

MIAL/VPR/2021-22/04

5<sup>th</sup> July 2021

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

Sir,

**Sub: Feedback / Suggestions on Consultation Paper No. 05/2021-22 dated 28<sup>th</sup> May, 2021 (this CP) for determination of Fuel Infrastructure Charges in respect of Mumbai Aviation Fuel Farm Facility Private Limited (MAFFFL) at CSMI Airport for 3<sup>rd</sup> Control Period (01.04.2021 – 31.03.2026)**

With reference of above we give below our feedback/suggestions on CP no.05 / 2021-22 for determination of aeronautical tariff for the 3<sup>rd</sup> control period (TCP) in respect of MAFFFL:

**1. Proposal to adopt Price-Cap regulation on Single-Till basis for MAFFFL (Para 2.15.1 on Pg no. 10 of this CP) :**

- a. The Authority in its Order no. 30/2017-18 dated 18.12.2017 for determination of charges for the 2<sup>nd</sup> Control period (SCP) adopted Price-Cap approach with Hybrid till was shown as a row "Less: 30% of Other income and Interest income" on Table 16 "Revised ARR and Annual FIC for the second control period".

There has been no change in working of MAFFFL since 2017, when also MAFFFL was rendering same set of services as today. Other Income was earlier not considered an aeronautical service. The Authority has not provided any cogent reason for now adopting single till methodology and treating Other Income as aeronautical income.

- b. By deviating from its stand in the SCP and switching over to Single-Till approach, the Authority has not been consistent with its earlier approach and also not in line with National Civil Aviation Policy 2016 which specifically prescribed adoption of Hybrid Till in para 3.10.

Contention of the Authority that "the application of 'Single Till' methodology will be more appropriate and reasonable, as MAFFFL is in the sole business of providing infrastructure for storage and supply of fuel to the aircrafts and their entire activity comprises of



aeronautical services” is not correct since the Authority has treated the other Income comprising of interest income which has nothing to do with aeronautical services.

**2. True-up for the SCP relating to depreciation rates (Para 3.12 and 3.14 on Pg no. 15 of this CP):**

- a. MAFFFL has rightly considered the useful life of buildings up to May 2036 i.e. till the validity of its License Agreement with MIAL. MAFFFL is well within its rights to consider the lower useful life which is in line with its contractual/License agreement. The higher useful life of 60 years considered by the Authority has resulted in lower depreciation and in reduced FIC for the TCP.
- b. MAFFFL has considered residual value of 10% for all its key assets including Buildings, Roads, Plant & Machinery etc. in fact the entire cost of such assets should have been allowed to depreciate over the concession period.

*Note no. 4 to Annexure-1 of Order no 35/2017-18 on determination of useful life of Airport Assets specifically mentions “where assets are developed/ constructed/ put to use, they should be depreciated **over available lease period or the useful life prescribed, whichever is less**”.*

**3. Penalty for delay in completion of capex proposed (Para 4.1.10 on Pg no. 23 of CP):**

- a. Authority has proposed to levy a penalty through reduction in RAB by 1% of the cost of the delayed capex, during true up process for the next control period, if MAFFFL delays the execution of the capex proposed during TCP. Such a proposal is unreasonable especially when all infrastructure companies are facing severe challenges / restrictions in mobilizing resources (vendors/manpower) in executing projects in these pandemic times possibility of delay cannot be ruled out in these unprecedented times, due to any subsequent wave(s) and new variant(s) of Covid-19.
- b. Excess collection during TCP, if any, due to higher tariff based on capex which would not be completed in time, anyway shall be clawed back along with carrying cost. Proposal of the Authority to levy such additional penalty is surely not justified MAFFFL cannot be penalized twice.

**4. Fair Rate of Return (FRoR) [Para 5.6 on Pg no. 29 of this CP] :**

The Authority has considered Cost of Equity @14% for computing FRoR. However, in latest consultation papers for Bengaluru, Cochin and Chandigarh airports, the Authority has considered higher Cost of Equity.

Considering the risks involved, CoE of atleast 16% as requested by MAFFFL should be allowed by the Authority.

**5. License fees (Para 6.4 on Pg no. 32 of this CP) :**

MAFFFL has proposed license fees as per the licensing agreement in its MYTP as addition to RAB (on account of IND AS 116), the Authority has neither considered the license fee as addition to RAB nor allowed correct amount of license fees under O&M expense as submitted by MAFFFL for the TCP. The Authority should in any case have either allowed the License fee as O&M expense or 'Return on RAB and depreciation'.

**6. Fuel Throughput volume for TCP (Para 7.3 on Pg no. 35 of this CP) :**

a. Volumes considered by the Authority for the TCP are on a higher side , which need to be reconsidered due to following reasons:

- i. Due to serious situation of Covid-19 with strict restrictions in Maharashtra, passengers have been reluctant in travelling to/ from Maharashtra. Besides most of the organizations are conducting virtual business meetings leading to decline in business/work related travel.
- ii. Recovery of ATMs at CSMIA Mumbai in FY21 was dismally low being only 38% of FY20. With International operations slated not to start till 31<sup>st</sup> July, 2021, situation is not expected to improve in FY22 also. It is worth noting that oil throughput per ATM in case of international operations is much more than domestic operations.

b. Basing the oil throughput on the ATM traffic, considered by the Authority in Order no. 64/2020-21 in respect of CSMI Airport, estimated prior to the onset of second wave of Covid-19 pandemic, would not be proper. In current scenario, when both domestic and international traffic have taken great hit, the traffic for ISPs at CSMI





Airport needs to be reviewed and ATMs considered for FY22 to FY24 should be appropriately reduced to a more realistic scenario.

The Authority is kindly requested to consider the above points raised by us while determining the tariff for MAFFFL.

Thanking you,

Yours Sincerely

**For Mumbai International Airport Ltd.**

A handwritten signature in blue ink, appearing to read 'Sanjiv Bhargava'.

(Sanjiv Bhargava)

**Vice President (Regulatory)**