is finally adjudicated and thus request AERA to accordingly give effect to such matters in its tariff determination exercise for DIAL.

2 Truing up for the first control period (1st April'2009 to 31st March'2014)

The Authority has considered the true up for the first control period vide its order no 40 /2015-16 dated 10th December'2015. DIAL had filed an appeal against the stated order on 11th January'2016 before the then AERAAT which was subsequently transferred to the TDSAT. The state appeal is pending for adjudication at the Hon'ble TDSAT.

Hon'ble TDSAT vide its order dtd. 23rd April'2018 on DIAL appeal no 10/2012 for first control period had adjudicated on various issues raised by DIAL. In order to give effect to the TDSAT order DIAL has proposed to true up the relevant building block from first and second control period.

In addition to the implication of the TDSAT order referred above, DIAL has also considered other issues which had not been earlier dealt by the Authority in the truing up for the first and second control period. These issues have been elaborated in the subsequent sections

2.1 Return on Equity

2.1.1 Rate of return on Equity

Aeronautical Charges to be levied and collected by DIAL at the IGI Airport, New Delhi are calculated in terms of the SSA. In this regard, it would be relevant to refer to Schedule 1 of the SSA which provides for the principles as well as the formula for calculation of Aeronautical Charges. Schedule 1 of the SSA reads as under:

"Principles

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

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

6. Independence: The AERA will operate in an independent and autonomous manner subject to policy directives of the GOI on areas identified by GOI.

7. Service Quality: In undertaking its role AERA will monitor, pre-set performance in respect to service quality performance as defined in the Operations Management Development Agreement (OMDA) and revised from time to time.

8. Master Plan and Major Development Plans: AERA will accept the Master Plan and Major Development Plans as reviewed and commented by the GOI and will not seek to question or change the approach to development if it is consistent with these plans. However, the AERA would have the right to assess the efficiency with which capital expenditure us undertaken.

9. Consultation: The Joint Venture Company will be required to consult and have reasonable regard to the views of relevant major airport users with respect to planned major airport development.

10. Pricing responsibilities: Within the overall price cap the JVC will be able to impose charges subject to those charges being consistent with these pricing principles and IATA pricing principles as revised from time to time including the following:

> *(i) Cost reflectivity: Any charges made by the JVC must be allocated across users in a manner that is fully cost reflective and relates to facilities and services that are used by Airport users;*
>
> *(ii) Non discriminatory: Charges imposed by the JVC are to be non discriminatory as within the same class of users;*
>
> *(iii) Safety: Charges should not be imposed in a way as to discourage the use of facilities and services necessary for safety;*
>
> *(iv) Usage: In general, aircraft operators, passengers and other users should not be charged for facilities and services they do not use.*

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

The revenue target is defined as:

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

Where *<u>TR</u> = Target Revenue*

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

<u>WACC</u> = nominal post-tax weighted average cost of capital, calculated using the marginal rate of corporate tax

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

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

T = corporate taxes on earnings pertaining to Aeronautical Services.

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

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

i = time period (year) i

As such, the first and foremost step in the calculation of Aeronautical Charges is the calculation of Target Revenue (TR) which is to be calculated as per the formula given below:

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

Therefore, the calculation of Target Revenue is dependent on the regulatory blocks enlisted in the formula above which have to be ascertained and calculated in terms of their definition given in the SSA. One of the regulatory block so used in the calculation of Target Revenue is WACC which has been defined as 'nominal post-tax weighted average cost of capital, calculated using the marginal rate of corporate tax'.

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

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

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

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

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

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

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

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

Post-tax cost of equity = 16 *[1/(1- 30%]
= 16 *[1/(100-30/100)]
= 16 * [1/0.7]
= 16 * 1.43
= 22.8%

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

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

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

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

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

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

2.1.2 Upfront Fee

Further, we refer to the TDSAT order dated dtd. 15th Nov'2018 on MIAL appeal no. 4 of 2013, at Para 41(ii) where the tribunal has directed that upfront fee should not be excluded from the equity share capital while determining WACC. Accordingly in case of current tariff filing DIAL has also considered Rs 150 Cr paid with respect to upfront fee as part of equity while computation of WACC.

2.2 Foreign Exchange Rate Variation

DIAL as a part of cost optimization, leveraging on foreign currency inflow and optimizing cash flows have taken foreign currency loan in the FY'10 & FY'14. The benefit of lower cost has been passed on to the passenger in terms of lower tariff however on the other side due to currency fluctuation DIAL had to incur forex losses. DIAL in its prudence had taken the foreign currency loan however such loans were subjected to foreign currency fluctuations. It may also be noted that the loans were taken before any such guidelines prescribed by AERA on the same for DIAL.

DIAL during the tariff filing of first as well as second control period had submitted to consider the forex loss as per AS-11. Authority in its order 40/2015-16 has not accepted DIAL approach for allowing forex loss in to RAB as per AS-11. Following is the authority's view with respect to foreign exchange loss at para 8.25 of the order no 40/2015-16:

*"While the Authority is inclined to consider foreign exchange rate fluctuations, it is not persuaded to consider the approach of making adjustments in RAB. **Normally, actual losses incurred by the operator on account of fluctuations in foreign exchange are expensed out** while determining tariff for the operator. The Authority is of the view that in case it were to consider foreign exchange rate fluctuations by expensing out actual losses on this account, it would also true up the WACC (including actual interest rates on domestic term loan). The Authority had communicated to DIAL to consider foreign exchange losses along with true-up of WACC……*
……The Authority had communicated to DIAL to consider foreign exchange losses along with true-up of WACC. However, DIAL did not exercise any option." ***[Emphasis added]***

DIAL basis AERA's opinion has considered the actual cash outgo relating to foreign exchange variation in the repayment and interest payment for loans in foreign currency as an expense.

The actual loss has been certified by the Statutory Auditor and is placed as **Annexure 3** for ready reference. The actual forex loss as expense is further allocated in to aero and non-aero in applicable asset allocation ratio for relevant control period.

Accordingly, for the first control period following will be the additional expense on account of forex which need to be considered as expense for the purpose of true up:

Table 1 Actual forex cash outgo for first control period (Rs/Cr)

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

2.3 Return on Refundable Security Deposit (RSD)

The Authority vide its Order no 3 dated 24th April'2012 had decided to consider RSD as a means of finance at zero cost for WACC calculation. However, DIAL had considered the return on RSD equivalent to cost of equity which was supported by various expert evidences. Aggrieved by the decision of the Authority DIAL had filed an appeal before the AERAAT / TDSAT on various issues including return on RSD. The TDSAT vide its order dated 23rd April'2018 had adjudicated on issues including the return to be allowed on RSD. The relevant extract of the para 106 of the order dated 23rd April'2018 relating to the return on RSD is reproduced below:

> *"Clearly, in our opinion, this money has wrongly been treated as debt at zero cost. The well accepted commercial practices and norms need to be respected by the Authority and therefore, return on RSD amount should be re-determined by it for the reasons indicated above. Instead of interfering with the impugned tariff determination we direct that the amount due to DIAL under this head should be worked out and made available to DIAL through appropriate fiscal exercises which should be undertaken when the exercise of redetermination of tariff for IGI Airport, Delhi is next undertaken in due course."*

Since, RSD is eligible for return, DIAL is hereby submitting its request for true up of DIAL tariff eligibility on this account.

DIAL in its past submissions had stated that the return on RSD should be provided equivalent to the cost of equity. This has also been supported by various expert reports. Some of the relevant extract of expert report reproduced herein below:

1. **KPMG** provided report on treatment of specific elements of capital and operating expenditure for determining Regulatory Asset Base (RAB) and basis for proposing a fair rate of return on such investment. In the report KPMG had discussed the treatment of Refundable Security Deposit (RSD). KPMG report is attached as **Annexure-4.** KPMG at para 2.7 in its report concluded following:

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

2. **Kalypto Risk Technologies Ltd**, (Kalypto) a subsidiary of Credit Analysis & Research Limited [CARE] has also done detailed study and stated as under:

   "the amount mobilized through RSD exhibits equity like features and as such qualifies for being treated as quasi equity and thus being eligible for close to equity returns."

   The report referred above is attached as annexure herewith. **Annexure-5**

3. Lenders of the Delhi Airport projects also considered RSD as Quasi Equity while calculating Debt Equity Ratio (DER).

Considering above expert report and RSD having equity like features, DIAL has considered return on RSD equivalent to cost of equity.

2.4 Weighted Average Cost of Capital (WACC)

As discussed in the previous paragraph, DIAL has proposed to true up the entire WACC for the first control period. Accordingly, DIAL has considered the revision in the WACC basis the actual cost of debt, cost of equity as proposed at para 2.1.1, inclusion of upfront fee at para 2.1.2 and RSD.

Table 2-Actual WACC for first control period

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

The revised WACC accordingly considered at 14.42% for the first control period

2.5 Adjustment towards Regulatory Asset Base (RAB)

2.5.1 ATC tower capitalization:

The Authority vide its order no 28/2011-12 dtd 14.11.2011 has allowed DIAL to recover the Development Fee (DF) towards part funding of the project cost. The DF determined under the said order includes Rs 350 Cr towards Air Traffic Control (ATC) Tower.

As per AAI Act, OMDA and SSA, ATC is meant for AAI to provide CNS/ATM services at IGI Airport and accordingly gets covered under Reserved Activities which is outside the scope of DIAL. During the project phase, AAI had requested for a New ATC Tower based on the Operational requirements. AAI also submitted that the cost of the same has been included in the overall Project Cost and funding of this can be made from the DF.

The assets corresponding to the ATC have not been capitalized in the DIAL accounts. AERA allowed DIAL to collect DF to the tune of Rs. 3415 cr including ATC cost of Rs 350 Cr. Since, the ATC asset are not capitalized in DIAL books the DF adjustment should be reduced to Rs. 3065 Cr (Rs 3415 Cr – Rs 350 Cr)

AERA at Table 21 of order no 40/2015-16 dtd. 8th Dec'2015 has adjusted the amount of development fee (DF) from regulatory asset base. Till FY'14 DIAL had drawdown the DF of Rs. 3241.37 Cr. and accordingly AERA adjusted total DF of Rs. 3241.37 Cr. This adjustment wrongly considers Rs. 176.37 Cr of DF drawn on account of ATC. Since the asset is not capitalized there is no reason of deduction of RAB on this account.

It is envisaged that the ATC tower would be capitalized in FY 2018-19, hence, DIAL has considered the ATC tower capitalization and adjustment of DF on this account in FY 2018-19. Accordingly DIAL requests the Authority to consider DF adjustment for the first control period to the levels of Rs. 3065 Crores

2.5.2 **Baggage screening related asset**: Pursuant to the implementation of second control period order the aeronautical tariff as fallen below the Base Airport Charges (BAC) +10% of BAC. Hence, DIAL had approached AERA for the implementation of tariff equivalent to BAC+10%. Authority has issued the order no 30/2018-19 dated 19th November 2018 to implement the BAC+10% tariff. However, the order had the following decision related to charging of X-Ray Baggage charges:

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

DIAL has proposed to remit the amount of Rs. 119.66 Crores relating to baggage screening assets to PSF account. Accordingly the assets relating to Rs 119.66 Crores have been added to the aeronautical RAB in the relevant years of capitalization.

Accordingly DIAL has revised the opening RAB during the first control period to the extent the correction explained above.

Table 3- RAB calculation for CP 1 (Rs/Cr)

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

2.6 Rehabilitation of Runway 10/28

The Authority had approved the project cost related to DIAL in the order no 28/2011-12. The authority while disallowing certain amount in the order had also disallowed Rs 17.50 cr expense in capex and allowed the same as part of operational expenditure. The relevant extract of order no 28/2011-12 is as below:

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

AERA in the true up of CP1 has inadvertently omitted the same in true up of operating expense, since this is an error of omission, DIAL has considered the same in first control period true up computation. Accordingly, DIAL has considered the expense of Rs 17.50 Crores in the FY 2011 and requests the Authority to allow the same as operating expenses.

2.7 Revenue from revenue share assets

Following issues are to be considered while considering revenue from revenue share assets:

2.7.1 Revenue from Fuel Farm

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

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

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

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

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

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

428	*The heads of Aeronautical Services mentioned in Schedule 5 of OMDA are not separately captured in the format provided for business plan in RFP. Under which head do each of the Aero Services get clubbed?*	*In respect of Aeronautical Services the only charges levied are Landing Fees, Parking Fees, Housing Fees and the facilitation component of the Passenger Service Fee.*
690	*Oil Companies* *What is the present arrangement with companies supplying ATF and AAI. What are the charges received by AAI. Please provide copies of formal arrangements.* *· Is there any proposal for allowing private oil companies to supply ATF* *· What is the current arrangement for use of hydrant system and any new proposal for future?* *· Who is responsible for insurance of the Oil supply system*	*Presently AAI is charging lease rental from oil companies for allotted land. However, oil companies (IOC, BPCL, & HPCL) have agreed to pay throughput charges with retrospective effect w.e.f. 1-4-2001.* ***Quantum of throughput charge is to be agreed between AAI and oil companies.*** *2. Yes.* *3. Currently hydrant at Tr-2 IGIA is owned by BPCL and all 3 companies IOC, HPCL, and BPCL share' this facility on a common usage basis.*

		4. Oil Company is responsible for oil supply system.
978	*Refer your reply no 95 to Query (IGIA), raised by one of the bidders wherein you have informed that "oil companies (IOC, BPCL, HPCL) have agreed to pay throughput charges with retrospective effect w.e.f. 1-4-2001."* *Kindly inform us 1) The throughput charge rate and the absolute amount -year wise that is due I expected to be due from each of the oil companies.2) The throughput of each oil company*	*The Oil Companies have recently agreed in principle to pay the throughput charges but exact quantum is not yet decided.*
1092	*Would the JVC be permitted to share the revenue from the fuel suppliers at the Airport apart from charging lease rentals?*	*Yes. JVC will have freedom to negotiate with the fuel companies.*

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

"***5.2 Transition Phase***

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

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

*(i) **Existing Contracts**: The JVC shall take best efforts, and AAI shall render all reasonable assistance, to transfer / novate AAI under all existing contracts and agreements between AAI and any third party, as relatable to the Airport, with the JVC, on the principle that such transfer / novation would release AAI of all liabilities and obligations under such contracts or agreements as arising from and after the Effective Date (except those pertaining to Legacy Matters). The Parties, along with relevant third parties shall execute necessary documentation or put in place necessary arrangements for the aforesaid transfer / novation. <u>The Parties expressly agree that in respect of existing arrangements of Indian Airlines Ltd. and Air India Ltd. for usage of land and/or building at the Airport and Public Sector oil companies in respect of common hydrant infrastructure for aircraft fuelling at the Airport, for which no express written contract has been executed or presently exists, such existing arrangements shall continue for a period of six (6) months from the Effective Date and the JVC shall during such period mutually agree with Indian Airlines Ltd., Air India Ltd. and Public Sector Oil companies in respect of such arrangements going forward.</u> Provided however that any third party contract*

that cannot be specifically novated to the JVC for any reason whatsoever shall be performed by the JVC (at its own risk and cost) for and on behalf of AAI (as if the JVC was an original party to the said contracts, in place of AAI). Provided further that JVC shall indemnify and keep indemnified the AAI against any liability or costs arising under such contracts (including, for the avoidance of doubt, contracts relating to capital works-in-progress included in the list of Mandatory Capital Projects), including specifically, payments due to the counter-parties of such contracts or to any other Entities pursuant to such contracts. Any benefits arising from such contracts shall also vest with JVC. Nothing contained in this Article 5.2 (b) (i) shall prejudice the payment obligation of the JVC in respect of payments due from August 30, 2005 under contracts for capital works-in-progress as contained in Article 5.2 (b) (ii) hereof."

