F.No. AERA/20010/MYTP/DIAL/CP-II/2013-14/Vol. - III

Order No. 40/2015-16

सत्यमेव जयते

Airports Economic Regulatory Authority of India

Determination of Aeronautical Tariffs in respect of Indira Gandhi International Airport, Delhi for the Second Control Period (01.04.2014 – 31.03.2019)

Date of Order: 8th December, 2015

Date of Issue: 10th December, 2015

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi - 110003

Table of Contents

1. Brief facts 11
2. DIAL Appeal against Delhi Tariff Order No. 03/2012-13 16
   - *a. DIAL Submission on DIAL's Appeal Against the Delhi Tariff Order No. 03/2012-13 .... 16*
   - *b. Authority's Examination of DIAL's submission on Appeal Against the Delhi Tariff Order No. 03/2012-13 .... 16*
3. Principles for Determination of Aeronautical Tariff 18
   - *a. DIAL Submission on Principles of Determination of Aeronautical Tariff 18*
   - *b. Authority's Examination of DIAL's submission on Principles of Determination of Aeronautical Tariff 18*
   - *c. Stakeholder Comments on Issues pertaining to Principles of Determination of Aeronautical Tariff 23*
   - *d. DIAL's response to Stakeholder Comments on Principles of Determination of Aeronautical Tariff 35*
   - *e. DIAL's own comments on Issues pertaining to Principles of Determination of Aeronautical Tariff 50*
   - *f. Authority's Examination of Stakeholder Comments on Principles of Determination of Aeronautical Tariff 57*
4. Control Period 62
   - *a. DIAL Submission on Control Period 62*
   - *b. Authority's Examination of DIAL Submissions on Control Period 62*
   - *c. Stakeholder Comments on Issues pertaining to Control Period 62*
   - *d. DIAL's response to Stakeholder Comments on Control Period 63*
   - *e. DIAL's own comments on Issues pertaining to Control Period 64*
   - *f. Authority's Examination of Stakeholder Comments on Control Period 64*
5. Development Fee and its adjustment to RAB 66
   - *a. Authority's Examination of Development Fee and its adjustment to RAB 66*

b. Stakeholder Comments on Issues pertaining to Development Fee and its adjustment to RAB 70

c. DIAL's response to Stakeholder Comments on Development Fee and its adjustment to RAB 71

d. DIAL's own comments on Issues pertaining to Development Fee and its adjustment to RAB 72

e. Authority's Examination of Stakeholder Comments on Development Fee and its adjustment to RAB 74

6. Consideration of True-ups for first Control Period in respect of DIAL 78

a. Stakeholder Comments on Issues pertaining to True-ups for first Control Period 105

b. DIAL's response to Stakeholder Comments on True-ups for first Control Period 116

c. DIAL's own comments on Issues pertaining to True-ups for first Control Period 123

d. Authority's Examination of Stakeholder Comments on True-ups for first Control Period 136

7. Allocation of Assets (Aeronautical / Non-Aeronautical) 152

a DIAL Submission on Asset Allocation (Aeronautical / Non-Aeronautical) 152

b Authority's Examination of DIAL's Submission on Asset Allocation (Aeronautical / Non-Aeronautical) 153

c Stakeholder Comments on Issues pertaining to Asset Allocation (Aeronautical / Non-Aeronautical) 155

d DIAL's response to Stakeholder Comments on Asset Allocation (Aeronautical / Non-Aeronautical) 161

e DIAL's own comments on Issues pertaining to Asset Allocation (Aeronautical / Non-Aeronautical) 163

f Authority's Examination of Stakeholder Comments on Asset Allocation (Aeronautical / Non-Aeronautical) 164

8. **Opening Regulatory Asset Base (RAB) for Second Control Period 167**

a. *DIAL Submission on Opening Regulatory Asset Base (RAB) 167*

b. *Authority's Examination of DIAL Submissions on Opening Regulatory Asset Base (RAB) 168*

c. *Stakeholder Comments on Issues pertaining to Opening Regulatory Asset Base (RAB) 170*

d. *DIAL's response to Stakeholder Comments on Opening Regulatory Asset Base (RAB) 173*

e. *DIAL's own comments on Issues pertaining to Opening Regulatory Asset Base (RAB) 176*

f. *Authority's Examination of Stakeholder Comments on Opening Regulatory Asset Base (RAB) 180*

9. **Hypothetical Asset Base 183**

a. *DIAL Submission on Hypothetical Asset Base (HRAB) 183*

b. *Authority's Examination of DIAL Submission on Hypothetical Asset Base (HRAB) 183*

c. *Stakeholder Comments on Issues pertaining to Hypothetical Asset Base (HRAB) 185*

d. *DIAL's response to Stakeholder Comments on Hypothetical Asset Base (HRAB) 188*

e. *DIAL's own comments on Issues pertaining Hypothetical Asset Base (HRAB) 190*

f. *Authority's Examination of Stakeholder Comments on Hypothetical Asset Base (HRAB) 192*

10. **Additions to Regulatory Asset Base 194**

a *DIAL Submission on Additions to Regulatory Asset Base 194*

b *Authority's Examination of DIAL's Submission on Additions to Regulatory Asset Base 195*

c Stakeholder Comments on Issues pertaining to Additions to Regulatory Asset Base 196
d DIAL's response to Stakeholder Comments on Additions to Regulatory Asset Base 200
e DIAL's own comments on Issues pertaining Additions to Regulatory Asset Base 200
f Authority's Examination of Stakeholder Comments on Additions to Regulatory Asset Base 201

11. Regulatory Asset Base for Second Control Period 204

a Authority's examination of DIAL Submission on Regulatory Asset Base ..204
b Stakeholder Comments on Issues pertaining to Regulatory Asset Base (RAB) 205
c DIAL's response to Stakeholder Comments on Regulatory Asset Base (RAB) 205
d DIAL's own comments on Issues pertaining Regulatory Asset Base (RAB) 205
e Authority's Examination of Stakeholder Comments on Regulatory Asset Base (RAB) 205

12. Cost of Debt 208

a DIAL Submission on Cost of Debt 208
b Authority's Examination of DIAL Submissions on Cost of Debt 208
c Stakeholder Comments on Issues pertaining to Cost of Debt 210
d DIAL's response to Stakeholder Comments on Issues pertaining to Cost of Debt 214
e DIAL's own comments on Issues pertaining to Cost of Debt 220
f Authority's Examination of Stakeholder Comments on Issues pertaining to Cost of Debt 220

13. Cost of Equity 225

a. *DIAL Submission on Cost of Equity and Refundable Interest Free Security Deposit (RSD)* 225

b. *Authority's Examination of DIAL Submissions on Cost of Equity and RSD* 225

c. *Stakeholder Comments on Issues pertaining to Cost of Equity* 227

d. *DIAL's response to Stakeholder Comments on Issues pertaining to Cost of Equity and treatment of RSD* 232

e. *DIAL's own comments on Issues pertaining to Cost of Equity and treatment of RSD* 236

f. *Authority's Examination of Stakeholder Comments on Issues pertaining to Cost of Equity and treatment of RSD* 238

14. Land Monetization and its Treatment towards Target Revenue 240

a. *Stakeholder Comments on Issues pertaining to Land Monetization / Treatment of RSD* 249

b. *DIAL's response to Stakeholder Comments on Issues pertaining to Land Monetization* 257

c. *DIAL's own comments on Issues pertaining to Land Monetization* 258

d. *Authority's Examination of Stakeholder Comments on Issues pertaining to Land Monetization / RSD* 262

15. Weighted Average Cost of Capital (WACC) 264

a *DIAL Submission on Weighted Average Cost of Capital (WACC)* 264

b *Authority's Examination of DIAL Submissions on Weighted Average Cost of Capital (WACC)* 267

c *Stakeholder Comments on Issues pertaining to WACC* 270

d *DIAL's response to Stakeholder Comments on Issues pertaining to WACC* 273

e *DIAL's own comments on Issues pertaining to WACC* 274

f *Authority's Examination of Stakeholder Comments on Issues pertaining to WACC* 275

16. Depreciation 280

- *a* *DIAL Submission on Depreciation* *280*
- *b* *Authority's Examination of DIAL Submissions on Depreciation* *281*
- *c* *Stakeholder Comments on Issues pertaining to Depreciation* *284*
- *d* *DIAL's response to Stakeholder Comments on Issues pertaining to Depreciation* *289*
- *e* *DIAL's own comments on Issues pertaining to Depreciation* *290*
- *f* *Authority's Examination of Stakeholder Comments on Issues pertaining to Depreciation* *291*

17. Operating Expenses 294

- *a* *DIAL Submission on Operating Expenses* *294*
- *b* *Authority's Examination of Operating Expenses* *336*
- *c* *Stakeholder Comments on Issues pertaining to operating expenses* *354*
- *d* *DIAL's response to Stakeholder Comments on Issues pertaining to operating expenses* *365*
- *e* *DIAL's own comments on Issues pertaining to operating expenses* *381*
- *f* *Authority's Examination of Stakeholder Comments on Issues pertaining to operating expenses* *391*

18. Taxation 399

- *a* *DIAL Submission on Taxation* *399*
- *b* *Authority's Examination of DIAL Submissions on Taxation* *400*
- *c* *Stakeholder Comments on Issues pertaining to Taxation* *401*
- *d* *DIAL's response to Stakeholder Comments on Issues pertaining to Taxation* *405*
- *e* *DIAL's own comments on Issues pertaining to Taxation* *407*
- *f* *Authority's Examination of Stakeholder Comments on Issues pertaining to Taxation* *409*

19. Non-aeronautical revenue 412

- *a* *DIAL Submission on Non-aeronautical revenue* *412*

e. *Authority's Examination of DIAL Submissions on Non-aeronautical revenue 437*

b *Stakeholder Comments on Issues pertaining to Non Aeronautical Revenues 442*

c *DIAL's response to Stakeholder Comments on Issues pertaining to Non Aeronautical Revenues 445*

d *DIAL's own comments on Issues pertaining to Non Aeronautical Revenues 446*

e *Authority's Examination of Stakeholder Comments on Issues pertaining to Non Aeronautical Revenues 447*

20. Treatment of Cargo, Ground Handling & Fuel throughput Revenues 451

a *DIAL Submission on Treatment of Cargo, Ground Handling & Fuel throughput Revenues 451*

b *Authority's Examination of DIAL Submissions on Treatment of Cargo, Ground Handling & Fuel throughput Revenues 460*

c *Stakeholder Comments on Issues pertaining to Treatment of Cargo, Ground Handling and Fuel Throughput Revenues 467*

d *DIAL's response to Stakeholder Comments on Issues pertaining to Treatment of Cargo, Ground Handling and Fuel Throughput Revenues ..476*

e *DIAL's own comments on Issues pertaining to Treatment of Cargo, Ground Handling and Fuel Throughput Revenues 480*

f *Authority's Examination of Stakeholder Comments on Issues pertaining to Treatment of Cargo, Ground Handling and Fuel Throughput Revenues Forecast 486*

21. Traffic Forecast 488

a *DIAL Submission on Traffic Forecast 488*

b *Authority's Examination of DIAL Submissions on Traffic Forecast....490*

c *Stakeholder Comments on Issues pertaining to Traffic Forecast....491*

d *DIAL's response to Stakeholder Comments on Issues pertaining to Traffic Forecast ....494* e DIAL's own comments on Issues pertaining to Traffic Forecast................496

f Authority's Examination of Stakeholder Comments on Issues pertaining to Traffic Forecast................496

22. Inflation 500

a. DIAL Submission on Inflation................500

b. Authority's Examination of DIAL Submissions on Inflation................500

c. Stakeholder Comments on Issues pertaining to Inflation................501

d. DIAL's response to Stakeholder Comments on Issues pertaining to Inflation................501

e. DIAL's own comments on Issues pertaining to Inflation................501

f. Authority's Examination of Stakeholder Comments on Issues pertaining to Inflation................501

23. Quality of Service................503

a DIAL Submission on Quality of Service................503

b Authority's Examination on Quality of Service................503

c Stakeholder Comments on Issues pertaining to Quality of Service................504

d DIAL's response to Stakeholder Comments on Issues pertaining to Quality of Service................505

e DIAL's own comments on Issues pertaining to Quality of Service................506

f Authority's Examination of Stakeholder Comments on Issues pertaining to Quality of Service................506

24. Sensitivity Analysis................507

25. Tariff Structure/ Rate Card................514

a DIAL Submission on Tariff Structure/ Rate Card................514

b Authority's Examination of DIAL Submissions on Tariff Structure/ Rate Card................515

c Stakeholder Comments on Issues pertaining to Tariff Structure / Rate Card................516

d *DIAL's response to Stakeholder Comments on Issues pertaining to Traffic Forecast*.....516

e *DIAL's own comments on Issues pertaining to Tariff Structure/ Rate Card*.....517

f *Authority's Examination of Stakeholder Comments on Issues pertaining to Tariff Structure/ Rate Card*.....517

26. **Viability of IGI Airport, Delhi** **519**

a *Stakeholder Comments on Issues pertaining to Viability*.....520

b *DIAL's response to Stakeholder Comments on Issues pertaining to Viability*.....528

c *DIAL's own on comments on Issues pertaining to Viability*.....529

d *Authority's Examination of Stakeholder Comments on Issues pertaining to Viability*.....529

27. **Summary of Decisions** **539**

28. **Order** **552**

29. **List of Tables & Figures** **554**

1. Brief facts

1.1. Delhi International Airport Private Limited (DIAL), was incorporated on 1st March 2006 with AAI retaining 26% equity stake and balance 74% of equity capital acquired by members of the GMR consortia. The GMR consortia comprised GMR Group entities, Fraport AG, Malaysia Airports Holdings Bhd. and India Development Fund (which exited the consortium subsequently). On 4th April 2006, DIAL signed the Operation, Management and Development Agreement (OMDA) with AAI and took over the operations of IGI Airport on 3rd May 2006.