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

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

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

The answer to the said query lies in the definition of clause (b) of Revenue Share Assets under the formula provided in schedule 1 of SSA which reads as under:
""Revenue Share Assets" shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of aeronautical related services arising at the Airport and not considered in revenues arising from Non-Aeronautical Assets (eg. Public Admission Fee)"

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

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

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

2.7.2 Revenue from existing assets

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

> "*14.20.3 AAI/MoCA being the agencies of the sovereign to have leased the land to DIAL are best placed to prescribe the mechanism for land monetization by DIAL in future and the formulation for treatment of revenue generated from monetization of land towards determination of aeronautical tariff in respect of IGI Airport, Delhi. The Authority proposed to request to AAI/MoCA for their considered view in this regard.*
>
> *14.20.4 Finally, the Authority proposed not to consider the amount of Rs. 390.05 crore for the First Control Period (revenues realized by DIAL from Commercial Property Development) and Rs. 549.24 crore for the Second Control Period (revenues projected to be realized by DIAL from Commercial Property Development) towards determination of aeronautical tariff in respect of IGI Airport, Delhi, pending the receipt of views of AAI/MoCA."*

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

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

"**2.1 Grant of Function**

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

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

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

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

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

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

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

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

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

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

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

The aforementioned services are defined in the OMDA as under:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20.1.1 *The JVC hereby agrees and undertakes that from the Effective Date and during the Term and thereafter, it shall indemnify and keep indemnified and otherwise save harmless, AAI, its agents and employees, from and against all claims, demands made against and/ or loss caused and/ or damages suffered and/ or cost, charges/ expenses incurred or put to and/ or penalty levied and/ or any claim due to injury to or death of any person and/ or loss or damage caused or suffered to <u>property owned or belonging to AAI</u>, its agents and employees or third party as a result of any acts, deeds or thing done or omitted to be done by JVC or as a result of failure on the part of JVC to perform any of its obligations under this Agreement or on the JVC committing breach of any of the terms and conditions of this*

Agreement or on the failure of the JVC to perform any of its statutory duty and/ or obligations or failure or negligence on the part of JVC to comply with any statutory provisions or as a consequence of any notice, show cause notice, action, suit or proceedings, given, initiated, filed or commenced by any third party or Government Authority or as a result of any failure or negligence or default of JVC or its contractor(s) and/ or sub-contractors and/ or invitees as the case may be, in connection with or arising out of this Agreement and/ or arising out of or in connection with JVC's use and occupation of Airport Site and/ or Airport and/ or the provision of Airport Services.

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

"2.1 ***Demised Premises***

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

"5.1 ***Term***

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

5.2 ***Reversion***

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

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

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

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

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

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

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

"12.1 Tariff

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

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

12.2 Charges for Non-Aeronautical Services

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

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

OMDA:

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

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

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

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

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

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

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

SSA

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

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

…

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

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

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

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

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

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

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

…

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

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

The revenue target is defined as:

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

Where *<u>TR</u> = Target Revenue*

<u>RB</u> = regulatory base pertaining to Aeronautical Assets and any investments made for the performance of Reserved Activities etc. which are owned by the JVC, after incorporating

efficient capital expenditure but does not include capital work in progress to the extent not capitalised in fixed assets. It is further clarified that penalties and Liquidated Damages, if any, levied as per the provisions of the OMDA would not be allowed for capitalization in the regulatory base. It is further clarified that the Upfront Fee and any pre-operative expenses incurred by the Successful Bidder towards bid preparation will not be allowed to be capitalised in the regulatory base

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

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

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

<u>T</u> = corporate taxes on earnings pertaining to Aeronautical Services.

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

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

<u>i</u> = time period (year) i "

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

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

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

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

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

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

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

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

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

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

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

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

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

2.7.3 Revenue from disallowed area

As per Non aero definition provided under OMDA the non-aeronautical assets are those which are required or necessary for the performance of Non-Aeronautical Services.

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

""Non-Aeronautical Assets" shall mean:

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

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

The technical auditor i.e. EIL in it's evaluation opined that that the subject area of 8652 sq. mt. need not have been built as there are sufficient F&B area already available. Authority based on technical auditor's report has disallowed the cost pertaining to this area while approving project cost. Since the authority had ascertained that the area was not required for performance for non-aeronautical services hence the same cannot be considered as part of revenue from Revenue Share Assets.

Accordingly we have adjusted the revenue from Revenue Share Assets to this extent. An auditor certificate for revenue from disallowed area is attached as **Annexure – 6**.

2.7.4 Exclusion of Annual Fee in the calculation of S-Factor

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

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

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

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

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

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

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

Clause 3.1.1 of SSA provides that

> *….GOI further confirms that, subject to Applicable Law, it shall make reasonable endeavours to procure that the Economic Regulatory Authority shall regulate and set/ re-set Aeronautical Charges, in accordance with the broad principles set out in Schedule 1 appended hereto. Provided however, the Upfront Fee and the Annual Fee paid / payable by the JVC to AAI under the OMDA shall not be included as part of costs for provision of Aeronautical Services and no pass-through would be available in relation to the same.* However, Schedule 1 of the same SSA states that .. *"S = 30% of the gross revenue generated by the JVC from Revenue Share Assets. The costs in relation to such revenue shall not be included while calculating Aeronautical Charges."*

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

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

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

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

DIAL has accordingly considered revenue from revenue share assets after excluding revenue from existing assets and annual fee. The audit certificate certifying revenue from existing assets is attached herewith as **Annexure-7**. Accordingly we request Authority to exclude income from demised premises and annual fee from the revenue from revenue share assets.

2.8 Revised true up for first control period

The revised true up for the first control period is as follows

Table 4 True up for first control period proposed by DIAL (Rs/Cr)

Particular	2010	2011	2012	2013	2014
Return on RAB	359.23	761.34	1,205.21	1,109.75	1,065.45
Expense	366.93	512.60	943.31	593.88	749.56
Depreciation	111.90	224.81	374.96	337.28	372.63
Taxes	-	-	-	-	-
Gross Target Revenue	**838.05**	**1,498.75**	**2,523.48**	**2,040.91**	**2,187.64**
Less: Cross Subsidy from NAR	27.34	66.06	110.64	128.29	153.72
Net Target Revenue	**810.71**	**1,432.69**	**2,412.83**	**1,912.62**	**2,033.92**
Actual Revenue	**422.14**	**464.81**	**482.92**	**2,126.95**	**2,671.54**
Difference	388.57	967.88	1,929.91	(214.33)	(637.62)
PV Factor	1.71	1.50	1.31	1.14	1.00
Total	**3,760.15**				

3 Truing up for the second control period: 1st April 2014 to 31st March 2019

The Authority has approved the tariff for the second control period vide its order no 40/2015-16 on 8th December 2015 basis the projection considered therein. DIAL has considered the true-up of second control period eligibility basis the actual. Accordingly the revised building blocks have been worked out, details of which are presented in the subsequent sections. It is pertinent to note that the Financial Year 2018-19 forming part of the second control period has not been completed hence has been considered basis projection.

3.1 True up of Regulatory Asset Base –

3.1.1 Opening RAB

As discussed in para 2.5.1 above, the excess deduction of DF to the tune of Rs 176.36 crore needs to be adjusted from Regulatory Asset Base. Further, the amount corresponding to baggage screening equipment earlier funded through PSF is required to be considered in the opening RAB as explained at Para 2.5.2. The opening RAB as on 1st April'2014 will get revised to that extent and the revised opening RAB will be as follows:

Particular	**As per AERA**	**As per DIAL**
Regulatory Asset Base as on 31st March'14	6748.22	6919.27
Hypo RAB as on 31st March'14	357.38	357.38
Baggage Screening Equipment	-	96.71
Total	**7105.60**	**7373.36**

3.1.2 RAB Addition

Authority in order no 40/2015-16 has decided to true up the projected additions to RAB based on actual audited values of these additions. For the purpose of true up for second control period DIAL has considered the actual aeronautical addition to regulatory asset base.

The assets which are directly attributable to aero asset has been allocated as aero, assets which are directly attributable to non-aero has been allocated to non-aero asset. Assets which were common have been allocated in their respective ratio.

Based on actual addition and allocation basis, the auditor has certified actual aeronautical addition during second control period. An auditor certificate in this regard is attached as **Annexure – 8.**

3.1.3 RAB Allocation

The asset allocation has been scientifically derived from a methodology listed below:

a) Firstly, the admissibility test has been applied to all assets in the books. The Upfront Fee paid to AAI, capitalized as Intangible asset, has not been considered as part of Aeronautical Asset since it is not mandated to be classified under Aeronautical Assets as per SSA. As such this has been tagged as In-Admissible Assets.
b) On the balance assets: Asset which directly related to an activity covered under Schedule 5 of OMDA is tagged as Aeronautical. Assets on airside are classified into Aeronautical Assets and are 100% allocable to the Aeronautical Assets. Investment in assets like Runways, Drainage and Culverts, Taxiways, Aprons and Bays, Airfield Ground Lighting (AGL), Satellite rescue and fire station, perimeter roads, boundary wall, Sub-stations etc. have been allocated as Aeronautical.
c) Terminals: The investment in cargo terminal is considered as non-aeronautical as the same is covered as Non-Aeronautical Service as per Schedule 6 of OMDA. In case of the passenger terminal building (PTB), they are primarily used for passenger processing and facilitation. PTB are therefore aeronautical asset except in where such area is clearly identified to retail or commercial activity which are classified as Non-Aeronautical Asset.
d) Assets which have common usage and support the overall functioning of the management of the airport for example Administrative office, furniture, laptops etc. have been allocated on the overall terminal area mix of Indira Gandhi International Airport.
e) Assets which are not directly allocable to either aeronautical or non-aeronautical are classified as mixed assets. In case such assets are related or located to a particular terminal the same has been allocated based on that terminals area allocation mix. The common asset like terminal building has been allocated based on area allocation. The areas within the terminal buildings related to passenger facilitation represent an aeronautical asset in accordance with the principle of avoidable cost concept. Investments in the terminal building purely on account of retail or commercial activities have been allocated to non-aeronautical. DIAL had submitted the actual terminal area ratio on in its submission for the second control period. However, the authority had considered area allocation submitted by Jacobs consultants dtd. 17th November'2011 (attached as **Annexure 9**) as the basis for its determination in second control period. In the present submission DIAL is considering the allocation as considered by Authority in its order no 40/2015-16 pending adjudication at TDSAT.

3.2 Weighted Average Cost of Capital (WACC)

AERA in it order no 40/2015-16 had considered WACC of 9.97%. Authority in its order for second control period had continued with the decision it had taken in the order no 3/2012-13 for first control period for not considering any adjustments related to currency fluctuations on foreign currency borrowings or it's interest payments.

In parlance with para 8.25 of the order 40/2015-16 and para 2.2 above, DIAL has reviewed its position on forex loss again and decided to accept authority's view to consider foreign exchange rate fluctuations by expensing out actual losses on this account and true up of WACC. Accordingly, the participle of WACC are considered for true up and presented below:

Cost of Equity- AERA in its order considered cost of equity @16%, however in line with our submission at para 2.1.1 above the cost of equity should be 22.8%. Accordingly we have revised our submission considering cost of equity @ 22.8%.

Return on RSD- DIAL has considered return on RSD in line with TDSAT order. The detailed rational has been presented at para 2.3 above. Accordingly return on RSD has been considered as equivalent to cost of equity at 16%.

Cost of debt - The cost of debt is calculated based on actual outstanding debt and interest. Following is the summary of debt and interest cost for second control period:

Table 5: Details of cost of debt for second control period

Particular	2015	2016	2017	2018	2019
Average debt	5,395.47	5,418.91	5,396.03	5,311.91	5,301.36
Interest	488.58	486.54	467.26	492.80	575.17
Effective cost of debt	9.36%	9.36%	9.36%	9.36%	9.36%

3.2.1 Return on Refundable security deposit (RSD)

As per TDSAT order DIAL is eligible for return on RSD however TDSAT does not specify the quantum of return to be allowed on RSD. KPMG and Kalypto (subsidiary of CARE Ratings) also opined that RSD has equity like feature and should be treated akin to equity. Hence, the return between debt and equity should be allowed by AERA.

Since the RSD has feature more akin to equity, DIAL has considered return equivalent to equity.

The WACC accordingly has been revised basis the actual gearing of debt, equity and RSD. Further, the actual cost of debt has been considered. The revised WACC for the second control period is presented in the table below:

Table 6: Details of WACC for second control period

Particular	Allowed by AERA	1st April'14 to 31st March'19
Gearing		
Equity	29.18%	27.14%
RSD	18.67%	15.72%
Debt	52.16%	57.14%
Cost		
Equity	16.00%	22.86%
RSD	0.00%	16.00%
Debt	10.17%	9.36%
WACC for CP III	**9.97%**	**14.07%**

3.3 Depreciation

As per AERA order no 40/2015-16 the depreciation for second control period is subject to true up based on actual. The actual aeronautical related depreciation during the second control period has been verified by the auditor and the relevant audit certificate attached as **Annexure - 8** and **Annexure – 10** (relating to depreciation on baggage screening equipment). Following is the summary of actual depreciation and depreciation allowed by AERA:

Table 7-Depreciation for second control period

Particular	2015	2016	2017	2018	2019	Total
As per AERA order no 40/15-16						
RAB	510.07	483.61	488.24	494.28	499.08	**2,475.28**
HRAB	29.24	27.28	26.99	26.79	26.48	**136.78**
Total	**539.31**	**510.89**	**515.23**	**521.07**	**525.56**	**2,612.06**
RAB	504.94	506.46	514.79	520.86	528.25	2,575.29
HRAB	27.86	27.73	27.86	27.96	27.93	139.35
Baggage Screening Equipment	8.75	8.75	8.75	8.75	8.75	43.73
Total	**541.54**	**542.94**	**551.40**	**557.57**	**564.92**	**2,758.37**

3.4 Operating expense

In line with the order no 40/2015-16 the operating expenses are subject to true up. Accordingly we have considered actual aeronautical expense for the purpose of second control period true up. Further, we have considered following while considering actual expense:

3.4.1.1 Forex as actual outgo basis

As explained in para 2.2 above, DIAL has considered the actual forex loss as expense for the purpose of tariff determination. Accordingly the aeronautical portion of forex loss has been considered as part of administrative expense. Details of forex loss during second control period:

Table 8: Details of forex loss for second control period (Rs/Cr)

Particular	2015	2016	2017	2018	2019	Total
Forex - Aeronautical	471.61	12.41	73.02	(0.42)	35.11	591.74
Forex - Non-Aeronautical	57.40	1.51	8.89	(0.05)	4.27	72.02
Total	**529.02**	**13.93**	**81.91**	**(0.47)**	**39.39**	**663.76**

The above details have been verified by the auditors and the certificate to this effect is annexed herewith as **Annexure 11.**

3.4.1.2 Refinancing cost

DIAL as part of cost efficiency and cash flow management had refinance its foreign currency loan and RTL by long term bonds. As part of refinancing DIAL had to incur various cost in the form of upfront fee, prepayment charges, break cost and processing fee etc. The cost to the extent of revenue in nature has been considered as part of operating expense and aeronautical portion of such operating expense has been considered as part of aeronautical expense. Such expense have been allocated in asset allocation ratio and shown separately in administrative expense. The auditor certificate for the charges is annexed herewith as **Annexure 12 and Annexure 13.**

Table 9 Details of refinance cost (Rs/Cr)

Particular	2015	2016	2017	2018	2019
IRS break cost	91.83	-	8.17	-	-
ECB Break cost	9.22	-	11.38	-	-
Prepayment Charges	-	-	29.42	-	-
Upfront & processing fee	27.15	14.17	38.10	8.83	8.83
Total	**128.20**	**14.17**	**87.07**	**8.83**	**8.83**
Aeronautical portion	**118.43**	**14.79**	**81.11**	**10.43**	**7.92**

3.4.1.3 *Allocation of expenses*

DIAL has allocated expenses based on actual expenses recorded during the second control period. The methodology followed for the allocation into aeronautical and non-aeronautical expenses is as follows:

a) All the expenditure attributable directly to Aeronautical Services or Non-Aeronautical Services were allocated accordingly; and
b) Classification of the expenditure is done based on the nature of the cost centre and respective expenditure incurred in the cost centre.
c) For the remaining costs, which cannot be directly measured, the relevant drivers were used to bifurcate such costs.

The audit certificate related to allocation of operating expense is annexed herewith as **Annexure-14**

3.4.1.4 Other considerations

Property tax- The Airport land leased out to DIAL falls partly under the jurisdiction of South Delhi Municipal corporation (SDMC) and partly under Delhi Cantonment Board (DCB). DIAL has to pay property tax to both the municipalities. Authority in previous control period had considered such tax amount on actual payment basis. DIAL has followed the same principal for the second control period and considered the same on payment basis for the second control period. An audit certificate in this regard is attached as **Annexure – 21.**

Airport Operator Fee- In line with the contractual arrangement DIAL has to pay 3% of gross revenue to the airport operator. Authority in order no 40/2015-16 had considered 3% of aeronautical revenue for the purpose of aeronautical tariff determination. DIAL has followed the same and considered 3% of aeronautical revenue of previous year as pass through in aeronautical tariff.

Airport Authority of India (AAI) Voluntary Retirement Scheme (VRS) – AAI VRS has been considered on payment basis in line with approval accorded by AERA.

Following are the details of expense allowed by AERA and actual incurred during second control period:

Table 10: Details of expense for second control period (Rs/Cr)

Particular	2015	2016	2017	2018	2019	Total
As per AERA approval						
Airport Operator Fee	84.21	89.70	75.01	14.64	16.18	279.74
Manpower cost	125.09	137.60	151.36	166.49	183.14	763.68
Operating expense	286.32	308.88	333.23	359.52	387.92	1,675.87
Administrative expense	118.97	127.08	135.74	145.01	154.93	681.73
Property tax	6.08	6.08	6.08	6.08	6.08	30.40
Utitlity cost	112.21	120.21	123.28	127.62	137.52	620.84
Payment to AAI for VRS	16.81	16.39	15.81	15.32	14.79	79.12

Particular	2015	2016	2017	2018	2019	Total
Forex and Bank Charges	-	-	-	-	-	-
Total	**749.69**	**805.94**	**840.51**	**834.68**	**900.56**	**4,131.38**
As per actual						
Airport Operator Fee	80.15	84.56	97.97	113.33	51.16	427.17
Manpower cost	118.63	112.54	117.25	147.67	169.74	665.83
Operating expense	253.56	252.61	261.63	314.92	360.20	1,442.92
Administrative expense	141.29	135.89	164.05	204.72	229.58	875.53
Property tax	20.35	5.30	5.27	28.03	6.98	65.93
Utitlity cost	112.32	121.66	106.54	113.20	159.47	613.19
Payment to AAI for VRS	16.81	16.40	15.81	15.33	14.80	79.14
Forex and Bank Charges	590.05	27.20	154.13	10.01	43.03	824.43
Total	**1,333.15**	**756.17**	**922.66**	**947.21**	**1,034.97**	**4,994.15**
Difference for true up	**583.46**	**(49.77)**	**82.15**	**112.53**	**134.41**	**862.77**

3.5 Aeronautical Tax

The Authority has considered the calculation of tax at decision no 16 of the order no 40 / 2015-16 based on the actual tax paid by DIAL. DIAL has however challenged the treatment of consideration of taxes in the appeal no 10 of 2012 before the AERAAT as well in the appeal no 1/ 2016. TDSAT has adjudicated on the matter in its order dated 26th April 2018. DIAL aggrieved by the order has challenged several issues before the Supreme Court which includes the calculation of tax for aeronautical revenues. DIAL, without prejudice to the rights and outcome of the appeals mentioned above has considered the taxes as decided by the Authority in the order no 40/2015-16.

We further refer to the direction of the TDSAT in the judgment dated 15th November 2018 in the matter of AERA appeal no 4 of 2013. The Judgment at Para 41(i) remands the matter of considering the S-Factor as part of revenue in calculation of tax, to AERA. DIAL is also of the view that the S Factor should be considered part of the aeronautical revenue while calculation of tax.

Accordingly, DIAL has considered taxes paid actual by the company for regulatory purpose and then allocated to the aeronautical segment. The allocation of tax is proposed in the ratio aero and non-aero PBT. Following is the detail of tax considered in regulatory building block compared to tax allowed by AERA in order no 40/2015-16:

Table 11- Details of Aeronautical tax for second control period

Particular	2015	2016	2017	2018	2019	Total
Tax allowed by AERA	-	-	-	-	-	-
Actual Aero Tax	-	80.33	153.24	-	-	233.57
Total	**-**	**80.33**	**153.24**	**-**	**-**	**233.57**

3.6 Cross subsidy from revenue from revenue share assets

As per the tariff order 40/2015-16, revenue from revenue share assets is subject to true up based on actual. Accordingly DIAL has considered such revenue based on actual.

Other income is not generated from the services mentioned in Schedule 6 nor from aeronautical related assets. It is in the part of the Airport operator cash management process. It is only because of the efficiency brought in by the airport operator in managing working capital. Also Authority in order 3/2012-13 has categorically excluded other income for cross subsidy purpose considering part of working capital management though Authority has not provided any cost for working capital.

Interest income relate to investment of interim surplus funds and the retention of the share-holders' funds in the business till the same are paid out as dividends. Such incomes do not form part of either aeronautical or non-aeronautical revenues. Accordingly this is outside regulatory purview.

The cross subsidy from revenue share assets would include Fuel Throughput Income and exclude revenue from AAI/existing assets. Further, as detailed at para 2.7.3 the S-Factor should be considered post Annual Fee payable to AAI. DIAL has accordingly considered the S-Factor in calculation of target revenue for the second control period. The revenue has been certified by the Auditor and attached as **Annexure – 23**.

Following are the details of revenue from Revenue Share Assets allowed by AERA vis a vis actual:

Table 12: Details for Revenue from Revenue Share Assets for CP II (Rs/Cr)

Particular	2015	2016	2017	2018	2019	Total
Allowed by AERA						
Revenue from Revenue share asset - Others	985.82	1,111.47	1,249.29	1,397.36	1,599.11	6,343.05
Revenue from Revenue share asset - Cargo	140.34	146.90	158.77	170.29	185.98	802.28
Total	**1,126.16**	**1,258.37**	**1,408.06**	**1,567.65**	**1,785.09**	**7,145.33**
S-Factor	**337.85**	**377.51**	**422.42**	**470.30**	**535.53**	**2,143.60**
Actual						
Revenue from Revenue share asset - Others	1,001.78	1,200.40	1,328.49	1,547.00	1,705.26	6,782.94
Revenue from Fuel Farm	132.18	141.85	153.86	176.77	191.47	796.13
Revenue from Revenue share asset - Cargo	157.36	159.76	163.04	199.25	211.84	891.25
Less: Revenue from existing assets	242.71	281.83	324.10	374.22	374.22	1,597.08
Less: Revenue from disallowed area	15.31	16.96	19.79	23.73	25.62	101.41
Total	**1,033.31**	**1,203.21**	**1,301.50**	**1,525.08**	**1,708.73**	**6,771.83**
S-Factor post Annual Fee	**167.43**	**194.96**	**210.88**	**247.11**	**276.87**	**1,097.24**

3.7 Base Airport Charges

In terms of Clause 3.2 of the SSA, it has been mandated that the Aeronautical Charges which DIAL is entitled to collect, are to be calculated in terms of Schedule 6 of the SSA. Relevant portion is reproduced hereinunder:

> "3.1.2 The Aeronautical Charges for any year during the Term shall be calculated in accordance with Schedule 6 appended hereto. For abundant caution, it is expressly clarified that the Aeronautical Charges as set forth in Schedule 6 will not be negotiated post bid after the selection of the Successful Bidder and will not be altered by the JVC under any circumstances."
>
> *….*
>
> *"Schedule 6*
>
> *Aeronautical Charges, for the purposes of this Agreement, shall be determined in the manner as set out hereunder:*
>
> *1. The existing AAI airport charges (as set out in Schedule 8 appended hereto) ("Base Airport Charges") will continue for a period of two (2) years from the Effective Date and in the event the JVC duly completes and commissions the Mandatory Capital Projects required to be completed during the first two (2) years from the Effective Date, a nominal increase of ten (10) percent over the Base Airport Charges shall be allowed for the purposes of calculating Aeronautical Charges for the duration of the third (3rd) Year after the Effective Date ("Incentive"). It is hereby expressly clarified that in the event JVC does not complete and commission, by the end of the second (2nd) year from the Effective Date, the Mandatory Capital Projects required to be completed and commissioned, the Incentive shall not be available to the JVC for purposes of calculating Aeronautical Charges for the third (3rd) year after the Effective Date.*
>
> *2. From the commencement of the fourth (4th) year after the Effective Date and for every year thereafter for the remainder of the Term, Economic Regulatory Authority/ GOI (as the case may be) will set the Aeronautical Charges in accordance with Clause 3.1.1 read with Schedule 1 appended to the Agreement, subject always to the condition that, at the least, a permitted nominal increase of ten (10) percent of the Base Airport Charges will be available to the JVC for the purpose of calculating Aeronautical Charges in any year after the commencement of the fourth year and for the remainder of the Term.*
>
> *.."*

On an analysis of Clause 2 of Schedule 6 of the SSA it can be seen that Clause 2 of Schedule 6 of the SSA provides that ' the Authority/ GOI (as the case may be) will set the Aeronautical Charges in accordance with Clause 3.1.1 read with Schedule 1 appended to this agreement, subject always to the condition that, at the least, a permitted nominal increase of ten (10) percent of the Base Airport Charges will be available to the JVC for the purposes of calculating Aeronautical Charges in any year after the commencement of the fourth year and for the remainder of the Term.'

As such, your good office is required to evaluate the Aeronautical Charges calculated in accordance with Schedule 1 of the SSA in comparison to the Aeronautical Charges calculated in accordance with Schedule 6, at the time of setting of the Aeronautical Charges, i.e., at the beginning of a control period.

Further, Clause 2 of Schedule 6 of the SSA expressly states that the 'permitted nominal increase' as assured by the SSA is available to DIAL for the purpose of calculation of Aeronautical Charges. Therefore, from the foregoing it can be inferred that in terms of the SSA, the date of levy of Base Airport Charges should coincide with the date on which the aeronautical tariff calculated under Schedule 1 of the SSA is calculated.

In view of the above, it is pertinent to examine the contents of the Second Tariff Order to determine the date as on which the calculation of Aeronautical Charges under Schedule 1 has been done by your goof office for the Second Control Period. The relevant portion of the Second Tariff Order is as under:

> "25.16 The Authority would like to mention that the X-factor of +96.08% is based on the date of implementation of new tariffs on 01.01.2016 that is, almost one year and nine months into the second Control Period…
>
> …
>
> Decision No. 22: Regarding the Tariff Structure/Rate Card to be considered for the second Control Period, based on the material before it and its analysis, the Authority has decided:
>
> 22.a To determine an X-factor of +96.08% (with date of implementation of tariff as 01.01.2016) based on its decisions in respect of regulatory building blocks towards determination of aeronautical tariffs for the Second Control Period (01.04.2014 – 31.03.2019) for the IGI Airport, New Delhi.
>
> …
>
> Order
>
> 28.1 In exercise of power conferred by Section 13(1)(a) of the AERA Act, 2008 and based on the above decisions, the Authority hereby determines the aeronautical tariffs to be levied at IGI Airport, New Delhi for the Second Control Period (2014-15 to 2018-19), effective from 01.01.2016 and the rate card so arrived at as of 01.01.2016 upto 31.03.2019 has been attached as Annexure I to the Order. …"

In terms of the Second Tariff Order, it is evident that the Aeronautical Charges for the Second Control Period were calculated keeping in mind the implementation date of 01.01.2016. Since, in terms of the above, the date of implementation of the Aeronautical Charges as calculated under Schedule 1 of the SSA should coincide with the date of implementation of Base Airport Charges when the former is lower than the latter, the date of implementation of Base Airport Charges should also be 01.01.2016 for the Second Control Period.

Since the X-factor and the Aeronautical Charges for the Second Control Period have been calculated taking the date of 01.01.2016 as the benchmark implementation date and it is these Aeronautical Charges which have been compared with the Base Airport Charges to determine whether the Base Airport Charges would be applicable or not. It is evident that the Base Airport Charges would be implemented on the same date as on which the Aeronautical Charges would have been implemented had the same been found to be higher in comparison to the Base Airport Charges. As such, while deciding whether the Aeronautical Charges as calculated under Schedule 1 of the SSA would apply or Base Airport Charges are to apply, the date of implementation would have to be kept constant which in the scenario of the Second Control Period is 01.01.2016. In view of the foregoing, it is submitted that the date of applicability of the Base Airport Charges for the Second Control Period should be 01.01.2016 and the true up for the same has been considered.

In order to substantiate the above claim the following table indicates that the aeronautical tariff as approved under tariff order no.40 /2015-16 had fallen below BAC +10% of BAC from 01.01.2016. The auditor certificate in respect of revenue calculated basis the tariff order no 40/2015-16 traffic and BAC +10% of BAC tariff is also attached herewith as **Annexure 15**

Table 13 Details of BAC eligibility

Particular	2015	Apr-Dec'15	Jan-Mar'16	2017	2018	2019
Revenue Approved in Order No. 40	2,989.85	2,390.35	110.02	488.02	539.50	596.62
BAC Revenue with Traffic in Order No. 40	689.33	554.27	184.08	790.94	847.36	907.88
BAC Eligibility	NO	NO	YES	YES	YES	YES

Accordingly DIAL is eligible for minimum tariff equivalent to the BAC+ 10% of BAC from 1st January 2016. The revenue basis the actual tariff for the period 01.01.2016 to 31st March 2019 is attached as **Annexure – 16.**

3.8 Summary of the building block for second control period:

The revised true up for second control period basis above submission is given below:

Table 14: Summary of Building Block for second control period

Particular	2015	2016	2017	2018	2019	Total
Regulatory Asset Base	6,854.92	6,365.81	5,927.18	5,463.33	5,291.95	
WACC	14.07%	14.07%	14.07%	14.07%	14.07%	
Return on RAB	964.23	895.43	833.73	768.48	744.38	4,206.25
Expense	1,333.15	756.17	922.66	947.21	1,034.97	4,994.15
Depreciation	541.54	542.94	551.40	557.57	564.92	2,758.37
Taxes	-	80.33	153.24	-	-	233.57
Target Revenue	**2,838.93**	**2,274.86**	**2,461.03**	**2,273.26**	**2,344.27**	**12,192.35**

Particular	2015	2016	2017	2018	2019	Total
Cross subsidy- Revenue from revenue share asset	167.43	194.96	210.88	247.11	276.87	1,097.24
Net Target Revenue	**2,671.50**	**2,079.90**	**2,250.15**	**2,026.15**	**2,067.40**	**11,095.11**
True up for first control period	**3,760.15**					
Adjusted Net Target Revenue	**6,431.65**	**2,079.90**	**2,250.15**	**2,026.15**	**2,067.40**	**14,855.26**
Actual Aeronautical Revenue	**2,818.74**	**3,265.73**	**3,777.67**	**1,528.70**	**820.64**	**12,211.49**
Difference	**3,612.91**	**(1,185.83)**	**(1,527.52)**	**497.45**	**1,246.76**	**2,643.77**
Present value of true up						
WACC	14.07%					
PV Factor	1.69	1.48	1.30	1.14	1.00	
True up as on 1st April'2019	**6,116.25**	**(1,759.93)**	**(1,987.47)**	**567.42**	**1,246.76**	**4,183.03**
BAC True UP		**273.57**	**1,087.80**	**1,061.72**	**1,017.33**	**3,440.42**

The actual aeronautical revenue has been certified by the Auditor along with billable pax and ATM for the second control period upto FY'18 are attached as **Annexure – 24.**

4 Projection for third control period (1st April 2019 to 31st March 2024)

4.1 Regulatory Asset Base

The following principle has been used to compute the Regulatory Asset Base (RAB) used for tariff determination. RAB representing the aeronautical assets is calculated as below:

RAB at the start of a year/period (Opening RAB) + Projected/Actual Capital Investment (based on capitalization date) - Projected/Actual Disposals - Projected/Actual Depreciation = RAB at the end of a year/period (Closing RAB)

$$\text{RAB for Tariff Determination} = \frac{(\text{Opening RAB} + \text{Closing RAB})}{2}$$

4.1.1 Opening regulatory asset base

The regulatory asset base had been adjusted to the extent of excess recovery made by DIAL on account of DF. Further based on actual addition and depreciation during second control period, following is the opening RAB as on 1st April'2019:

Table 15 - Opening Regulatory Asset Base

Particular	Amount
Opening RAB as on 1st April'2014	**7,015.98**
Addition net of deletion	528.31
Depreciation	2,619.02
Closing RAB as on 31st March'2019	**4,925.26**
HRAB	
Opening RAB as on 1st April'2014	357.38
Depreciation	139.35
Closing HRAB as on 31st March'2019	218.03
Overall closing RAB 31st March'2019	**5,143.29**

4.1.2 Addition to Regulatory Asset Base

As per clause 8.3.5 of OMDA, DIAL has to do periodic review of the master plan. Recently DIAL in consultation with M/s AECOM and M/s NACO had prepared Major Development Plan and accordingly submitted the expansion plan to AERA for its consideration. DIAL as part of prudent process approached AERA for in principle approval of capex based on preliminary designs and estimates. The existing terminals had reached to its sweat capacity and there was dire need of next level of expansion.

DIAL has conducted consultation with various users and submitted capex plan to relevant Authorities including AERA. AERA had appointed KITCO to review the capex plan submitted by DIAL. KITCO has reviewed DIAL submission and submitted its recommendation to AERA.

The development works at IGI Airport under Phase 3A Expansion primarily include:

1. Expansion of Terminal 1 and associated facilities – Post expansion capacity of T1 will be increased from 20 million to 40 million passengers per annum.
2. Airfield works including 4th Runway
3. Landside/Connectivity works
4. Eastern Parallel Cross Taxiways
5. Modifications to Terminal 3 and associated facilities - Post changes T3 will have improved facilities for transfer passengers and improved levels of service for International and Domestic passengers.

4.1.3 Expansion plan for third control period:

4.1.3.1 Expansion of Terminal 1 and associated facilities

Terminal 1 (T1) of IGI Airport, New Delhi handles the domestic traffic of Low Cost Carriers (LCC). These carriers have registered a phenomenal growth during the last few years, calling for an expansion of the terminal. Since T1 is operating beyond its capacity, we have proposed to undertake the expansion of terminal building (T1D and T1C), the airside and city side. The departure terminal (T1 D) and arriving terminal (T1 C) will be merged and expanded to accommodate 40 million passengers per annum.