1.2. DIAL entered into various agreements with AAI, GoI and Government of National Capital Territory of Delhi (GoNCT) to give effect to the transaction. The OMDA was executed between DIAL and AAI on 4th April 2006, whereby AAI granted DIAL the exclusive right and authority, during the term of agreement, to undertake some of the functions of AAI, namely the functions of operations, maintenance, development, design, construction, up-gradation, modernizing, finance and management of the IGI Airport and to perform services and activities constituting aeronautical services and non-aeronautical services at the airport. The OMDA has a term of 30 years, with DIAL having a right to extend the agreement for a further period of 30 years, subject to its satisfactory performance under the various provisions governing the arrangement between DIAL and AAI. In addition to OMDA, DIAL also entered into the State Support Agreement (SSA) with GoI on 26th April 2006 which outlined the support from GOI. Besides OMDA and SSA, the airport operator has also entered into other agreements with the state government, AI and other agencies in order to complete the project and provide various services at the airport.

1.3. Provisions regarding "Tariff and Regulation" have been made in Chapter XII of OMDA and Clause 3.1 read with Schedule 1 of the SSA.

1.4. Clause 3.1 of SSA states that GOI intended to establish an independent economic regulatory authority (Economic Regulatory Authority) having the responsibility of regulation of aeronautical charges, and till such time as the Economic Regulatory

Authority commences regulating Aeronautical Charges, the charges shall be approved by GOI. Accordingly, pursuant to setting up of Airports Economic Regulatory Authority (AERA) of India vide the AERA Act, 2008 and notification of the powers and the functions of the Authority on 01.09.2009, DIAL submitted its Multi-year Tariff Proposal (MYTP) to the Authority for its consideration and approval, on 20th June 2011.

1.5. Pursuant to their submission, a series of discussions / meetings / presentations were held on the proposal, including discussions in respect of the financial model developed by DIAL for this purpose. Subsequently Consultation Paper No. 32 / 2011-12 dated 03.01.2012 in respect of Determination of Aeronautical Tariff in respect of IGI Airport, New Delhi for the 1st Control Period from 01.04.2009 to 31.03.2014 (subsequently referred to as DIAL Consultation Paper 32 / 2011-12 in this document) was put up by the Authority and a stakeholder consultation was held to discuss the views of various stakeholders on that Paper.

1.6. The Authority carefully considered and analysed the views of various stakeholders on the proposals of the Authority on various building blocks in respect of determination of aeronautical tariff for the 1st control period in respect of IGI Airport, Delhi. The Authority determined the aeronautical tariff vide its Delhi Tariff Order 03/2012-13 dated 24.04.2012 in the matter of Determination of Aeronautical Tariff in respect of IGI Airport, New Delhi for the 1st Control Period from 01.04.2009 to 31.03.2014 (subsequently referred to as DIAL Tariff Order 03 / 2012-13 in this document).

1.7. DIAL then submitted a proposal for revision of tariffs for aeronautical services at IGI Airport, New Delhi, for the Authority's consideration and approval for the second Control Period starting 1st April 2014 (01.04.2014 to 31.03.2019).

1.8. Briefly stated, DIAL had filed their multi-year tariff proposal (MYTP) seeking a one-time increase of 18.79% in the X Factor for determination of aeronautical tariffs (for the 5 year tariff period FY 2014-15 to 2018-19, and considered tariff revision from 01.04.2014), with an annual CPI correction. DIAL subsequently revised its MYTP vide its submission dated 23.07.2014, based on availability of audited numbers for FY

2013-14. In the revised submission dated 23.07.2014, DIAL sought a one-time increase of 42.6% in the X Factor for determination of aeronautical tariffs (for the 5 year tariff period FY 2014-15 to 2018-19, and considered tariff revision from 01.11.2014), with an annual CPI correction.

1.9. DIAL made submissions dated 10.11.2013, 16.01.2014, 03.03.2014, 11.04.2014, 14.04.2014, 20.04.2014, 15.05.2014, 10.07.2014, 23.07.2014, 20.08.2014, 12.09.2014, 20.09.2014, 13.10.2014, 21.11.2014, 01.12.2014, 11.12.2014 and 15.12.2014, in response to the clarifications / information desired by the Authority. The Authority had also addressed these submissions under respective sections of this Consultation Paper. Ministry of Civil Aviation vide their letter dated 15.01.2015 had forwarded the AAI's letter dated 31.12.2014 and DIAL's letter dated 06.01.2015 to the Authority. The Authority had also dealt with these issues in the various sections of the Consultation Paper No 16/2014-15 dated 28.01.2015.

1.10. Following the release of Consultation Paper No 16/2014-15 dated 28.01.2015, the Authority had invited a stakeholder consultation on 18.02.2015. The minutes of the meeting have been uploaded on AERA's website.

1.11. The Authority also invited formal comments from all stakeholders on the issues and proposals presented in its Consultation Paper No 16/2014-15 dated 28.01.2015. The Authority appreciates the responses that it has received from the various stakeholders and has considered their inputs while preparing this Order.

1.12. The following stakeholders commented on the Authority's Consultation Paper No 16/2014-15 dated 28.01.2015 in the matter of tariff determination for Delhi International Airport Limited:

1.12.1. Airports Council International (ACI)

1.12.2. Air India

1.12.3. Airline Operators Committee (AOC)

1.12.4. Air Passengers Association of India (APAI)

1.12.5. Association of Private Airport Operators (APAO)

1.12.6. Assocham

1.12.7. Blue Dart

1.12.8. Confederation of Indian Industry (CII)

1.12.9. Delhi International Airport Limited (DIAL)

1.12.10. Federation of Indian Airlines (FIA)

1.12.11. Federation of Indian Chambers of Commerce and Industry (FICCI)

1.12.12. Fraport

1.12.13. International Air transport Association (IATA)

1.12.14. Mumbai International Airport Limited

1.12.15. Virgin Atlantic Airways

1.12.16. Vistara

1.13. The following part of this Order gives the Authority's position on respective building blocks presented in the Consultation Paper No 16/2014-15 dated 28.01.2015 in the matter of determination of tariff for DIAL. Each chapter is structured in the following manner where discussion on each issue has been segregated into six sections:

1.13.1. First section presents a summary of DIAL's submissions on the issue at the Consultation stage

1.13.2. Second section presents a summary of the Authority's discussion on the issue, as presented in the Consultation Paper No 16/2014-15 dated 28.01.2015.