The work would involve:

a) Expansion of departures /arrival buildings with a new architectural façade on the city side; Integrating with existing Terminal buildings, demolition of some of the existing facilities to facilitate expansion of the terminal footprint and airside asset to meet passenger requirement as per the master plan forecast. The above expansion will increase the terminal area from the current 63,000 SqM to 1,93,000 SqM. Various additional features will be added to the expanded terminal like:

- Increase of entry gates from 8 to 13
- Hand baggage processing capacity (currently 160-180 bags per hour) to increase to 250-300 bags per hour
- Arrival Baggage carousels to increase from 8 to 10 with claim length increased to 70 M

- Construction of Node Building & Pier with 22 PBBs connected to departure and arrival halls
- All the additional features needed to be integrated with the existing systems

b) The Apron are for terminal 1 needs to be reconstructed and realigned. This includes the construction of 82 aircraft parking stands, strengthening of the stands, provision of stand support facilities, AGL, floodlighting and drainage of areas. The overall detailed design for the airside shall incorporate fuel hydrant for all stands. Hydrant fuel design is to be provided by another agency (fuel concessionaires), but the EPC contractor is required to coordinate and interface to ensure that the entire work is carried out as per plan.

c) Revamping of existing grading and redesign of the existing drainage facility (including the main drainage system on the northern side which collects all the water from various drains within the airport area and channelizes the water outside the airport boundary) for both landside and airside areas falling on the northern part of the IGI airport to provide quick and efficient removal of the surface water taking into consideration the future expansion that may occur in the development of the surrounding areas. This drainage facility would also take into consideration all the future developments envisaged in the master plan including the increase in the surface water run-off due to construction of Eastern Cross Taxiway.

d) New landside facilities including landscaping works – the associated works at the landside including utility buildings, road network for connectivity to the terminals, security check points, landside drainage, water system, rain water harvesting, landscaping and revamping of the existing above systems;

e) Various electrical, mechanical and plumbing works including HVAC, lighting, sanitary, fire detection & prevention; and other facilities in the terminal & pier building – This includes new utilities / buildings and up-gradation of existing substations & other systems including complete re-design of MEP systems to meet the requirement of the new terminal building and its associated facilities which require 100% DG backup, UPS, SCADA, exterior illumination, fire detection / firefighting etc.

f) Special Airport Systems e.g. Baggage Handling System, X ray security screening for passengers and baggage as per Bureau of Civil Aviation Security guidelines, Passenger Boarding Bridges, VHT systems, visual docking system, Flight Information Display System, Public Address System etc.

g) All utility enhancements required due to expansion of the airport capacity.

4.1.3.2 Airfield *works*

The proposed developments on Airfield would cover:

a) Construction of 4th RWY & associated Rapid Exit Taxiways – parallel to RWY 11/29, of the size 4375 M X 60 M plus 7.5 M wide shoulders, suitable for operation of A-380 /other equivalent Code F aircraft, in compliance with ICAO Standards & recommend practices / DGCA Civil aviation requirements, pavement designs based on LEDFAA design program and existing soil characteristics, RWY geometry / RET and other Taxi links as per Aircraft Mix as defined in the Master Plan of IGI Airport.
   The RWY will be designed with Cat 3B AGL & navigational aids at both ends. The RWY strip will be graded as per ICAO standards. Its drainage designs will be developed so as to integrate with the over-all drainage system of the airport, leading to the eventual out-fall of the airport. This new RWY will be supported by an additional ARFF Station suitable for Cat 10 requirements as per ICAO standards as per Master Plan.

b) Construction of North Parallel Taxiway and related RETs (at north of Runway 10-28) (approx. 4000M) with other taxi links equipped with CAT 3B AGL.
c) Complete rehabilitation of old runway 9/27 to extend its life.
d) All utility enhancements required due to expansion of the airfield systems.

4.1.3.3 Landside/*Connectivity works*

a) T1 Kerb widening
b) Widen Northern Access Road to 5+5 lanes
c) Central spine road widening to 6+6 lanes
d) New access road (parallel to central spine) connecting to NH8
e) Underpasses for Radisson Road

4.1.3.4 Eastern Parallel Cross Taxiways Package

a) New Eastern Parallel Cross Taxiways (A 2.4-KM code F taxiway, which at certain locations will go above the airport approach roads with vehicular traffic underneath)
b) New Taxiway in between TWY Y and TWY Z7 Isolation bay; New TWY connection in between TWY P and RWY 28 end
c) RETs on RWY 11L-29R
d) Other taxiways associated with RWY 11L-29R

4.1.3.5 Expansion of Terminal 3 and associated facilities

In order to accommodate increasing international transfer passenger through Terminal 3 (T3) and to further improve facilities at IGI Airport, DIAL is proposing to undertake following works in Terminal 3:

a) Construction of additional transfer area for I-I (international to international) in Terminal 3. The floor plate at the arrival of Pier A & B junction area will be increased for I-I transfer to the tune of 3000 SqM area;
b) Installation of the 7th check in island along with its Baggage Handling & screening systems, additional arrival baggage carousels (2 Nos), increase in the number of emigration and immigration counters and other related IT & MEP works; installation of baggage carousals at the arrival with necessary IT & MEP works; creation of swing corridors to handle I-D & D-I passengers along with its related equipment & IT /MEP Systems.

4.1.4 Addition to RAB

The expansion plan with all detailed work plan and drawings have been shared with AERA for prior approval of expansion vide our letter number DIAL/2017-18/CEO-Office/971 dated 12.10.2017 along with all necessary details.

AERA appointed M/s KITCO to analyze the reasonableness of capex plan of DIAL. KITCO reviewed the project cost with all design and construction plan and submitted report to AERA. Based on KITCO report AERA vide letter dtd. 29th June'2018 intimated DIAL about the cost recommended by KITCO. Following is the recommended capital cost to DIAL for phase 3A expansion:

Table 16: Phase 3 A expansion details (Rs/Cr)

Package	Details	Recommended cost by KITCO
1	Expansion of Terminal 1	2,431.00
2&4	Airfield works including 4th Runway & eastern parallel cross taxiways	4,318.45
3	Landside/connectivity works	366.17
4	Modification of Terminal 3	166.98
	Total	**7,282.60**
	Others	686.00
	Grand Total	**7,968.60**

The expansion plan has been considered at the cost as considered by the Authority in the table above. However, the actual capital expenditure would be based on price discovery from competitive bidding. We request the Authority to consider the actual capex as and incurred during the control period under review as well as during the tariff determination for subsequent control period.

The capital expenditure basis the internal estimates based on capex plan is expected to culminate in the FY 2022 with following addition to aeronautical asset base of above expansion works

Table 17: Capitalisation detail for third control period (Rs/Cr)

Year	2020	2021	2022	2023	2024	Total
Aero - (a)	385.67	2,071.94	5,202.54	-	-	7,660.15
Non-Aero -(b)	-	32.47	275.98	-	-	308.46
Total (C)= (a) +(b)	**385.67**	**2,104.41**	**5,478.53**	**-**	**-**	**7,968.60**
Add: Financing allowance						
Aeronautical asset (d)	30.57	164.22	412.35	-	-	607.14
Total addition to RAB (a+d)	**416.23**	**2,236.16**	**5,614.89**	**-**	**-**	**8,267.29**

4.1.5 Financing Allowance

The expansion phase is highly capital intensive project and the Airport Operator has to invest its capital from the start of the project. Funding of such project cost will be done via debt and equity/internal accruals. Debt carries interest, the equity has its own cost/internal accruals also carry opportunity cost. Such cost is being capitalized in the asset and accordingly it should be allowed as part of RAB.

This understanding is also being captured under tariff guidelines issued for airport operator as financing allowance. DIAL for the purpose of tariff determination has considered financing allowance in RAB.

4.1.6 General Capex

DIAL has completed the construction of the new airport and associated works in FY 2010. The Terminal 3 building is now nine year old and requires high maintenance and major repairs. A detailed capex plan relating to routine capex which is envisaged during the third control period with rationale is attached as A**nnexure-17**. Highlights of the key works are as follows:

4.1.6.1 Civil Works:

a. Water proofing for terminal and node building - The water proofing to the terminal building and Node Building terrace was done during project time and it is getting damaged due to ageing factor. Generally the life of water proofing will be around 8 to 10 years. Hence, there is a need water proofing. The estimated cost of the project is Rs. 50 Cr.
b. Refurbishment of BBA and BMA flooring
c. Strengthening of pump house at T2
d. Refurbishment for creating security hold area for T2
e. Refurbishment of staff and VIP toilets at T2

4.1.6.2 Electrical:

a. LED Installation as part of Energy conservation - As Part of Energy conservation we have to install LED fittings at Terminal-3. Estimated cost is of Rs. 20 Cr.
b. Installation of UPS At terminal and Replacement of Battery of Following Capacity. Estimated cost of Rs 10 Cr.

4.1.6.3 Mechanical:

c. Additional Chiller/Cooling tower/Pumps/Replacement of AHU coils/fans/pipe/insulation in a phased manner.
d. Replacement of smoke detector, cooling tower/chiller/pumps/piping/AHU coils/fans/split units in a phased manner

4.1.6.4 Airport System

a. Automated EBS is planned to manage Peak Volumes and optimize resources considerably.
b. Improvement of BHS efficiency at Terminal 2
c. Integration of X-Ray machines with BHS SCADA and Matrix Server for seamless transaction.

4.1.6.5 Airside

a. LED type fixtures for the taxiways as part of operational efficiency improvements
b. ASDs are to be provided to monitor consecutive / adjacent lamp failures, for complying with regulatory requirements
c. CMS operating logics are to be upgraded as per the prevailing operational procedures for ensuring appropriate lighting and control of the systems.
d. Additional VOR sign boards, replacement of old signs and new signs are to be provided as per the operational requirements

4.1.6.6 *Security related expense (PSF)*

Due to various security compliances PSF has to incur capital expenditure during third control period.

Following are the details of general capex:

Table 18: Details of general capex for third control period (Rs/Cr)

Particular	2020	2021	2022	2023	2024	Total
A.Project & Engineering						
Civil	21.50	21.50	11.00	16.00	16.00	86.00
Electrical	25.55	6.90	4.80	4.65	3.30	45.20
Mechanical	16.00	13.90	11.15	7.45	9.15	57.65
Airport Systems	17.00	96.50	48.25	4.00	-	165.75
TMT	3.10	1.85	1.50	2.10	0.80	9.35
STP WTP	4.48	4.75	-	-	-	9.23
Airside Civil	12.50	13.00	14.70	11.00	8.00	59.20
Airside Electrical & AGL	14.00	13.40	24.55	27.00	25.00	103.95
A. P&E Total	**114.13**	**171.80**	**115.95**	**72.20**	**62.25**	**536.33**
B.Security- System	**2.06**	**2.16**	**0.56**	**3.06**	**190.06**	**197.90**
C.Security- IT	**21.65**	**124.3**	**6.25**	**4.3**	**8.85**	**165.35**
D. Operation related						
i. Terminal 2&3	0.82	0.30	7.02		0.22	8.36
ii. Terminal 1	55.20	18.98	16.10	21.10	43.10	154.48
Total	**56.02**	**19.28**	**23.12**	**21.10**	**43.32**	**162.84**
E. Special Project	**284.00**					**284.00**
G.Total	**477.86**	**317.54**	**145.88**	**100.66**	**304.48**	**1,346.42**

The allocation of the general capex has been considered in the asset ratio for FY'18-19.

4.1.7 Depreciation

In line with the SSA the depreciation has to be calculated in the manner as prescribed in schedule III of the Indian Companies Act 2013, in the event the depreciation rates for certain assets are not available in the aforesaid Act, then the depreciation rates as provided in the Income Tax Act for such asset as converted to straight line method from the written down value method will be considered. Accordingly, depreciation has been considered basis of useful life of asset as per companies act or remaining concession period whichever is lower.

This is also in line with the Authority's order no. 35/2017-18 dtd 12th Jan'2018 and amendment to order no 35/2017-18 dtd. 9th April'2018.

For the purpose of addition to RAB DIAL has considered average rate of depreciation at 5.92%

Following is the depreciation considered for third control period of existing regulatory assets:

Table 19: Details of Depreciation on existing assets for third control period (Rs/Cr)

Particular	2020	2021	2022	2023	2024	Total
Existing Asset						
Buildings	153.27	153.21	153.15	153.10	152.90	765.64
Lease Hold Improvements	2.24	0.46	0.51	0.11	-	3.32
Bridges,Culverts and Bunders	14.82	14.82	14.82	14.82	14.82	74.09
Electrical installation	88.42	57.53	26.44	25.98	22.85	221.23
Roads other than RCC	31.62	16.29	1.20	1.16	1.14	51.41
Runways,taxiways and Apron	107.16	106.32	103.29	96.17	91.68	504.62
Plant and Machinery	196.17	180.39	156.52	155.50	150.22	838.79
Office Equipment	0.31	0.23	0.10	0.02	0.01	0.67
Computer and Data processing	6.13	5.63	4.45	2.59	1.42	20.23
Furnitures & Fittings	16.54	11.30	3.80	3.40	3.05	38.09
Vehicles	0.72	0.66	0.61	0.42	0.42	2.83
Intangible Asset (Land use rights)	0.83	0.83	0.83	0.83	0.83	4.15
Intangible others	0.34	0.32	0.21	0.09	0.03	0.99
DF-Assets	(158.82)	(141.42)	(117.00)	(116.95)	(116.95)	(651.15)
Total	**459.75**	**406.55**	**348.94**	**337.26**	**322.41**	**1,874.91**
Expansion Asset	**37.89**	**137.22**	**381.65**	**554.32**	**564.96**	**1,676.05**
Total	**497.64**	**543.77**	**730.59**	**891.58**	**887.38**	**3,550.96**
Depreciation on Hypo RAB	24.82	23.00	22.50	23.03	22.69	116.04
Depreciation on Baggage **Screening Assets**	8.75	8.75	8.75	8.75	8.75	43.73
G.Total	**531.21**	**575.52**	**761.84**	**923.35**	**918.81**	**3,710.73**

The allocation of depreciation for third control period in aero and non-aero for existing regulatory assets as on March'2018 has been certified by the Auditor and same is attached as **Annexure – 20**.

4.1.8 Regulatory Asset Base for third control period:

Considering above additions and depreciation, following is the Regulatory Asset Base for third control period:

Table 20 - Regulatory Asset Base for third control period

Particular	2019	2020	2021	2022	2023	2024
Opening RAB	5,141.66	4,872.28	5,213.47	7,184.78	12,192.45	11,392.84
Addition	258.87	838.83	2,515.08	5,738.26	91.97	267.43
Depreciation	528.25	497.64	543.77	730.59	891.58	887.38
Closing RAB	**4,872.28**	**5,213.47**	**7,184.78**	**12,192.45**	**11,392.84**	**10,772.90**
Average RAB- A	**5,006.97**	**5,042.88**	**6,199.13**	**9,688.62**	**11,792.65**	**11,082.87**
Hypo RAB						
Opening	245.96	218.03	193.21	170.21	147.71	124.68
Depreciation	27.93	24.82	23.00	22.50	23.03	22.69
Closing	**218.03**	**193.21**	**170.21**	**147.71**	**124.68**	**101.99**
Average Hypo RAB-B	**232.00**	**205.62**	**181.71**	**158.96**	**136.20**	**113.33**
Baggage Screening Asset - C	**57.35**	**48.60**	**39.86**	**31.11**	**22.37**	**13.62**
RAB for return (A+B+C)	**5,238.97**	**5,297.10**	**6,420.69**	**9,878.69**	**11,951.21**	**11,209.83**

4.2 Weighted Average Cost Capital (WACC)

4.2.1 Equity

The equity investment in DIAL is Rs 2450 Cr which will remain in the company during third control period. There are no plan for further equity investment in the company.

Cost of Equity:

TDSAT in its order dtd 23rd April'2018 for first control period tariff appeal 10/2012 directed that although rate of 16% as return on equity not interfered with, AERA may redo the exercise through a scientific and objective approach, independently of any observations in the Third Control Period. In the present circumstance where the report conducted by the Authority is not available with DIAL we are considering the rate at 16%. We may basis fresh study amend or modify the cost of equity proposed.

DIAL as per SSA has considered post tax cost of equity. With the gross up from marginal rate of tax the effective cost of equity comes to 22.86% as explained in para 2.1.1. Accordingly DIAL has assumed cost of equity at 16% grossed up with marginal rate of corporate tax which results to 22.86% for third control period of IGI Airport.