1.13.3. Third section presents the comments made by the Stakeholders to the Authority's position on the issue stated in the Consultation Paper No 16/2014-15 dated 28.01.2015.

1.13.4. Fourth section presents the response made by DIAL to the comments made by the Stakeholders on the issue.

1.13.5. Fifth section presents the comments made by DIAL itself on the issue in addition to its responses to the Stakeholder comments.

1.13.6. Sixth and the final section presents the Authority's examination of Stakeholders' comments, DIAL's responses and DIAL's own comments on that issue and decisions thereof.

1.14. Decisions taken by the Authority on various issues in respect of IGI Airport, Delhi are summarized in Chapter 27 below.

2. DIAL Appeal against Delhi Tariff Order No. 03/2012-13

a. DIAL Submission on DIAL's Appeal Against the Delhi Tariff Order No. 03/2012-13

2.1. The Authority had approved aeronautical tariff in respect of IGI Airport, New Delhi for the 1st Regulatory Period 01.04.2009-31.03.2014 vide Delhi Tariff Order 03/2012-13) dated 20th April 2012. However, being aggrieved by the aforesaid order DIAL had filed an appeal vide Appeal No. 10/2012 to AERAAT. DIAL submitted that pending the decision of the appeal they reserve their right to amend the true up computation based on the legal outcome of the aforesaid or any other legal proceeding in this regard.

b. Authority's Examination of DIAL's submission on Appeal Against the Delhi Tariff Order No. 03/2012-13

2.2. DIAL approached the High court of Delhi vide LPA No. 670/2014 and the Hon'ble Court had pronounced its judgement on 22.01.2015, and has ordered as under:

"......

Accordingly, the order under appeal is set aside and the appeal shall stand disposed of with the following directions:

(i) The Union of India, Ministry of Civil Aviation shall take the necessary steps to finalize the selection and appointment of the Chairperson and members of AERAAT and to make it functional at the earliest, within four weeks here from.

(ii) We further direct AERAAT to decide the appeals aforesaid within eight weeks therefrom i.e. latest within twelve weeks here from.

(iii) The tariff determined by AERA for the First Control Period vide Tariff Order No. 03/2012-13 dated 20.04.2012 shall continue till the disposal of the appeals pending against the said Tariff Order by the AERAAT."

2.3. The Authority examined the matter and issued a Public Notice No. 16/2014-15 dated 29.01.2015 which stated that:

"In view and in terms of the above judgement of the Delhi High Court dated 22nd January 2015, Order No. 3/2012-13 dated 24th April 2012 passed by the Authority determining tariff for the First Control Period stands extended and

the Authority is not issuing any separate extension order. This is without prejudice to the Authority's legal rights and remedies in law. Any further developments on the issue will be put in public domain by suitable means."

2.4. Subsequent to the above, based on a legal opinion, obtained from a senior counsel, the Authority has preferred an appeal (SLP before the Hon'ble Supreme Court of India) on 25.04.2015 against the final judgement and Order dated 22.01.2015 passed in LPA 670/2014 by the Delhi High Court. The matter is sub-judice.

3. Principles for Determination of Aeronautical Tariff

a. DIAL Submission on Principles of Determination of Aeronautical Tariff

3.1. DIAL had submitted its philosophy for computation of Tariff and X factor based on the principles laid down in the DIAL concession documents. It had followed the Target Revenue Determination approach to calculate the increase in tariff through the X-Factor calculation as given in the SSA.

3.2. DIAL had also submitted a report on CPI inflation by RBI, dated 27 June 2013, as an annexure requesting inflationary increase over and above the tariff increase submitted.

3.3. DIAL had also submitted that, any non-aeronautical income accruing from investments disallowed as part of the Project Cost should not to be used for cross subsidization. DIAL also submitted that according to the SSA, only gross revenue from the 'Revenue Share Assets' was to be considered while determining the total subsidy contribution which did not include 'Non Transfer Assets'. DIAL submitted that cargo and ground handing should entail contribution to the extent of 30% of their respective earnings while determining the Aeronautical Charges and also considered the Fuel Throughput Charge as an aeronautical charge.

3.4. DIAL also mentioned that it has the flexibility to develop and innovatively design its own tariff structure in line with market positioning and marketing objectives.

b. Authority's Examination of DIAL's submission on Principles of Determination of Aeronautical Tariff

3.5. The Authority had examined DIAL's submissions with respect to the principles of determination of aeronautical tariff. The Authority indicated that the contention that SSA provides DIAL the flexibility to design the tariff structure, was without any merit.

3.6. The Authority proposed to determine the Target Revenue (TR) by aggregating terms in the following formula:

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

Where;

TR = target revenue

RBi = regulatory base pertaining to Aeronautical Assets and any investments made for the performance of Reserved Activities etc. which are owned by DIAL. The Assets other than Aeronautical Assets will be excluded from the scope of RAB.

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

Where: for the first regulatory period would be the sum total of the Book Value of the Aeronautical Assets in the books of DIAL and the Hypothetical Regulatory Base computed using the then prevailing tariff and the revenues, operation and maintenance cost, corporate tax pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation

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

D = Annual Depreciation charged on aeronautical assets based on depreciation reference rates prescribed as per the Companies Act, 1956 and now amended under the Companies Act, 2013

T = Corporate taxes on earnings pertaining to Aeronautical Services

S = Subsidy to the extent of 30% of the Gross Revenue generated from the Revenue Share Assets, which are defined to include:

Non-Aeronautical Assets; and

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.)

i = Number of year in the regulatory control period

3.7. Based on its reading of the provisions of SSA and DIAL submissions proposed in the Consultation Paper No 16/2014-15 dated 28.01.2015 , it appeared to the Authority that the principles laid out in the SSA are broadly consistent with the Authority's regulatory philosophy and approach as stated in its Airport Order and Airport Guidelines. It is noted that the draft of the SSA formed part of the bid documents in respect of IGI Airport. It has been a consistent view of the Authority that the provisions of the SSA should be taken on board, as far as these are consistent with the provisions of the Act. Further, the provisions of SSA should also be reconciled to the extent possible with the provisions of the Act. It is only where the provisions of the SSA are not consistent with the Act and cannot be reconciled thereto, a deviation from the provisions of SSA may need to be made to the extent of repugnancy to the express provisions of the Act. There are certain important provisions in Schedule 1 of SSA, which are at variance with the approach decided by the Authority in respect of other airports, which can be summarised as below:

3.7.1. Shared Till – 30% of the gross revenue generated by the JVC from revenues share assets shall be used to subsidize Target Revenue. The costs in relation to such revenue shall not be included while calculating aeronautical charges.