4.2.2 Refundable security deposit (RSD)

As part of OMDA, DIAL has a right to develop land at the Airport for provision of non-transfer asset. Total land available for the development of non-transfer asset is 205 acre. DIAL as part of phase I had monetized 45 acre of land during first control period tariff and raised refundable security deposit of Rs. 1373.11 cr. DIAL has invested the money raised through non transfer asset into the airport expansion project. These assets are outside the regulatory till and it was not mandated for DIAL to use this funding for financing the project cost. Given the fact that these funds have been utilized for financing the project, DIAL should be provided a fair return on these funds which has opportunity cost. These funds are quasi-equity by nature given their super long tenor and being culled out from a bottom-line impacting revenue stream.

AERA in order no 3/2011-12 for first control period had allowed zero return over the money invested via RSD. DIAL had filed an appeal against the AERA order for first control period. The Appellate tribunal TDSAT on 23rd April'2018 has upheld that the RSD is eligible for return. The relevant extract of the para 106 of the order dated 23.04.2018 relating to the return on RSD is reproduced below:

> *"Clearly, in our opinion, this money has wrongly been treated as debt at zero cost. The well accepted commercial practices and norms need to be respected by the Authority and therefore, return on RSD amount should be re-determined by it for the reasons indicated above. Instead of interfering with the impugned tariff determination we direct that the amount due to DIAL under this head should be worked out and made available to DIAL through appropriate fiscal exercises which should be undertaken when the exercise of redetermination of tariff for IGI Airport, Delhi is next undertaken in due course.*
>
> Appellate tribunal has not quantified the quantum of return to be allowed on RSD.

At the start of control period i.e. 1st April’2019, the expected security deposit is Rs 1373.11 cr which DIAL expects to continue at the same level and no additional refundable security deposit is envisaged during third control period. A certificate of year wise refundable security deposit is attached herewith as **Annexure – 22.**

Cost of RSD:

In view of the detailed rationales given at para 2.3 of this submission DIAL has considered cost of RSD at 16%.

4.2.3 Existing debt

Bond I – USD 288.75 Mn

The outstanding balance of ECB of USD 350 Mn as on 3rd Feb’2015 was USD 288.75 mn which was refinanced by seven year long term bond. The effective interest was 6.475% including 0.35% of withholding tax. As part of minimizing foreign exchange exposure DIAL has fully hedged the principal amount of the loan through call spread options. Out of the total exposure USD 80 Mn was hedged in Jan’17 and balance USD 208.75 Mn in Jan’18.The effective cost of hedge comes to 3.675% accordingly the overall cost of debt is 10.15% (Base rate 6.125%+ withholding tax 0.35%+ hedge cost 3.677%). For the purpose of projections we have considered the exact payment schedule agreed with bankers.

The bond refinancing was done on 3rd Feb’2015 at exchange rate of Rs. 61.60 per USD and DIAL had taken call spread options for USD 80 mn at the rate of Rs. 68.00 in Jan’2017 and balance USD 208.75 Mn was hedged at the rate of Rs 63.80 per USD in Jan’2018. The call spread option covers hedge risk upto Rs. 85 per USD till maturity of the bond any risk beyond this level has to be borne by DIAL. Accordingly, DIAL had minimized the foreign exchange risk against the principal outstanding however risk towards the unhedged currency portion still remain i.e. exchange rate at which the loan is hedged versus the rate at which the loan had been drawn.

The repayment of this bond is due in FY’22 accordingly there will be expected forex loss to DIAL to the extent of unhedged currency portion. Further, for the purpose of projection DIAL has considered repayment of this bond in FY’22.

Bond II – USD 522.60 Mn

The outstanding balance of ECB-2 facility of USD 100.12 Mn (outstanding USD 83.92 Mn) and RTL of Rs 3047.50 cr (Outstanding Rs 2928.20 Cr) has also been refinanced by long term bond worth of USD 522.6 Mn payable after 10 year. The effective interest was 6.475% including 0.35% of withholding tax. The principal payment in this loan is also fully hedged and the effective hedge cost is 3.55% accordingly overall cost of debt including withholding tax and hedging cost is 10.02% (Base rate 6.125%+ withholding tax 0.35%+ hedge cost 3.547%).

The principle repayment of the loan has been fully hedged. DIAL had taken call spread option with a range starting from for Rs 67.85 per USD with an upper limit of Rs 101.86 per USD for principal obligation. The repayment of this bond is not due in current control period.

The repayment of the stated loan is due in the fourth control period. In order to service the repayment DIAL has provisioned for a sinking fund spread over equally over the balance period of the loan.

4.2.4 Funding for expansion capex:

The expansion capex has been assumed to be funded via debt and internal cash accrual in the ratio of 70:30.

Considering the existing exposure of foreign currency liability in terms of foreign currency bonds we expect that any additional borrowing will be possible only from domestic market in rupee terms.

Expected cost of borrowing

DIAL has considered 11% as cost of borrowing for new loans relating to funding of expansion capex.

Following are the details of year wise closing debt and interest payment:

Table 21: Debt details for third control period (Rs/Cr)

Particular	2018	2019	2020	2021	2022	2023	2024
Bond I - USD 288.75 Mn	1,886.69	1,886.69	1,886.69	1,886.69	-	-	-
Bond II - USD 522.60 Mn	3,414.67	3,414.67	3,414.67	3,414.67	3,414.67	3,414.67	3,414.67
Debt for expansion	-	-	623.18	2,432.11	6,668.50	6,740.72	6,276.63
Closing Debt	**5,301.36**	**5,301.36**	**5,924.55**	**7,733.47**	**10,083.17**	**10,155.39**	**9,691.30**
Interest							
Bond I - USD 288.75 Mn	148.16	204.12	204.31	204.12	170.85	-	-
Bond II - USD 522.60 Mn	344.64	371.05	371.39	371.05	371.05	371.05	371.39
Debt for expansion	-	-	120.74	401.97	647.99	737.51	715.95
Total interest cost	**492.80**	**575.17**	**696.44**	**977.14**	**1,189.89**	**1,108.55**	**1,087.35**

4.2.5 WACC calculation

Based on above forecast DIAL is expected to have WACC of 15.77%. Following are the details of gearing and effective WACC:

Table 22: WACC calculation for third control period

Particular	1st April'19 to 31st March'24
Gearing	
Equity	35.85%
RSD	9.50%
Debt	54.65%
Cost	
Equity	22.86%
RSD	16.00%
Debt	11.08%
WACC for CP III	**15.77%**

Note: Equity includes reserve and surplus is positive.

4.3 Operating expense

In line with the principle of allowing efficient cost recovery as enshrined in SSA, aeronautical operating and maintenance cost incurred by DIAL has been considered, in computing target revenue requirement. Further, SSA also acknowledges that there may be certain mandated cost which would be borne by DIAL (subject to the imposed constraints as referred in point 5 of Schedule 1 laying down the principle of tariff fixation) and the same should be considered in the O&M cost block.

SSA allows for the recovery of efficient operating and maintenance expenses pertaining to aeronautical services. In tariff filing for third control period DIAL has adopted the following aspects and principle to determine the efficient aeronautical operating and maintenance costs:

4.3.1 **Upcoming expansion at IGI Airport:** As explained in previous chapter IGI Airport is going ahead with the expansion of Terminal 1. The overall terminal area at IGI Airport including T1, T2 and T3 is 669068 sqm which with the expansion of Terminal 1 will increase by 128845 sqm. This translates in to increase of 19.26% in area. Accordingly there will be corresponding increase in cost to service area such as repair and maintenance of building and P&M, housekeeping etc. Also due to increase in Terminal capacity there will be increase in related cost such as administrative cost, manpower related cost and IT maintenance etc. Due to expansion the Terminal capacity will increase by 27% i.e. 86 mppa from current capacity of 66 mppa.

4.3.2 **Increase in minimum wages:** Historically there were normal increase of 5% in minimum wages however recently on 1st Jan'2017 the minimum wages has increased by 40% and another 6% increased has been provided wef 1st April'2017 which effectively resulted in more than 46% increase in +minimum wages against 5%-6% normal increase. This resulted an increase in all manpower related cost such as manpower hire charges, security, maintenance etc.

4.3.3 **Inflationary increase** – DIAL has considered inflationary increase towards expense. The inflation is considered basis the results of 52nd round of professional forecasters on macroeconomic indicators by RBI. Based on report DIAL has considered CPI of 4.5% for third control period.

4.3.4 **Real increase-** Considering the past trend, current economic scenario and upcoming expansion we have considered 10% real increase in some of expense.

4.3.5 **Base Year –** In order to form a basis of forecasting expense for third control period, DIAL has considered FY'18 as base year and applied growth percentage over it.

4.3.6 **Asset life-** Existing asset of DIAL is almost ten year old which required additional upkeep and repair & maintenance.

4.3.7 **Service level**- In order to maintain service level and ASQ level DIAL had to maintain certain standards of service which also result into addition operating expense and the same is necessary.

Above assumptions set out the basic principles of operating expense forecast for third control period.

4.3.8 Details of head wise operating expense is as follows:

4.3.8.1 <u>Manpower Cost</u>: In past DIAL has observed high attrition due to new upcoming airport and expansion works. Accordingly in order to retain talent, upcoming expansion and passenger growth DIAL has considered real increase of 10% in manpower cost with an inflationary increase of CPI of 4.5%. Additionally, DIAL has also considered an increase on account of expansion in line with the capacity enhancement towards additional runway as well as passenger terminal building and associated facilities.

4.3.8.2 **<u>Administrative and General Expense:</u>** Administrative and general expense consist of various expense, the key expense head in administrative and general expense are professional and consultancy, travelling and conveyance, advertising and sale promotion and head office cost. These expenses are expected to grow by real increase of 10%, with an inflationary increase of CPI 4.5%. In order to cater to the increased requirement due to the expansion at the terminal the expense would considered to increase in proportion to the additional area / capacity. Accordingly DIAL has considered the one time increase in A&G expenses in the year the expanded terminal is made operational. The increase is considered at FY'20 & FY'21 in line with the increased area.

4.3.8.3 **Utility expense**: The power demand at Delhi Airport is expected to rise due to increase of passengers, and expansion. DIAL has projected expected demand in next control period basis the internal estimates due to expansion and other factors.

Year	2018	2019	2020	2021	2022	2023	2024
Expected power consumption (In Mu)	247	287	321	342	398	458	471

4.3.8.4 **Forex-** *DIAL during the tariff filling of first as well as second control period had submitted to consider the forex loss as per AS-11. Authority in its order 40/2015-16 has not accepted DIAL approach for allowing forex loss in to RAB as per AS-11 however, authority is of the view that normally, actual loss incurred by the operator on account of fluctuations in foreign exchange are expensed out while determining tariff for the operator. Following is the authority's view with respect to foreign exchange loss at para 8.25 of the order no 40/2015-16:*

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

Further, Authority in the same order vide decision no 13.d has decided to consider true up of the impact of foreign exchange fluctuations for the second control period subject to the complete true up of WACC.

DIAL in terms of repayment and interest payment has incurred actual foreign exchange losses which should be reimbursed in tariff. DIAL has considered the actual cash outgo relating to foreign exchange variation in the repayment and interest payment for loans in foreign currency as an expense.

An expected forex loss in third control period is on account of repayment of USD 288.75 Mn in FY'22 as explained in para 2.2 above the bond refinancing of USD 288.75 Mn was done on 3rd Feb'2015. The prevailing exchange rate at that time was Rs. 61.60 per USD. Further as part of hedge strategy DIAL had purchased call options for USD 80 mn at the rate of Rs. 67.21 in Jan'2017 and balance USD 208.75 Mn was at the rate of Rs 63.72 per USD in Jan'2018.

Accordingly DIAL still carries risk to the extent of difference between the exchange rate at the time of repayment of loan and the original exchange rate at the time of borrowing i.e. Rs 61.60 per USD. Such difference can be minimized by the call option purchased by DIAL appropriately.

Currently for the purpose projection DIAL has considered exchange rate as on 30th Sept'2018 i.e. Rs. 72.49 per USD. Since the expected exchange rate in FY'22 i.e. year of repayment is higher than the call option, DIAL will exercise its call option. However, DIAL will still have a forex loss to the extent of call option rate and actual borrowing rate.

DIAL request Authority to consider the same for tariff determination purpose.

4.3.8.5 Operating expense

Repair and Maintenance- The key assets of DIAL are almost ten years old which requires heavy maintenance cost. Also due to increased labor and material cost the estimation tend to increase. R&M towards Building and P&M has been escalated with real growth, inflation and area expansion. Maintenance cost related to IT and others have been escalated on account of real growth, inflation and passenger handling capacity.

Housekeeping- Increase in minimum wages has significantly increase the housekeeping cost in FY'18. Also, since the existing terminals are getting older the upkeep and maintenance cost of the terminal expected to increase. Going forward DIAL has considered growth in housekeeping expense by real growth of 10% and inflation. Also, due to induction of new terminal 1 the housekeeping expense will grow in consonance with increase in terminal area.

Insurance – The cost toward insurance premium has seen decline for past five years however same trend won't continue for future as it has tested the bottom levels. In line with market trend and the insurance premium for future is expected to cover at the least inflation and will definitely increase in proportion to capacity expansion. Accordingly DIAL has considered growth equivalent to inflation and passenger handling capacity of the Airport.

Consumables- expected to grow by inflation and passenger handling capacity of the Airport.

Manpower hire charges & Security expense- Manpower hire charges and security expenses are expected to grow in line with the manpower cost plus inflation and passenger handling capacity.

4.3.8.6 Airport operator fee

In line with the Authority' decision no 15.c of the order no 40/2015-16 dtd. 8th Dec'2015, DIAL has considered 3% fee on aeronautical revenue as an aeronautical expense to be treated in the Target Revenue.

4.3.8.7 Property Tax

Currently DIAL is paying Rs 6.62 cr to South Delhi Municipal Corporation and Rs 1.12 cr to Delhi Cantonment board. DIAL had considered the same while forecasting property tax. Following are the forecast towards property tax:

Table 23- Details of property tax for third control period (Rs/Cr)

Particular	2020	2021	2022	2023	2024
Property tax payable to SDMC	6.62	6.62	6.62	6.62	6.62
Property tax payable to DCB	1.12	1.12	1.12	1.12	1.12
Total	**7.74**	**7.74**	**7.74**	**7.74**	**7.74**

4.3.8.8 AAI VRS

AAI VRS has been capitalized in DIAL books as an intangible asset. The Authority, vide decision no 7.a of order 03/2012-13, decided to expense out VRS based on actual payment made by DIAL. During the third control period DIAL has made Rs 1.22 cr payment as per pre decided payment plan.

4.3.9 Operating expense allocation

DIAL has considered the allocation ratio of FY 17-18 as the basis for allocating expenses for third control period.

4.3.10 Summary of aeronautical operating expense for third control period:

DIAL, considering the foregoing assumptions has projected the expenses as given in the table below;

Table 24 Summary of aeronautical expense for third control period (Rs/Cr)

Particular	2018	2019	2020	2021	2022	2023	2024
Manpower Cost	147.67	169.74	195.12	224.29	270.71	395.20	454.28
Admin & General expense	215.15	237.50	261.15	301.81	369.28	531.41	600.77
Utility expense	113.20	159.47	199.41	227.83	284.25	366.03	396.06
Repair & Maintenance	167.69	192.76	221.57	254.70	296.44	413.22	475.00
Housekeeping Expense	68.87	79.16	91.00	104.60	120.24	164.83	189.47
Insurance	5.92	6.19	6.47	6.76	7.42	9.84	10.28
Consumables	11.35	11.87	12.40	12.96	14.22	18.87	19.72
Manpower hire charges	40.50	46.56	53.52	61.52	74.25	108.40	124.61
Security expense	20.59	23.67	27.21	31.27	37.74	55.10	63.34
Airport operator fee	113.33	51.16	24.62	144.74	158.96	173.97	189.65
Property tax	6.47	6.98	6.99	6.99	6.99	6.99	6.98
AAI VRS	15.33	14.80	1.22	-	-	-	-
Forex	(0.42)	35.11	35.11	35.11	118.86	16.97	16.97
Total aero expense	**925.65**	**1,034.97**	**1,135.79**	**1,412.58**	**1,759.37**	**2,260.84**	**2,547.14**

4.4 Revenue from Revenue Share Assets

As per OMDA 30% of the gross revenue generated by the JVC from the Revenue Share Assets shall be used for the purpose of cross subsidizing Aeronautical revenue.

The revenue from revenue share asset will have an impacted on account of upcoming expansion. Due to expansion works DIAL has to shift part of its Terminal 1 operation to Terminal 2 which resulted into decline in non-aero revenue for the airport. Split of traffic, lower commercial area at Terminal 2, and reduction in commercial area at Terminal 1 due to expansion activities have resulted into such decline.

The revenue from revenue share assets has been allocation in to five sub heads:

- Air traffic linked revenue
- Passenger related revenue
- International passenger related revenue
- Contract linked revenue
- Cargo

4.4.1 Air Traffic related revenue

Ground Handling Revenue – DGCA vide notification dtd. 25th Oct'2018 attached herewith as **Annexure – 18** barred third party ground handler services at the airport. Following is the relevant extract of ground handling policy**:**

3. Ground handling services at airports.–

(a) All domestic scheduled airline operators and scheduled helicopter operators will be free to carry out self-handling at all airports including Civil Enclaves.

(b) A foreign airline may undertake self-handling in respect of passenger and baggage handling activities excluding security functions listed out in para 1 of AVSEC Order 03/2009 at the airport terminals restricted to the passenger check-in at pre security hold area, at all the airports except Civil Enclaves or Joint User Defence Airfields.

Due to this development it will be cost efficient for airlines to do self-handling and accordingly most of the airlines may start self-handling this will result into reduction of revenue share income to DIAL from such third ground handler. For the financial year 2017-18 the third party ground handling income was Rs 29.67 crore. The same will be discontinued from FY'19 onwards. Other ground handling revenue is expected to grow in line with the overall ATM growth. Similarly BME revenue is expected to grow in line with the ATM growth.

4.4.2 Passenger related revenue

Flight kitchen – Revenue from flight kitchen is expected to growth in line with the overall pax growth which is in the range of 5% to 7%. Flight kitchen revenue majorly comes from full service carriers however the passenger growth is mainly expected towards LCC hence the growth towards this stream is expected to be subdued. If we refer the statistic of FY'18 then we can infer that almost 58% of the passenger including domestic FSC and international FSC contributes almost 86% of flight kitchen revenue and only 14% revenue comes from LCC carriers. Accordingly, the growth in flight kitchen revenue will be lower than passenger growth however optimistically we have considered growth in line with the overall passenger growth and will accordingly the growth will not be more than 6%-8%.

Car Park – Revenue from car park have impact of various other factors such as alternate mode of transport, availability and tariff. Delhi Metro on June'2018 commenced operation of one metro station at domestic airport. This metro station connects Airport to various part of city and accordingly it will have adverse impact over the car park revenue, upcoming expansion work at Terminal 1 will lead to reduction in available parking bays and better bus connectivity to city will also have adverse impact over car park revenue.

As per the concession agreement the revenue share from the car park JV will increase to 40% from current level of 20% wef 1st April'2020. The impact of the increased revenue share has been considered in the projections of revenue from car park.

With respect to car park revenue forecast DIAL has assumed growth in line with the pax growth and no growth in the year of completion of expansion work at Terminal 1. Increase on account of revenue share is also been considered.

Car Park (Radio Taxi) - Radio taxi model is in the last leg due to wider popularity and acceptance of taxi aggregators like Ola and Uber. There is continuous drop in radio taxi business. The radio taxi count has also been reduced to 12.80 lakh in FY'17 from 15.06 in FY'16 (15% reduction) and further 11.20 lakh in FY'18 (12% reduction vis a vis FY'17). It is assumed that the income for radio taxi would be reducing in the forecasted years. However, optimistically we have considered that the radio taxi would remain at the same levels including inflation impact.

Retail duty paid- In FY'18 Retail duty paid has observed exceptional growth due to onetime refresh however same growth will not continue. The shifting of domestic operation from Terminal 1 to Terminal 2 has adverse impact on retail revenue. Due to this shifting the average monthly sale at various outlets at Terminal 1 dropped by almost 30%. Accordingly the retails revenue is not expected to grow more than 6%-8% which is inline with the overall passenger growth. Also, there will be no growth in one year prior to the expansion work of Terminal 1 due to relocation activities and disruption in the operations.

F&B and lounge income– The F&B revenue in past three year has seen double digit growth however same will not sustain in long run. In FY'18, there was F&B refresh which led to growth in F&B revenue. Similar to the retail at Terminal 1 the F&B average monthly sale has been reduced by 30% due to shifting of domestic operation from Terminal 1. Going forward this growth may not sustain and accordingly in case of F&B and lounge we have considered growth in line the passenger traffic and no growth twelve month prior to the completion of Terminal 1 expansion work due to relocation activities.

Other non-aero revenue- Other non-aero revenue is expected to grow in line with the passenger growth.

4.4.3 International pax related revenue

Duty Free: - Duty Free has reached to its saturation level and there is no room for any inorganic growth. There are various international airport being developed in India which resulted in to lower international traffic at Delhi Airport. Growth at Delhi airport is expected to be as per pax growth which is still higher than the trend at competitive Airport.

Considering above factors DIAL has considered growth in duty free revenue in line with international pax.

4.4.4 Others

Advertisement revenue – The inorganic growth in case of advertisement comes from creation of new sites. Currently at Delhi Airport advertisement capacity has reached to its saturation and going forward advertisement revenue will see only organic growth. Also, from pricing strategy perspective cost of advertisement at Delhi Airport already very high compare to any other location of Delhi. Hence, there is no room for price increase. Accordingly, DIAL has considered organic growth in terms of inflation only.

Forex- Due to increase in usage of credit card as well as digitization there is expected de-growth in the forex revenue. DIAL has assumed 10% YoY de-growth in forex revenue. However, with inflationary increase of 4.5% the effective de-growth comes to 5.5%

Land & Space

In recent past there are one time land allotment like land for Terminal 1C to DCSC, land allotment for MRO and FBO, commencement of new air cargo logistic facility (ACLC). However, going forward there are no business plan for allotment of new land/space. Hence, going forward DIAL has considered only 7.50% growth in line with the contractual arrangement.

Other contract linked non-aero revenue- Other revenue like hangar, Common Area Management (CAM), Airport Service Charges (ASC), transit hotel and telecom are expected to grow by CPI linked inflation.

IT JV – The outsourcing of IT works brings efficiency and benefit to DIAL. DIAL has entered into a Master Service Agreement with an IT service provider. This contract is in the nature of cost contract which ensure minimum subsistence level to the service provider. Any shortfall to the subsistence level has been funded by DIAL and similarly the excess amount being paid to DIAL. The income from IT JV has been considered based on contractual arrangement till FY'20. The Revenue for FY'21 to FY'24 has been considered based on expected arrangement of revenue share.

4.4.5 Cargo Revenue

Cargo Revenue is expected to grow organically in line with the cargo traffic projection.

Further, the cross subsidy from revenue share assets would include Fuel Throughput Income and exclude revenue from AAI/existing assets. Further, as detailed at para 2.7.4 the S-Factor should be considered post Annual Fee payable to AAI. DIAL has accordingly considered the S-Factor in calculation of target revenue for the second control period.

Following is the summary of revenues from revenue share asset during third control period:

Table 25- Revenue from Revenue Share Assets for CP III (Rs/Cr)

Particular	2018	2019	2020	2021	2022	2023	2024
Fuel Farm	176.77	191.47	204.38	217.70	230.66	243.44	255.90
Ground Handling	116.54	127.74	104.68	111.50	118.14	124.69	131.07
BME	7.99	8.76	9.35	9.96	10.55	11.13	11.70
Flight Kitchen	55.10	59.50	64.02	68.72	73.48	78.20	82.85
Car Park	25.74	27.79	29.91	64.20	64.20	68.33	72.39

Particular	2018	2019	2020	2021	2022	2023	2024
Radio Taxi	15.98	17.25	17.25	17.25	17.25	17.25	17.25
Retail duty paid	125.45	130.45	135.42	140.38	140.38	144.89	149.20
F&B	90.54	97.76	105.21	112.92	112.92	120.18	127.32
Lounge Income	42.31	45.69	49.16	52.77	52.77	56.16	59.50
Other passenger link revenue	21.55	23.27	25.04	26.88	28.74	30.59	32.40
Duty Free	365.25	391.58	418.02	445.41	473.33	501.14	528.75
Advertisement	169.34	176.96	184.92	193.25	201.94	211.03	220.52
Forex	64.26	60.44	56.84	53.46	50.28	47.29	44.47
Land & Space	310.39	333.67	358.69	385.60	414.52	445.60	479.03
Other contract linked revenue	78.33	95.42	99.35	103.46	107.75	112.24	116.93
IT JV	45.25	108.98	78.12	42.21	45.14	48.04	50.89
Cargo	199.25	211.84	224.69	238.05	251.79	265.65	279.59
Gross Total	**1,910.04**	**2,108.57**	**2,165.05**	**2,283.73**	**2,393.85**	**2,525.85**	**2,659.77**
Less: Revenue from Existing Assets	374.22	374.22	374.22	374.22	374.22	374.22	374.22
Less: Revenue from disallowed area	23.73	25.62	27.57	29.59	31.64	33.67	35.68
Revenue from Revenue Share Assets	**1,512.10**	**1,708.73**	**1,763.26**	**1,879.92**	**1,987.99**	**2,117.96**	**2,249.88**

4.5 Taxation

DIAL computed MAT and normal tax as per law and also considered the carried forward business losses and unabsorbed depreciation as per act. In our calculation we have considered the MAT paid by the company and credit of the same has been considered in accordance with the law.

DIAL has computed tax for the company as a whole and actual tax payable has been allocated in the ratio of Aeronautical and Non-Aeronautical PBT.

Following are the details of aeronautical tax for third control period:

Table 26- Details of Aero tax for third control period (Rs/Cr)

Particular	2020	2021	2022	2023	2024	Total
Aero Tax	289.64	281.73	243.79	147.45	160.21	1,122.82

4.6 Traffic

The OMDA agreement required DIAL to develop an initial master plan (completed in Sept'2006) and provides an obligation to revise the master plan every ten year or at shorter interval if traffic forecast or other reason require an earlier assessment.

Since the current terminal capacity is reaching to its saturation level, need to improve turnaround time and operating efficiencies, predominance of belly cargo over freighter aircraft, dynamic changes in aviation industry, intra city connectivity like Delhi Metro etc. have arises the need of review the existing master plan and get IGI Airport ready to cater future need of Delhi NCR region. With this vision DIAL appointed Landrum & Brown (L&B) to review the initial master plan in 2015.

L&B is the industry expert in master planning and strategy, airfield and airspace, terminal planning and design, environment, financial/business planning, ground transportation, commercial development and activation planning services.

As part of master plan L&B provided the traffic forecast for IGI Airport, relevant extract of the report is attached herewith as **Annexure 25**. DIAL for the purpose of tariff filing for third control period has considered the growth projected by L&B in base case scenario. Following is traffic growth rate provided by L&B:

Table 27: Traffic growth for third control period

Particular	2020	2021	2022	2023	2024
Passenger					
Domestic	7.9%	7.6%	7.2%	6.6%	6.1%
International	6.8%	6.6%	6.3%	5.9%	5.5%
ATM					
Domestic	6.9%	6.8%	6.1%	5.7%	5.2%
International	6.0%	5.5%	5.3%	4.9%	4.8%
Cargo					
Domestic	7.5%	7.3%	6.9%	6.4%	6.0%
International	5.4%	5.3%	5.2%	5.0%	4.9%

Above growth forecast has been applied to the billable departure traffic, ATM and cargo handled for FY'18.

4.7 Inflation

For the purpose of inflation DIAL has considered the RBI survey of professional forecasters on macroeconomic indicators – result of the 51st round. Same is attached as **Annexure 19.**

As per the survey we have considered median CPI Headline inflation for FY'20. This effectively comes to 4.5%.

5 Building Block and X Factor for third control period

As explained in the principle of tariff determination the tariff for Delhi Airport will be determined based on building block approach defined under State Support Agreement. Accordingly, DIAL made its submission on various building block under above referred sections. In line with the above submission following are the resultant building block and X-Factor:

Table 28 Building block for third control period

Particular	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
Regulatory Asset Base	5,297.10	6,420.69	9,878.69	11,951.21	11,209.83	
WACC	15.77%	15.77%	15.77%	15.77%	15.77%	
Return on RAB	835.34	1,012.52	1,557.84	1,884.67	1,767.75	7,058.12
Operating expense	1,135.79	1,412.58	1,759.37	2,260.84	2,547.14	9,115.71
Depreciation	531.21	575.52	761.84	923.35	918.81	3,710.73
Taxes	289.64	281.73	243.79	147.45	160.21	1,122.82
Target Revenue	**2,791.97**	**3,282.35**	**4,322.83**	**5,216.31**	**5,393.92**	**21,007.38**
Cross subsidy- Revenue from revenue share asset	285.70	304.60	322.11	343.17	364.55	1,620.14
Net Target Revenue	**2,506.27**	**2,977.75**	**4,000.72**	**4,873.13**	**5,029.37**	**19,387.24**
BAC True up	**3,440.42**					
True up for second control period	**4,183.03**					
Adjusted Net Target Revenue	**10,129.73**	**2,977.75**	**4,000.72**	**4,873.13**	**5,029.37**	**27,010.69**
Discount Factor						
WACC	15.77%					
PV Factor	0.86	0.75	0.64	0.56	0.48	
PV of ARR	**8,749.89**	**2,221.76**	**2,578.42**	**2,712.87**	**2,418.46**	**18,681.41**
PV of Projected Revenue	**4,167.35**	**3,953.44**	**3,737.44**	**3,519.28**	**3,303.90**	**18,681.41**
X- Factor Increase	**412.36%**					

6 Annual Tariff Proposal

As regard to the annual tariff proposal it is submitted that the detailed pricing proposal (rate card) will be submitted on receipt of approval of MYTP from AERA.

6.1 Passenger Service Fee

In terms of the Operation Management and Development Agreement (OMDA), DIAL has been granted the right to levy various charges which have been listed out in Chapter XII of the OMDA ("Tariff and Regulations"). Such Charges include the following:

i. Aeronautical Charges (Clause 12.1)
ii. Charges for Non-Aeronautical Services (Clause 12.2)
iii. Charges for Essential Services (Clause 12.3)
iv. Passenger Service Fee (Clause 12.4)

Under the scheme of the OMDA, while DIAL is free to fix Charges for Non-Aeronautical Services and has to provide Essential Services to the passengers for free, the Aeronautical Charges as well as the Passenger Service Fee have to be determined by AERA in terms of the AERA Act.

Further, the methodology for calculation of aeronautical tariff is given in Schedule 1 of the SSA whereas the intent and purpose of Passenger Service Fee is given in Rule 88 of the Aircraft Rules, 1937. The clauses of the OMDA and the SSA as well as the statutory scheme relevant for the levy and calculation of aeronautical tariff is as follows:

<u>OMDA</u>

"

..

2.1 ***Grant of Function***

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

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

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

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

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

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

…

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

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

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

"Aeronautical Charges", "Non-Aeronautical Services" and "Passenger Service Fee" are defined in the OMDA as follows:

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

*"**Aeronautical Charges**" shall have the meaning assigned thereto in Article 12.1.1.*

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

"Passenger Service Fees" *shall mean the fees charged per embarking passenger at the Airport as described in the State Support Agreement.*

…..

CHAPTER XII
TARIFF AND REGULATION

12.1 ***Tariff***

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

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

*12.2 **Charges for Non-Aeronautical Services***

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

*12.3 **Charges for Essential Services***

12.3.1 Notwithstanding the foregoing, those Aeronautical or Non-Aeronautical Services that are also Essential Services, shall be provided free of charge to passengers.

12.4 Passenger Service Fees

12.4.1 The Passenger Service Fees shall be collected and disbursed in accordance with the provisions of the State Support Agreement.

<u>SSA</u>

"Aeronautical Charges" *shall be the charges to be levied at the Airport by the JVC for the provision of Aeronautical Services (and consequent recovery of costs relating to Aeronautical Assets);*

"Passenger Service Fee" *shall mean the fees charged per embarking passenger at the Airport as per the provision of **Schedule 8** appended hereto;*

…

SCHEDULE 1

….

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

The revenue target is defined as follows:

$$Tr_i = RB_i * WACC_i + OM_i + D_i + T_i - S_i$$

Where: TR = Target Revenue

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

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

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

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

T = corporate taxes on earnings pertaining to Aeronautical Services.

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

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

i = time period (year) i

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

Where: RB_0 *for the first regulatory period would be the sum total of:*

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

I = Investment

The X factor is calculated by determining the X factor that equates the present value over the regulatory period of the target revenue with the present value that results from applying the forecast traffic volume with a price path based on the initial average aeronautical charge, increased by CPI minus X for each year. That is, the following equation is solved for X:

$$\sum_{i=1}^{n} \frac{RB_i \times WACC_i + OM_i + D_i + T_i - S_i}{(1 + WACC_i)^i} = \sum_{i=1}^{n} \sum_{j=1}^{m} \frac{AC \times T}{(1+WACC_i)^i}$$

where: AC_{ij} *= average aeronautical charge for the* j^{th} *category of aeronautical revenue in the* i^{th} *year*
T_{ij} *= volume of the* j^{th} *category of aeronautical traffic in the* i^{th} *year*
X = escalation factor

n = number of years considered in the regulatory period

m = number of categories of aeronautical revenue e.g. landing charges, parking charges, housing charges, ***Facilitation Component*** *etc.*

The maximum average aeronautical charge (price cap) in a particular year 'i' for a particular category of aeronautical revenue 'j', is then calculated according to the following formula:

$$AC_i = AC_{i-1} \times (CPI-X)$$

Where CPI = average annual inflation rate as measured by the change in the All India Consumer Price Index (industrial Workers) over the regulatory period.