3.7.2. Hypothetical RAB – The opening RAB for the first regulatory period would be the sum total of the Book Value of the Aeronautical Assets in the books of the JVC and the hypothetical regulatory base computed using the then prevailing tariff and the revenues, operation and maintenance cost, corporate tax pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation.

3.7.3. No cost pass through – (read with Clause 3.1.1 of SSA)-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.

3.8. The Authority had also noted the difference between the provisions of the Act and those of OMDA in treating certain services as aeronautical or non-aeronautical and, based on its extensive analysis of treatment of various services, had proposed to treat the revenue from cargo and ground handling services as non-aeronautical revenue.

3.9. The above principles (Paras 3.6, 3.7 and 3.8 above), including the variances, have been considered by the Authority in its determination of aeronautical tariff in respect of IGI Airport, Delhi for the first Control Period from 01.04.2009 till 31.03.2014. The Authority proposed to consider the same principles for its determination of aeronautical tariff for the current Control Period from 01.04.2014 till 31.03.2019.

3.10. With respect to DIAL's submission that "*any non-aeronautical income accruing from investment disallowed as part of Project Cost is not to be used for cross subsidization*". The Authority noted that it had neither prohibited the airport operator from utilising such assets nor was the airport operator asked to decommission such assets. Accordingly, the Authority is not persuaded to accept DIAL's submission of not considering the revenue generated from such disallowed area.

3.11. With respect to the addition of CPI inflation to the tariff, the Authority noted that X-factor was determined based on the Target Revenue determined by it and the projected aeronautical revenue for a Control Period. Inflationary increase was appropriately incorporated in the components of building blocks. Thus the question of granting an inflationary increase over and above the Target Revenue did not arise.

3.12. The Authority had noted from DIAL submissions that it had proposed to incur certain expenses on account of security related requirements and that such expenditure be considered by the Authority towards determination of aeronautical tariff provided the same will not be considered towards determination of PSF Security Charge. The costs for inline baggage screening was one such component incurred by DIAL and had been included in DIAL's financials and not in the PSF Accounts.

3.13. The Authority proposed to allow expenses pertaining to inline baggage screening to be considered as part of aeronautical operating expenses for determination of aeronautical tariff. Accordingly, the expenses pertaining to inline baggage screening for the first Control Period, which were not allowed by the Authority at that stage, were proposed to be considered under the true-up exercise. Further the Authority proposed to consider the projections made by DIAL towards expenses pertaining to inline baggage screening for the second Control Period.

3.14. The Authority noted from DIAL submissions that DIAL has recorded security related expenses for the first control period under the PSF (SC) Accounts. MoCA, vide its Order AV 13024/03/2011-AS (Pt.I) dated 18.02.2014, had required that *"all the airport operators ... shall reverse/reimburse back to the respective PSF(SC) Escrow account ... the total amount spent (on account of capital costs/expenditure) so far towards procurement and maintenance of security systems/equipment and on creation of fixed assets out of the PSF(SC) Escrow Account, together with the interest that would have accrued in normal course had the said amount not been debited against the PSF(SC) Escrow account"*.

3.15. The Authority noted that DIAL has filed an appeal in the Hon'ble High Court against MoCA's Order AV 13024/03/2011-AS (Pt.I) dated 18.02.2014. The Authority proposed to appropriately consider the final outcome of the appeal towards determination of tariff for the second Control Period in case the outcome of the appeal is available before the finalization of the Order, else the same will be given effect to at the time of determination of tariff for the third Control Period.

3.16. The Authority had noted DIAL submission on provision related to 10% increase in Base Airport Charges as per Schedule 6 of SSA. However, the Authority did not find any fresh grounds in the submissions of DIAL for reconsideration of its earlier decision.

3.17. Based on the material before it and its analysis, the Authority proposed in the Consultation Paper No 16/2014-15 dated 28.01.2015 regarding Principles for Determination of Aeronautical Tariff in respect of IGI Airport, Delhi

3.17.1. The Authority proposed to consider the principles (laid in paras 3.12 to 3.15 as per its Consultation Paper No 16/2014-15 dated 28.01.2015) for determination of aeronautical tariff in respect of IGI Airport, Delhi.

3.17.2. According to MOCA's Order AV 13024/03/2011-AS (Pt.I) dated 18.02.2014, the Authority proposed to consider the expenditure projected to be incurred by DIAL towards creation of security related fixed assets during the second Control Period (currently estimated at Rs 93.11 crore) towards computation of RAB in respect of IGI Airport, Delhi.

3.17.3. According to MOCA's Order AV 13024/03/2011-AS (Pt.I) dated 18.02.2014, the expenses pertaining to inline baggage screening for the first Control Period, which were not allowed by the Authority at that stage, were now proposed to be considered under the true-up exercise. Further the Authority proposed to consider the projections made by DIAL towards expenses pertaining to inline baggage screening for the second Control Period towards determination of Target Revenue for the second Control Period.

3.17.4. As and when the Central Government comes up with the SOP / Guidelines pertaining to the Rule no 88 A of the Aircraft Rules, 1937, wherein the expression "expenditure on aviation security" is clarified, the Authority proposed to consider such clarification for an appropriate treatment to capital expenditure and operating expenditure incurred by DIAL on account of security related requirements.

3.17.5. After issuance of the Order in respect of Normative Approach for determination of Building Blocks, DIAL will be covered under the normative approach to the extent the Authority decides it to be applicable. This would be applicable to DIAL only for subsequent control periods i.e. third Control Period and beyond.

c. Stakeholder Comments on Issues pertaining to Principles of Determination of Aeronautical Tariff

3.18. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No 16/2014-15 dated 28.01.2015. These comments are presented below:

3.19. Airport Council International (ACI) commented on the adherence to concession agreements stating that

"Adherence to Concession Agreements

To create confidence in the market, adherence to a signed concession agreement must be respected as it is termed as sovereign risk. Any attempt to relook at the concession after investment has been made will adversely impact the credibility of the Government as a party to the agreement, with a possibility of steering away potential investors. We urge the AERA to ensure that the concessions are adhered in full.

3. Ensure the success of future privatization projects

A sound regulatory framework should provide confidence that regulatory decisions are made on an objective, impartial and consistent basis. The following are areas that require AERA's attention to ensure the future success of airport privatization projects:

a) Avoid uncertainty: regulatory decisions should be consistent from one control period to another.

b) Reasonable return: The return allowed, i.e. the net amount available to investor, must be reasonable to make an investment attractive.

c) Level of charges: the level of charges should be just and reasonable, allowing investors to make a reasonable return while running the airport in an efficient manner.

d) Sustainable industry: Continuous losses in the airport sector will mean that all stakeholders including banks will not be able to recover their investment which will lead to an unsustainable economic environment. Resulting in lower capacity hampering the growth of airlines and consequently passengers will not be able to get the infrastructure they deserve.

e) Impact on the economy: Airports are key economic drivers of the economy. If the airport industry is not financially healthy the associated developments will not take place, thus impacting the economy as a whole. "

3.20. With respect to the principles of determination of tariff and the methodology followed, ACI also stated that

"Framework has been relaxed. In India, on the contrary, heavy-handed regulation continues to apply. The ACI urges AERA to avoid micro-management. Any regulatory intervention should be kept at a minimum and need to be cost-effective, the direct and indirect cost of regulation should not outweigh its benefits.