<u>Airports Economic Regulatory Authority of India Act, 2008</u>

13. Functions of Authority. –

1. *The Authority shall perform the following functions in respect of major airports, namely:-*
   a) *to determine the tariff for the aeronautical services taking into consideration-*
      i. *the capital expenditure incurred and timely investment in improvement of airport facilities*
      ii. *the service provided, its quality and other relevant factors*
      iii. *the cost for improving efficiency;*
      iv. *economic and viable operation of major airports;*
      v. *revenue received from services other than the aeronautical services*
      vi. *the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise*
      vii. *any other factor which may be relevant for the purposes of this Act: Provided that different tariff structures may be determined for different airports having regard to all or any of the above considerations specified at sub-clauses (i) to (vii);*

   b) *to determine the amount of the development fees in respect of major airports;*

   c) ***to determine the amount of the passengers service fee levied under rule 88 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934;***

<u>The Aircraft Rules, 1937</u>

Rule 88. (from 14.10.2009 till 04.03.2014)

Passenger Service Fee —*The licensee is entitled to collect fees to be called as Passenger Service Fee from the embarking passengers at such rate as the Central Government may specify and is also liable to pay for security component to any security agency designated by the Central Government for providing the security service. Provided that in respect of a major airport such rate shall be as determined under clause (c) of sub-section (1) of section 13 of the Airports Economic Regulatory Authority of India Act, 2008****.***

Rule 88 (after the amendment on 05.03.2014)

Passenger Service Fee – *The airport licensee may collect fees to be called the Passenger Service Fee from the embarking passengers at such rate as the Central Government may specify.*

The airport licencee shall utilise the fees so collected for the <u>infrastructure and facilitation</u> of the passengers:

Provided that the rate of fees in respect of major airports shall be as determined under clause (1) of sub-section (1) of section 13 of the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008)".

In terms of the definition of Aeronautical Charges given in the OMDA and the SSA, the said charges are to be collected against (i) provision of Aeronautical Services and (ii) recovery of cost relating to Aeronautical Assets. As such, Aeronautical Charges are to be levied and collected by way of two components by DIAL, one for provision of Aeronautical Services and the other for recovery of costs related to Aeronautical Assets, where the first is a charge onto the users for use of the Aeronautical Services whereas the second is in the form of a reimbursement to the Airport Operator of the costs related to the Aeronautical Assets. As such, the mandate of the OMDA and the SSA is not only for the Airport Operator to collect charges towards provision of Aeronautical Services but is also to collect charges towards recovery of costs related to Aeronautical Assets used for the provision of Aeronautical Services.

Similarly, as per the scheme of the AERA Act, the determination and calculation of these two components of Aeronautical Charges have been provided separately. Section 13(1)(a) of the AERA Act provides for determination of tariff for aeronautical services and is therefore, the source of power for determination of Aeronautical Charges for provision of Aeronautical Services whereas Section 13(1)(c) of the AERA Act provides for determination of Passenger Service Fee which in terms of Rule 88 of the Aircraft Rules is a fee to be collected for infrastructure and facilitation of passengers and is therefore, the source of power for determination of Aeronautical Charges towards recovery of costs related to Aeronautical Assets.

As such, from the language of the AERA Act as well as the Aircraft Rules, it is evident that (i) the component of Aeronautical Charges which is towards provision of Aeronautical Services is to be calculated under Section 13(1)(a) taking all the factors stated therein into consideration and (ii) the component of Aeronautical Charges which is towards recovery of costs of Aeronautical Assets is to be calculated as Passenger Service Fee which is collected towards infrastructure and facilitation of passengers.

In view of the above, it is submitted that the calculation of Aeronautical Charges as defined in the OMDA and the SSA, should be done by AERA under Section 13(1)(a) and Section 13(1)(c) of the AERA Act which provide respectively for the said two components of the Aeronautical Charges, i.e., charges towards provision of Aeronautical Services and charges towards recovery of costs related to Aeronautical Assets. The said methodology would be in line with the OMDA, SSA, AERA Act and Aircraft Rules as the definition of Aeronautical Charges under OMDA and SSA provide for charges for Aeronautical Services and recovery of cost relating to Aeronautical Assets which are reflected in Section 13(1)(a) and 13(1)(c) of AERA Act read with Rule 88 of Aircraft Rule.

In this background, it is proposed that for the 3rd control period:

- Aeronautical Charges / Target Revenue should be determined as per the formula stated in Schedule I of SSA,
- PSF be determined under section 13(1)(c) of AERA Act, 2008 read with Rule 88 of Aircraft Rules, 1937 with specific Building Blocks of Depreciation and Interest out of target revenue, and
- Aeronautical Charges towards aeronautical services be calculated under section 13(1)(a) of AERA Act, 2008 (target revenue minus PSF).

List of Tables

O/C

DELHI INDIRA GANDHI INTERNATIONAL AIRPORT

GMR

Delhi International Airport Limited
(Formerly known as Delhi International Airport (P) Limited)

Registered Office:
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Indira Gandhi International Airport
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Letter No.: DIAL/2018-19/Regulatory/2095
Dated: 20th February'2019

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
सफदरजंग एयरपोर्ट, नई दिल्ली–110003
प्राप्त
डायरी 13482
तारीख 20/02/2019

To,

The Chairman,
Airport Economic Regulatory Authority of India
AERA Building, Administrative Complex
Safdarjung Airport,
New Delhi – 110 003

Subject: Response to the queries raised by SBI CAP for DIAL CP III MYTP
Reference: Your email dtd.19th Dec'2018
Our letter no 1832 dtd. 9th Jan'2019

Dear Sir,

In furtherance to our response dtd. 9th Jan'2019 please find attached the additional information as Exhibit 1 including annexures for your kind perusal.

We will be glad to provide any further clarification if required.

For Delhi International Airport Ltd

K Narayana Rao
Director

Encl: Exhibit 1

<table>
<tr><th>S. No.</th><th>Query</th><th>Response</th></tr>
<tr><td>10</td><td>Operational Performance of the airport in the first 6 months of FY 2019 in terms of traffic achieved so far and the estimated traffic to be achieved in the balance period of FY 2019</td><td>Please find the audited certificate for billable traffic for the period April'2018 to Sept'2018 as Annexure – 1 & 1A</td></tr>
<tr><td>14</td><td>YoY Increase in traffic handling capacity of Airport both in terms of terminal capacity and runway capacity along with YoY increase in floor area of the terminal from FY 2009.</td><td><u>Following are the details of IGI Airport capacity:</u>
<table>
<tr><th>Particular</th><th>June'2011</th><th>Jan'2019</th></tr>
<tr><td>Peak Hour Runway Capacity (All three runway included)</td><td>65 movements/Hour</td><td>73 (post infra development & new ATC going operational system will have the capacity of 86 peak hours movements/hour)</td></tr>
<tr><td>Declared Terminal Annual Capacity</td><td>62.7 Million</td><td>66 Million</td></tr>
</table></td></tr>
<tr><td>22</td><td>Details of the complete Development Fee that was collected by DIAL year wise from the date in which DF was allowed to be collected along with the quantum of DF adjusted from the capitalized asset base.</td><td>As per the SOP the DF receipt and utilization is audited by the AAI appointed auditor Ved Jain & Associates. In accordance with the auditor certificate DIAL has been disbursed DF of Rs. 3418.95 however as per auditor it is Rs 3415.35 Cr. There is a difference in calculation as per DIAL for the balance Rs 3.60 Cr which is still under reconciliation with AAI. Please refer the last communication raised by DIAL with regard to difference of Rs 3.60 Cr with AAI attached herewith as Annexure - 2.

The last DF audit report for the month July'2017 has been attached herewith as Annexure-3. You may please refer table 3 of the said report for final DF reconciliation and year wise DF collection as Annexure XVII.

Quantum of DF adjusted year wise is as follows:
<table>
<tr><th>Particular</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>Total</th></tr>
<tr><td>As per Financial</td><td>1816.96</td><td>1248.04</td><td>0.35</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>350</td><td>3415.35</td></tr>
</table></td></tr>
<tr><td>25</td><td>Details of Existing Assets and the basis for the revenue projected from the Existing Assets.</td><td>Please find below the details of revenue from existing assets. A Detailed concept document along with auditor certificate was submitted vide our submission dtd 27th Nov'2018, A copy of the same is attached herewith for ready reference as Annexure -4.</td></tr>
</table>

Multi Year Tariff Proposal (MYTP) for IGI Airport for third control period
Exhibit – 1 to the queries raised on 20th Dec'2018

Revenue from Existing Assets (₹ in Crores)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Land License Fee	125.34	107.13	114.55	108.06	116.25	127.89	152.91	185.72	209.62	1,247.47
Hangar *	-	-	-	13.34	17.67	17.32	29.63	30.13	31.88	139.97
In-flight kitchen revenues	3.22	9.65	16.54	24.53	16.41	18.51	22.46	26.16	28.24	165.72
Retail - Duty Free	120.05	8.85	-	-	-	-	-	-	-	128.90
Ground handling related revenues	-	9.54	-	-	-	-	-	-	-	9.54
Car parking (including entry ticket and left luggage fee)	21.66	6.42	-	-	-	-	-	-	-	28.08
Radio Taxi	2.82	3.34	4.59	4.66	5.91	5.65	5.05	4.60	4.43	41.05
Advertisement	31.24	11.42	-	-	-	-	-	-	-	42.66
Bank ATM	-	1.00	0.36	0.41	0.77	0.68	0.72	0.50	0.95	5.39
Food & Beverages	19.42	7.57	2.31	2.11	2.66	3.07	3.11	2.81	5.19	48.25
Forex	-	-	0.03	-	-	-	-	-	-	0.03
Lounges	-	-	-	-	-	-	-	-	0.23	0.23
Other travel services	-	0.04	0.65	0.95	1.14	0.68	0.68	1.04	1.06	6.24
Retail - Duty Paid	2.89	1.59	0.12	0.70	4.50	1.33	1.02	2.49	5.00	19.64
Telecom	14.16	5.53	0.38	0.18	1.70	0.61	0.62	0.53	-	23.71
Misc. Others	9.49	3.01	-	-	-	-	-	-	-	12.50
Total (A)	**350.29**	**175.09**	**139.53**	**154.94**	**167.01**	**175.74**	**216.20**	**253.98**	**286.60**	**1,919.38**
Cargo Revenue (Self-handled) (B)	**141.04**	**16.70**	-	-	-	-	-	-	-	**157.74**
Cargo Revenue (Brownfield)	33.16	118.72	108.32	94.20	94.07	111.61	109.40	116.86	147.25	933.59
Cargo Handling Capacity	0.60	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	
Cargo Handling on hand-over date	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	
Cargo Revenue as demised premises (C)	**33.16**	**101.76**	**92.85**	**66.49**	**56.44**	**66.97**	**65.64**	**70.12**	**88.35**	**641.78**
Reduction on T2 assets deployed by DIAL (D)									**(0.75)**	**(0.75)**
Total Revenue from demised premises (A+B+C+D)	**524.49**	**293.55**	**232.38**	**221.43**	**223.45**	**242.71**	**281.84**	**324.10**	**374.20**	**2,718.15**

* Hangar License fee for the period from April 01, 2009 to March 31, 2010 is included in the land License Fee

Letter No: DIAL/2019-20/Regulatory/408
Date: 7th Jun'2019

To,

The Secretary,
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi – 110 003

Subject: CP III MYTP: Response to clarification sought
Reference: Your email dtd. 7th May'2019

Dear Sir,

This is with reference to the clarification sought vide your email dtd 7th May'2019, please find below our point wise response:

Query 1: Provisional FY 2019 financials (audited if available) in IGAAP format along with detailed breakup of the traffic numbers and financials in line with the representation provided in the financial model.

Response: The audited accounts for Financial Year 18-19 is attached herewith as Annexure – 1. We are in the process to update the model with the financials of FY 2018-19 and will be submitted subsequently.

Query 2: Details of Professional and Consultancy Expenses from the beginning of the first control period i.e FY 2010 with split up among the various components including expenses incurred towards legal consultants and nature of each of the expense.

Response: Following are the details of legal and professional expense from FY'10 onwards. Further, please refer the Annexure-2 for the auditor certificate:

(Rs Cr)

Particular	Nature of expenses	2010	2011	2012	2013	2014	2015	2016	2017	2018
Legal Services	Legal advisory service for various contractual issues, regulatory, stakeholder issues, funding agreements, revenues, etc.	5.27	5.29	7.58	5.96	9.44	5.02	11.86	14.90	15.05
Retainers and HR Consultancy	Consultancy service taken from industry experts for talent acquisition, competency development, job evaluation, labour laws, retainer consultants etc. Advisory services over social media, ground operation and placement consultancy expenditure etc.	12.29	24.76*	10.73	10.81	14.48	14.91	14.98	18.00	20.91
Financial and Accounts	Advisory services for refinancing, credit rating, VAT, GST and Service tax matters etc.	0.53	0.65	1.02	0.84	0.92	2.51	1.13	2.34	1.46
Technical Services	Various advisory services for MYTP filing, MYTP review, lender engineer, cost audit, energy management, economic impact study etc.	14.04	8.02	15.56	16.70	4.71	5.41	11.40	9.60	21.52
Management Service Fee	Retainer fee paid to ICICI	6.82	2.17	5.42	14.46	17.39	16.07	0.72	0.64	0.94
Outsourcing Expenses	Support staff cost, Agency hired for call centre, and other administration works/processes outsourced for the respective period.	0.13	0.13	(0.02)	0.63	0.93	2.43	2.25	2.16	5.12
Taxation	Advisory services for income tax matters etc.	0.44	0.43	0.06	0.08	0.22	0.54	0.06	0.21	2.32
Secretarial	Advisory services for secretarial matters etc.	-	0.02	0.03	-	-	0.02	0.03	-	-
Others	Majority of the expenditure is one-time consultancy for benchmarking of various processes relating to operations at the Airport and administration of the Company and its strategic business	2.67	24.94	17.39	3.07	13.63	3.36	6.33	(0.66)	5.74

Particular	Nature of expenses	2010	2011	2012	2013	2014	2015	2016	2017	2018
	planning including the services for enhancement of the efficiency at the airport.									
Total		**42.19**	**66.41***	**57.77**	**52.55**	**61.72**	**50.27**	**48.76**	**47.19**	**73.06**

* An amount of Rs 13.74 Cr has been regrouped to Manpower Hire charges in the subsequent financial year for the period FY 2011-12 and accordingly the resultant consultancy fee shown in the model submitted amounts to Rs 52.67 Cr for FY 2010-11.

Query 3: Revenues from rents and land leases to be segregated from the beginning of the first control period i.e FY 2010 among land leased for aeronautical activities and land leased for non-aeronautical activities.

Response: In above clarification we understand that AERA has sought bifurcation of land license fee of DIAL into aeronautical and non-aeronautical. In this regard we would like to submit that land license fee or rentals are commercial considerations and are not aeronautical revenue. AAI has been collecting land license fee prior to handing over of the Delhi Airport to DIAL, wherein these revenues are not considered as part of Aeronautical Services (Traffic Revenues).This exemplifies the industry practice of considering such revenues. It is further submitted that rents and land license fee are not Aeronautical Services as per Schedule 5 of OMDA. Hence these revenues are considered as revenues pertaining to Revenue Share Assets since the beginning of the concession.

Accordingly there is no requirement of segregation of land leased for aeronautical activities and land leased for non-aeronautical activities. An audit certificate for overall land license fee has already been submitted to AERA vide our MYTP filing as revenue from Revenue Share Assets.

Further, upon careful consideration of the above facts AERA also has all along considered revenues from land license fee as revenues from Revenue Share Assets in it's order for Delhi Airport for first and second control period vide order no 3/2012-13 and order no 40/2015-16 respectively.

The relevant extract of table 18 of the order no 3/2012-13 i.e. first control period is reproduced below:

Table 18 Scenario –3 - Non Aeronautical Revenues: As per Authority's basis of projection (Base year 2008-09 actuals, further projections as per Authority's forecast)

Non Aeronautical Revenues	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Flight Kitchen Royalty	12.62	14.43	28.87	33.34	38.53	44.57
Duty Free	88.11	120.03	133.92	155.66	180.93	210.30
Advertisement	47.61	54.45	61.84	74.99	91.00	110.51
Public Admission Fee	0.00	0.00	0.00	0.00	0.00	0.00
F & B Income and Lounges	23.45	31.19	41.16	49.91	60.57	73.55
Bridge Mounted Equipment	0.00	0.00	1.60	1.81	2.04	2.30
Retail	0.00	9.55	27.99	33.94	41.19	50.02
Foreign Exchange	0.00	0.00	29.94	34.80	40.45	47.02
Telecom	14.76	18.96	21.53	26.11	31.69	38.48
Land, Space and Hangar	56.35	132.14	123.27	161.47	197.73	223.05

The relevant extract of table 63 of the order no 40/2015-16 i.e. second control period is reproduced below:

Non-Aeronautical Revenues, Rs. Crores	2014-15	2015-16	2016-17	2017-18	2018-19
Air traffic related revenues					
Bridge-mounted equipment revenues	5.24	5.55	5.88	6.23	6.61
Ground handling revenues	66.84	81.89	86.80	92.00	112.72
Subtotal Air traffic related revenues	**72.07**	**87.44**	**92.68**	**98.23**	**119.33**
Contract linked revenues					
Advertisement	98.71	108.64	119.55	131.57	144.79
Forex	52.80	58.11	63.95	70.38	77.45
Land license fee	133.50	143.52	154.28	165.85	178.29
Land License Fee (Area surrendered)	20.19	16.99	13.94	0.00	0.00
Hangar	18.71	20.11	21.62	23.24	24.98
Common area management	5.62	6.04	6.50	6.98	7.51

From above it is clear that the AERA after careful examination has considered land license fee as revenue from Revenue Share Assets for tariff purpose for past two control periods. We submit that land license fee is not Aeronautical Service as per Schedule 5 of OMDA, hence bifurcation of land license fee between aeronautical activities and non-aeronautical activities does not arise.

Should you need any further clarification, we will be glad to provide the same.

For Delhi International Airport Ltd

K Narayana Rao
Director

DELHI INDIRA GANDHI INTERNATIONAL AIRPORT

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(Formerly known as Delhi International Airport (P) Limited)

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Letter No. DIAL/2019-20/Regulatory/1050
Date: 1st Oct'2019

To,

The Chairman
Airport Economic Regulatory Authority of India,
AERA Building, Administrative complex,
Safdarjung Airport,
New Delhi- 110003

Subject: MYTP for the third control period (FY 2019-2024) of IGI Airport New Delhi

Reference: DIAL MYTP submission vide letter no 1601 dtd. 27th Nov'2018

Dear Sir,

This is with reference to above subject matter, Delhi International Airport ltd. (DIAL) had submitted Multi Year Tariff Proposal (MYTP) for 3rd control period on 27th November'2018. As directed by the Authority, DIAL is hereby submitting updated MYTP filing with audited financial numbers of FY'19 and other items as explained below:

1. **Audited financial for FY19** – In the original filing DIAL had considered FY'19 on projection basis as the financial for FY'19 were not concluded. Since FY'19 financials have been audited now, accordingly DIAL has updated its financial model with the audited number for FY'19. A copy of audited financial for FY'19 is attached herewith as **Annexure-1**. Relevant auditor's certificates for FY'19 also attached as **Annexure -1A.**

   DIAL has considered the aeronautical revenue for FY 2018-19 as per order no 40 of 2015/16 upto 30th November 2019, for calculation of true up for second control period in terms of Schedule 1 of SSA.

2. **Revision in Project cost –** DIAL had floated tenders for award of EPC contract for Phase 3A expansion works which has now been awarded post competitive bidding process. Following are the details of award of contract and procedure followed:

   a. DIAL had floated the tender for award of EPC project in India as well as in international market for phase 3A expansion.

b. DIAL had received expression of interest from five qualified bidders of international repute out of which three tenderers had submitted their final bid.
c. Post technical and financial evaluation of the tenders, L&T came out as a L1 bidder and accordingly L&T had been awarded the EPC contract.
d. The project cost arrived on above market discovery basis is Rs 10,244.13 Crore and after factoring input GST credit the landed cost works out to be Rs 9794.13 Crore.
e. The project start date has been considered as 7th March'2019 being the date of notice to proceed given to L&T for phase 3a project.
f. The cash flow and the capitalization schedule has been accordingly updated in the MYTP model.

The revised cost of the project, basis the works awarded till date is Rs 9794 Cr. DIAL as on 31st March'2019 had capitalized Rs. 12 Crore and Rs 63 Crore accounted as capital work in progress in relation to preliminary and relocation work. Accordingly, for the purpose of forecast we have considered the balance Rs. 9719 Crore to be spent during CP3 period.

3. **Refundable Security Deposit**

DIAL in FY'19 had monetized commercial land. In terms of the transaction DIAL is estimated to receive Rs 1437 Cr as refundable security deposit (RSD) along with annual lease rentals (ALR) for the land monetized. DIAL has already received Rs 359 Crore being 25% of refundable security deposit as on 31st March'2019 and is expected to receive balance 75% of Rs 1078 Crore in FY'20. Further as a part of consideration DIAL will also receive Rs 363 Cr as annual lease rentals. DIAL has therefore considered revised RSD as means of finance for the expansion capex and also updated the lease rentals based on the above understanding.

4. **USD 350 Million Bond for project expansion**

In the MYTP filing dtd 27th Nov'2018, DIAL had envisaged the funding of expansion capex debt requirement through RTL. However, DIAL has raised USD 350 Mn bond in the international market with maturity period of 10 years on 4th Jun'2019 at the drawdown rate of INR 69.27 per USD. The effective interest rate is 6.82% including 0.37% of withholding tax. Further, we have also completed the hedging of principal payment of this loan and the effective hedge cost is 3.10%. Accordingly the effective cost of loan translates into 9.92% (base rate 6.45%+ withholding tax 0.37%+ hedge cost 3.10%). DIAL accordingly has now considered the bond issued as part of financing the expansion capex in the MYTP.

5. **Exchange rate**

The exchange rate which was earlier considered basis the Sept'2019 financial has been updated to INR 69.16 per USD in accordance with the FY'19 audited financials.

6. **Hedging of interest portion for USD 288.75 bond**

In order to cover the forex variation toward interest cost of USD 288.75 Mn bond, DIAL has entered into a hedge facility from HSBC bank in Aug'2019. The forex variation is being hedge for various range depending on the time. Broadly the range is between Rs 70/USD to Rs 79/USD. The premium payable for the hedge has been considered as part of interest cost for USD 288.75 mn bond. Following are the premium in absolute terms which DIAL needs to pay for this hedge facility over the balance three year period of the said loan:

Year	2020	2021	2022
Premium in Rs/Crore	4.35	6.87	5.69

7. **<u>Tendering of IT Services at DIAL</u>**

The current IT service arrangement at Delhi Airport is due to expire in July'2020. Also, there is a dire need of IT refresh. Accordingly DIAL had issued RFP on 19th Jun'2019 to select a concessionaire for undertaking finance, operation, management, maintenance, upgradation and modernization of IT system works and facilities; and for providing IT related services at IGI Airport.

The bids were invited through newspaper advertisement in national as well as in international newspapers. DIAL has received Expression of Interest from WAISL ltd., TAV technologies (TAV) and Cognizant. Finally the bid was submitted by WAISL Ltd and TAV. Both parties were technically qualified and accordingly the financial bids were opened. According to the terms of RFP the bidder who quotes the highest revenue share would be awarded the contract. WAISL ltd quoted 9% revenue share whereas TAV quoted 3% revenue share. Accordingly, the letter of award has been issued to WAISL Ltd on 19th Aug'2019.

The actual revenue share for the purpose of projection was earlier estimated at 20% which is now updated to the actual revenue share of 9% revenue share as part of revenue from IT JV from FY'21 onwards.

8. **<u>Operation capex addition</u>**

DIAL had estimated operation capex in the filing dated 27th November 2018. The following recent development would require DIAL to invest additional amount for general capex. Accordingly DIAL has additionally provisioned for the following capital expenditure:

1. BCAS has directed to install body scanner at all civil airports in India. In compliance to this directive DIAL would be required to procure body Scanner for T1, T2 & T3. The estimated numbers of body scanners as per the requirement for all three terminal at IGI Airport would be around 123 nos. Accordingly DIAL has provisioned for the capital expenditure relating to

body scanners at Rs 154 Crore. The relevant BCAS directive is attached as **Annexure-02 for your reference please.**

2. DGCA on 15th July'2019 director DIAL to procure aircraft recovery kit to meet the exigencies at the Airport. The expected cost of aircraft recovery kit is Rs. 19 Crore. Relevant letter of DGCA attached herewith as **Annexure –03.**

3. In order to improve connectivity to IGI Airport, NHAI has proposed the underpass at Shiv Murthy NH-8. In order to enable the work MoCA has advised DIAL to contribute 50% of the total costs of this project. Accordingly, DIAL may require to share the cost of project to the tune of Rs 150 Crore for the connectivity which is considered as a part of operation capex in this updation.

Since the above capital expenditure are mandatory in nature same has been considered as additional capex for third control period over and above the operational already considered in the MYTP filed on 27th Nov'2018.

9. **Update towards utility assumption**

DIAL has witnessed that the electricity demand in FY'19 is lower than what had been expected accordingly the projection towards electricity expense has been updated in current tariff filing. The reduction in electricity consumption is mainly due to the installation of solar plants by the cargo service provider and energy saving initiative undertaken by DIAL through implementation of LED lights phase wise. Further the estimates of project phase have been also firmed up. Accordingly, the projections have been updated with the firmed up demand for the next four years.

10. PSF be determined under section 13(1)(c) of AERA Act, 2008 read with Rule 88 of Aircraft Rules, 1937 with specific Building Blocks of Depreciation and return on investment of target revenue. The calculation of PSF would be submitted once the Authority confirms the final target revenue for CP III.

The changes indicated above results into revised X-Factor of 424.21%. We request Authority to consider above submission.

For Delhi International Airport Ltd

Authorized Signatory

DELHI INDIRA GANDHI INTERNATIONAL AIRPORT

Delhi International Airport Limited
(Formerly known as Delhi International Airport (P) Limited)

GMR

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Letter No.: DIAL/2018-19/Regulatory/1252
Dated: 18th November'2019

To,

The Chairman,
Airport Economic Regulatory Authority of India
AERA Building, Administrative Complex
Safdarjung Airport,
New Delhi – 110 003

Subject: Response to the clarification sought by SBI CAP for DIAL CP III MYTP

Dear Sir,

This is with reference to our discussion with SBI CAP on 31st Oct'2019, please find attached our point wise response to the clarification sought by SBI CAP.

We will be glad to provide any further clarification if required.

For Delhi International Airport Ltd

K Narayana Rao
Director

Encl: Exhibit 1

Delhi International Airport Limited
(Formerly known as Delhi International Airport (P) Limited)

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Letter No.-DIAL/2019-20/Regulatory/1407
Date-24th Dec'2019

To,

The Chairman
Airport Economic Regulatory Authority
Safdarjung Airport,
New Delhi

Reference: Email from SBI Caps dtd. 4th Dec'2019
Subject: Clarification to DIAL MYTP for third control period

Dear Sir,

This is with reference to above referred email dtd 4th Dec'2019, please find below our point wise response:

1. **Please provide justifiable reasons for the delay in commissioning of the ATC tower when the Development Fee towards the same has been collected in FY'14 itself.**

   Ministry of Civil Aviation (MoCA) at the request of Airports Authority of India (AAI), vide its letter no. F.No.A V.20036/O 1712008-AD dated January 19, 2010 had approved the proposal to construct a new Air Traffic Control (ATC) Tower along with associated facilities at Indira Gandhi International (IGI) Airport, New Delhi, in order to improve the operational efficiency of the Airport and the same was communicated to AAI and the Company.

   The ATC tower and associated buildings had been handed over to AAI in FY'15 for installation of equipment at their end and further no obligation is pending at DIAL end towards ATC tower. At this juncture though the asset was handed over to AAI however the final settlement with L&T was under discussion and also the asset was not put to use as due to pending installation of equipment. Accordingly, it could not be capitalized at that time.

   Further, the total Project Cost of the ATC considered in the project cost approved by the regulator (AERA) was INR 350 crores, which was a part of Development Fee and was collected by DIAL from Passengers. However, the total project cost has been increased by INR. 49 crores to INR. 399

due to changes suggested during work and stoppage of work due to VVIP movement during the course of construction.

As per DIAL the additional cost of INR. 49 Crores was expected to be part of DIAL Regulatory Asset Base (RAB) and DIAL was to capitalize ATC asset in its book however in one of the board meeting dtd 11th May'2017 AAI suggested that the ATC is AAI asset and should be capitalized in AAI books. In this regard DIAL asked reimbursement of additional cost incurred on ATC from AAI. However, AAI vide its letter dated Nov'29, 2018 mentioned that there was no approval of additional cost incurred by DIAL on ATC and therefore the additional cost cannot be met out of DF and AAI will not make good this cost to DIAL. Finally in FY'19 DIAL had capitalized the ATC tower at net cost of INR. 48.69 Crore after adjusting DF of INR. 350 Crore in its financials.

2. **Request you to provide possible justification for the escalation in cost vis a vis the cost estimated by KITCO for a similar scope of work. Request you to also share the copy of all the contracts entered into with L&T for carrying out these works along with the reserve price indicated at the time of bidding out these contracts.**

The original estimates submitted to AERA/KITCO were based on preliminary BoQ and estimated per unit cost. The contract for Phase 3A expansion work was awarded on lump sum EPC (Engineering, Procurement and Construction) contract basis post international competitive bidding. The successful EPC bidder i.e. L&T had estimated package wise payment mechanism for the decided lump sum cost.

The revised cost of the project, basis the works awarded till date is INR 9,794 Cr with an assumption of GST credit of Rs 450 Cr. The revised project cost include INR 9821 Cr EPC contract awarded to L&T which if we consider the expected GST credit of INR 450 Cr then it comes to INR 9371 Cr. In addition to which INR 423 Cr work awarded to others like design, PMC, preliminaries and insurance.

The Phase 3a project has been awarded after following detailed tendering process which involved following:

- For pre-qualification of vendor, advertisements were placed in International and National Newspapers (listed below) on April 2, 2018.
    - Economic Times (India All editions)
    - Times of India (India All editions)
    - Financial Times (United Kingdom)
    - Engineering News- Record (Global)
- Based on technical and financial requirements listed in the Expression of Interest (EOI) response was received from following five parties:
    - M/s Larsen and Toubro, India
    - M/s Limak Holding, Turkey
    - M/s ICTAS Insaat, Turkey

- M/s China Construction First Group, China
- M/s TAV Construction, Turkey/Dubai

- Except M/s China Construction First Group, all other parties were qualified. Accordingly, the Request For Proposal (RFP) was shared with the qualifying parties.
- Bids from the three parties were received on December 06, 2018 with one party (M/s Limak) withdrawing from the tender.
- Technical and commercial evaluation committee were formed by DIAL for carrying out detailed evaluation of the bids.
- L&T emerged as the lowest bidderL1 by submitting bid of INR 10510 Cr (including GST) which was further negotiated by DIAL to INR. 9821 Cr (including GST).

Accordingly we hereby submit that the project cost now arrived is a result of price discovery done through international tendering process:

- DIAL has followed an exhaustive International tendering process wherein reputed International Contractors with experience in similar projects had been shortlisted for tendering.
- The exhaustive process of tendering, evaluation, discussion and negotiations followed by DIAL has resulted in the discovery of the EPC cost for the Phase 3A works. The final prices were arrived after rigorous negotiations with the lowest bidder i.e. L&T which had almost 6% lower quoted price than the highest bidder initially.

The estimates submitted by DIAL or as approved by KITCO for the costing cannot be compared to the final outcome of the bidding process. However, in order to understand the variation between the estimates submitted earlier and the actual amount the following points could have formed the reason for variation:

1. **<u>Shift in the start date of construction:</u>** The construction work could be commenced only in March 2019 (with certain preliminary works starting immediately after the award of works on February 07, 2019) instead of January 2018 leading to an additional probable inflation of one year on the estimates submitted to KITCO. The inflation impact was calculated on the basis of CPWD building cost index considered at the time of KITCO estimates versus April'2019. The impact of inflation in percentage terms comes to 6.31% which translates into INR. 586 Crores.

2. **<u>Impact of GST:</u>** In DIAL submission to AERA in Sept'2017 impact of GST on civil works was around 5% to 7% and on some of the items we had not considered GST. Accordingly, if we consider additional 7% on the items which were based on Delhi Schedule Rate (DSR) as the VAT was already included in DSR and 18% GST for the items on which GST was not considered then the total additional impact estimated to be INR 1062 Crore out of which the expected GST credit is INR 407 Crore The net impact on account of GST estimated to be INR 655 Cr.

3. **Construction risk factors:** The remaining difference is largely due to construction risks perceived by the tenderers which were not envisaged in the submission made to KITCO. Some of the factors can be summarized as under:
   - Evolving NGT guidelines and the restriction on construction activities in Delhi NCR.
   - Availability of construction material like aggregate and sand as far as 350 KMs
   - Requirement of Minimum impact on airport operations and maintenance of service levels during construction
   - Security restrictions leading to stoppage and delays due to various VIP movements.

We will be glad to provide any further clarification if required.

For Delhi International Airport Ltd.

K Narayana Rao
Director