All businesses must plan for the future if they are to grow, and airports if anything exemplify this. Facilities which take time to deliver must be put in place to cater for demand which can materialize much more rapidly. While in the past it may have been acceptable to deliver infrastructure long after demand initially began to manifest itself, in today's environment airports are obliged to provide the right product at the right time. Considering the future capital requirements of DIAL in light with the current proposals in the Consultation Paper, the entire master planning exercise will be in vain due to absence of the much needed cash required and could result in a situation where demand outshoots supply.

2. Decisions contrary to the Concession agreement

With respect to the specific proposals in the Consultation Paper, we see the following as the key contentious issues:

a) Non-adherence to the CPI-X methodology

The State Support Agreement (SSA) signed by DIAL with the Government of India provides for the CPI-X approach to be followed in determining tariff for

DIAL, and the various building blocks are not considered for true up in the subsequent control period.

We understand that the current proposals envisage true-up of operating costs while non-aeronautical revenues remain out of the purview of the true-up. We urge the AERA to avoid inconsistency in the treatment of these items, and to respect the CPI-X approach that was originally agreed to by the SSA and hence avoid true-up of these items in the subsequent control period.

b) Classification of Revenue

We urge the AERA to avoid inconsistency in the classification of revenue items that is in contradiction with the concession agreement.

For example, Cargo Screen is currently proposed to be treated as Aeronautical Services. Please note that this item is not considered an aeronautical services under Schedule 5 and 6 of DIAL's Operation, Management and Development Agreement that clearly stipulates the classification for aeronautical and non-aeronautical activities.

We believe this is a fundamental issue and the concession agreement should not be altered on this important merit.

c) Change in methodology of calculation

We urge the AERA to adhere to the concession agreement with respect to the methodology of calculation of the building blocks. For example, the consideration of Revenue Share as a pass through for determining the aeronautical tax building block. If AERA considers revenue share as a pass through for the tax building block, then the same effect should also be given for the operating cost tax building block and allowed as a cost to be recovered. This is the logical framework of the DIAL concession agreement."

3.21. On the issue of principles of determination of tariff, the Airline Operator's Committee (AOC) stated that

"The authority has recommended that for the purposes of determination of aeronautical tariff in respect of IGI Airport, Delhi. The authority proposes to consider the principles laid down in paras 3.12 to 3.15 for determination for aeronautical tariff in respect of IGI Airport, Delhi. It is submitted that the revenues from cargo and ground handling have been proposed to be treated as non-aeronautical revenue in para 3.14. This violates the provisions of the AERA Act and further submitted that even though the OMDA specifies the treatment as non-aeronautical, then to a statutory regulation cannot be overruled by OMDA. "

3.22. Airline Operator's Committee (AOC) commented on the Authority's proposal towards Normative Approach stating that

"It is further submitted that pending order on the Normative Approach for determination of building blocks, it is proposed that the authority implements the same immediately on receipt in the current control period and only truing up should be done in the subsequent control period."

3.23. Association of Private Airport Operators (APAO) submitted their views on revenue share as a pass through for tax, stating:

"AERA has laid down one more proposal which is in violation of the concession agreement. AERA has proposed to consider Revenue Share as a pass through and treat it as operating cost for Aero Tax Calculations while it is not considering the Revenue Share as pass through while determining aeronautical tariffs.

The treatment of revenue share as an operating expense is against the State Support Agreement. The Section 3.1.1 of the agreement clearly states:

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

Furthermore, the treatment by AERA with respect to revenue share is extremely discretionary and inconsistent. The proposal penalizes the airport twice, once *by not including revenue share as a part of building block and another by treating it as a pass through for arriving at aero tax building block.*

AERA may note that regulatory and statutory accounts are two different set of books. Regulators in other parts of the world do not follow statutory accounts. Both are considered to be separate set of books of accounts. They only regulate on a notional entity which includes all or part of some parts of revenues or cost but exclude others.

i) In Denmark, as in many countries it is possible for some assets in the statutory accounts to be revalued – particularly when they have a market value which can be directly assessed.

ii) For Copenhagen Airport, these revaluations are included in statutory accounts but excluded in accounts used for regulatory purposes.

APAO Recommendation:

Hence, it is recommended that tax should be allowed in the regulatory accounts based upon the calculation in which Revenue Share is not taken into account as an expense which is in accordance with the example and provisions of the SSA."

3.24. The Association of Private Airport Operators (APAO) commented in the matter of base airport charges as below,

"Authority should have allowed 10% increase in Base airport charges as provided in Schedule 6 to the SSA. Clause 2 of Schedule 6 to the SSA which reads as follows:

"From the commencement of the 4th year after the effective date and for every year thereafter for the remainder of the term, Authority will set the Aeronautical charges in accordance with clause 3.1.1 read with Schedule 1 appended to SSA, subject always to the condition that at the least , a permitted nominal increase of 10% of the base airport charge 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."

3.25. On the matter of treatment of Cargo and Ground Handling as aeronautical services, Federation of Indian Chambers of Commerce and Industry (FICCI) stated that,

"Industry feels that AERA's proposal to treat services for cargo and ground handling as aeronautical services but treating revenues derived from the same services as non-aeronautical revenue is contradictory and confusing. Treating such revenues as non-aeronautical revenues for the purpose of tariff determination clearly violates the AERA Act. Industry has urged to redress this violation.

It has been suggested by the cargo players that the land lease rentals for cargo space paid by them should be treated as aeronautical and brought into the ambit of AERA. It will safeguard the interest of cargo players and ensure determination of tariffs after stakeholders' consultations."

3.26. On the matter of principles of determination of tariff, IATA agreed with the approach followed by the Authority and stated that,

"IATA agrees with the principles highlighted in paragraphs 3.12 to 3.15. On the assumption that no other funds are being utilized to cover the costs of these activities (and therefore there would not be duplicate payments), and provided these activities are necessary and delivered efficiently, then it would be acceptable to include these costs in the determination. In this regard, we request AERA to assess whether the costs presented by DIAL are efficient before they are included in the RAB.

Under the assumption that no other funds are being utilized to cover the costs of these activities (and therefore there would be no double payment), and provided that these activities are necessary and been delivered efficiently, then it would be acceptable to include these costs in the determination. In this regard, we request AERA to assess whether the costs whether the costs presented by DIAL are efficient before they are included in the RAB."

3.27. Further, on the matter of Normative Approach, IATA stated that, *"On the outstanding order on Normative Approach for determination of Building Blocks, IATA would propose that once the order is passed (which is expected to take place during the second control period), the relevant decisions should be considered applicable immediately and truing up is then carried out in the subsequent third control period. "*

3.28. With respect to the Authority's position on the methodology and treatment of different building blocks, Assocham has commented on the stability in the regulatory system

"There is a severe lack of consistency in authority's principles.

The authority has changed its treatment between control periods. This is internationally seen as a bad practice and investor shy away from such policies,

The concession agreements of the current airport operators also mandate that there must be consistency across regulatory periods.

There are several instances of change in principles by authority like:

• Change in treatment of some items amongst capex and opex

• Treatment of Into Plane as Aeronautical

• Change in the allocation mechanism of airport operator fee in aeronautical and on aeronautical component

• Other income treated as non-aeronautical and considered for cross subsidization

On the other hand, when it comes to updating the numbers based on actual available, AERA has used its discretion. It has proposed to update / make changes in the 1 control period Regulated Asset Base (RAB) as approved the order no.3 - 2012/13 with respect to adjustments. In respect of Development Fee, Capitalization method, Interest on Development Fee.

All such adjustments are leading to downward revision in the regulated asset base for the 15t control period. However, when it comes to using the new asset allocation ratio and operating cost allocation ratio based on the actual data, *the regulator has denied it for operating cost and has said they need more evidence to accept new asset allocation.*

Assocham feels that the stand of the regulator has to be consistent with respect to all proposals and discretion should be avoided.

This is bad economics and bad regulation and needs to be avoided"

3.29. Federation of Indian Airlines (FIA) has commented on the tariff determination methodology with respect to the till followed:

"It is submitted that the Single Till Approach as enshrined under Section 13(1)(a)(v), read with Section 13(1)(b), has been adopted by the Authority in its Order No. 13/2010-11 dated 12.01.2011 warrants a comprehensive evaluation of the economic model and realities of the airport - both capital and revenue elements. DIAL's approach of hybrid till deserves to be discarded.

10. Considering the legislative and judicial precedents on the Single Till Approach, and the fact that the Appeal is pending before the Appellate Tribunal, the Authority ought to have made a reference to the Single Till Approach in the Consultation Paper. Further, the Authority ought to have acknowledged that there may be a scenario for the change in approach from Shared Till to Single Till. The Consultation Paper could have highlighted the preparedness of the Authority to migrate to Single Till approach, in the event the Appeal is decided during the 2nd Control Period.

11. It is submitted that FIA on innumerable occasions has stated that increase in aeronautical tariff may decrease the passenger traffic. It is pertinent to note that DIAL (@Pages 177 and 309) has admitted to the fact there is reduction in passenger traffic volumes. In view of the same, it is relevant that the Single Till Approach, which is beneficial to the consumers, be adopted to encourage air travel, which may result in increased passenger traffic,

12. FIA craves liberty to expand its submissions on the Single Till Approach, if the Authority so desires."

3.30. Other comments submitted by FIA on the matter of tariff determination by the Authority are as under,

"It is submitted that the following gaps/lacunae must be addressed before concluding the present proceedings:

3.1 The Consultation Paper does not make any specific reference to the Appeal No.6 of 2012 (tithe Appeal") which is pending before the Airport Economic Regulatory Authority Appellate Tribunal (lithe Appellate Tribunal"). The Appeal has been filed by FIA challenging the legality and validity of the Authority's order numbered 03/ 2012 -13 dated 20.04.2012 ("the Previous Order). In the said Appeal, FIA has, inter alia, prayed to dismiss the Shared Till Approach adopted by the Authority as the same is in violation of statutory framework which lays down the Single Till Approach.

It is submitted that the Authority ought to have made the outcome of the Consultation Process subject to the decision of the Appellate Tribunal in the Appeal.

3.2 The Airport Authority of India ("AAI") has given about 5,000 acres of land to the Delhi International Airport Limited (DIAL) at Delhi, at an annual lease rent of Rs.l00 per acre, out of which DIAL is allowed to commercially exploit and monetize around 245 acres of land. As per para 14.1 of the Consultation Paper, DIAL has monetized only 45 acres of land till date by way of realizing. DIAL has admitted that DIAL has received Rs. 1,471.51 crores as Refundable Security Deposit ("RSD") and lease rentals of approximately RS.2 crores per annum. The Authority has not applied the lease rentals to the computation of aeronautical tariff. The Authority has noted that DIAL has realized Rs.390.05 crores from Commercial Property Development (CPD) between 01.04.2009 to 31.03.2014 (the "Control Period"]. Further, DIAL has projected that DIAL will realize Rs.549.24 crores in the 2nd Control Period. The Authority has recorded that the underlying land is not a non - transfer asset.

However, the Authority has not applied the amounts of Rs.390.05 crores and AAI. Pursuant to the same, the Authority will decide the issue of applying the proceeds of land monetization towards the computation of aeronautical tariff. The Authority may exemplify the 'Non -Transfer Asset' as defined in the Operation, Management and Development Agreement ("OMDA"), and its practical implementation. Considering the fact that the Authority has agreed with the fact commercial development has taken place on the land which is a non - transfer asset, the Authority ought to have included the amounts of Rs.390.05 crores and Rs.549.24 crores towards the computation of aeronautical tariff.

3.3. The Authority has not decided upon the depreciation applicable to the assets of DIAL. Depreciation will have a bearing on the aeronautical tariff. The Authority ought to have considered the issue of depreciation in the light of the provisions of the Companies Act, 2013 ("the Companies Act"). It is submitted that Part B Schedule II of the Companies Act stipulates that the useful life of an asset which may be arrived at by a regulatory authority shall be considered for the purposes of depreciation.

However, the Authority is yet to notify the applicable rate of depreciation for the aviation sector. Proviso to the Section 129(1) of the Companies Act requires the financial statements to be prepared in accordance with the accounting standards.

Therefore, pending the Authority arriving at the applicable rate of depreciation for the aviation sector, the Authority should consider arriving at the depreciation rates, as per the provisions of the Companies Act, read with the relevant accounting standards.

3.4 The relevant documents which have been referred in the Consultation Paper have not been made available to the stakeholders. Many of the documents *have been redacted or are not provided by the Authority citing that the documents are not relevant for consideration. In the absence of the documents and the documents being redacted, the stakeholders will not be able to make an informed decision on the proposals made by the Authority.*

3.5 The Authority has proceeded to continue with the asset allocation ratio of 89.25:10.75 (aeronautical: non - aeronautical) arrived in the Previous Order. The asset allocation ratio is also a subject matter of the Appeal. The Authority has arrived at this figure on the basis of ICWAI MARF's (defined below) review of Jacobs Consultancy's report on asset allocation ratio. It is submitted that ICWAI MARF ought to have conducted an independent study on the asset allocation ratio rather than basing the report on Jacobs Consultancy's Report. Further, the Authority has not appreciated the fact that the asset allocation ratio of 89.25:10.25 has been challenged by the FIA in the Appeal and the same is sub-judice. Therefore, there may be a change in the asset allocation ratio depending on the outcome of the Appeal.

3.6 The clarifications or reports relied on by DIAL may only support the DIAL's claims. Such reports do not provide an independent evaluation of the issues at hand. The Authority may consider formulating a mechanism for the engagement of consultants by the Authority for the determination of aeronautical tariff. Such a mechanism will ensure transparent and independent evaluation of the components of the aeronautical tariff."

3.31. Fraport has also commented on Authority's position on the principles of tariff fixation stating as under:

"General principles of tariff fixation

The principles of tariff fixation for IGI Airport are laid down in the concession agreements entered into by DIAL and the Government of India.

Any regulatory framework developed after the execution of the agreements should refrain from contradicting or overriding the provisions of the agreements which were the basis of the PPP.

Any such move would create ambiguity for all private airport operators and would foster an unhealthy environment of uncertainty and doubt which may well transcend beyond the airport infrastructure sector.

Moreover, this would also hamper the interest in participation of international operators in current and future airport development projects or other large scale infrastructure projects. In this respect it is important that any action by the regulator should be aimed at boosting confidence of the investor community in order to ensure healthy participation towards infrastructure projects as desired by the Indian Government."

d. DIAL's response to Stakeholder Comments on Principles of Determination of Aeronautical Tariff

3.32. DIAL's response to ACI's comments on adherence to concession is as below

"Adherence to Concession: Adherences to a signed concession is a must as else it is termed as sovereign risk. Existing PPP airports, both Brownfield and Greenfield, are being regulated by AERA and have separate

Concession Agreements/ State Support Agreements entered into with the Government, which lays down the philosophy of economic regulation. As per the AERA Act, while determining the tariff at these airports, AERA has been mandated to take into consideration the concessions offered by the Government. AERA's current stand on adoption of single till goes against the spirit of these concessions. Relook at the concession after the investor has put in his money is bad economics and will adversely impact the economic development of the country."

3.33. DIAL's response to ACI's comments on other aspects of the framework is as below

"Non Adherence to CPI X is a violation of concession and the Authority is requested to follow the correct methodology of CPI-X formula which DIAL has commented in detail in other submissions."

"Authority may take a cognizance of fact that any cargo related income is to be treated as non-aero as per the communication received from MOCA directed to AERA dated 09.03.2012

It is important to note that when revenues are cargo operations are being accepted as non-aeronautical by the Authority. Cargo screening, which is any integral part of the overall cargo operations have to be considered as non-aeronautical in nature."

"Revenue share was not considered as Opex for the 1st control period and tax benefit was allowed in first control period (with a later rider that it will be trued up basing on the actual payments in the subsequent control period). So there is a change in the principle settled earlier. Further, it may also be stated that the principle adopted by the Authority is not justifiable since while calculating ARR the revenue share was not considered as opex while calculating the corporate tax entitlement as per the SSA formula, the revenue share was considered as an expense which is not as contemplated in the SSA. This goes against the construct of the OMDA and puts DIAL to unfair financial jeopardy

In many forms of regulation worldwide (including DUAL and Hybrid Approaches) the entity being regulated, obviously under DUAL/ Hybrid Tilt, will not have separate Profit and Loss Statement and Balance Sheet for aeronautical side of business. The company always maintains single and BS for the entire business which includes Aeronautical, Authority is requested to follow the following principles:

If a part of company is included in a regulatory determination, then its tax impact would be taken into account if a part of a company is to be excluded from regulation, its tax impact would equivalently be excluded."

"Authority has revisited its own decisions taken in the 1st control period. This raises the doubt over the sacrosanctity of its own orders and exacerbates the regulatory risk in the sector. This needs to be avoided Authority has to establish credibility of the regulator's contract is most important, and that the public interest is best served by stable lone-run arrangements where regulators honor their commitments and orders."

3.34. DIAL's response to AOC's comments is as below,

"The current response of DIAL is in addition to the submission made to Authority vide our letter number DIAW2014-15/Fin-Acc/6476 dated 10th April 2015. Under the OMDA, as per Schedule 6, the following facilities and services are non- aeronautical services:

1. *Aircraft cleaning services*
2. *Airline Lounges*
3. *Cargo handling*
4. *Cargo terminals*
5. *General aviation services (other than those used for commercial air transport services ferrying passengers air cargo or a combination of both)*
6. *E. Ground handling services*
7. *Hangars*
8. *Heavy maintenance services for aircrafts*
9. *Observation terrace.*

In view of this, cargo and ground handling services are non-aeronautical services and revenues therefrom are non-aeronautical revenues.

In determining the tariff for aeronautical services, the Authority is to take into consideration the factors enumerated under Section 13(1) (a) which includes the concession offered by the Central Government.

Under the AERA Act, the Authority shall determine the tariff for aeronautical services. Aeronautical service' is defined in Section 2(a) as any service provided-

I. for navigation, surveillance and supportive communication thereto for air traffic management.

II. for the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;

III. for ground safety services at an airport;

IV. for ground handling services relating to aircraft, passengers and cargo at an airport;

V. for the cargo facility at an airport

VI. for supplying fuel to the aircraft at an airport; and For a stake-holder at an airport, for which the charges, in the opinion of the Central government for the reasons to be recorded in writing, may be determined by the Authority.

MOCA issued a directive in this regard to the Authority stating that:

"5. It is seen that Cargo and Ground Handing services are being treated as aeronautical services as per Section 2(a) of the AERA Act (Para 402 of Consultation Paper). However, as per the provision or OMDA and SSA, cargo and ground handling services are categorized as non-aeronautical and the revenues accruing from these services may be treated as non-aeronautical revenue. "

MOCA issued another directive in this regard on 10th September 2012 clarifying as follows.

"This Ministry had already, in the context of IGI Airport, Delhi, clarified to AFRA vide letter dated 53.2012 that revenues from Cargo and Ground Handling services accruing to the airport operator should be categorized non-aeronautical revenues as provided under the OMDA Th.'s categorization is regardless and irrespective of whether these services are provided by the airport operator himself or through concessionaires (including JV appointed by the airport operator).

In light Of MOCA's directive, the cargo and ground handling services are non-aeronautical services as stipulated under Schedule 5 of OMDA. The rationale is that at the time of bidding for the airport project, operators relied on and based their bids depending on the assurances and promises contained in the concession agreements. Any change at this stage will be contrary to the terms on which the bids were placed and will cause undue hardship to the airport operator."

3.35. DIAL's Response to APAO's comments on 10% base charge increase for tariff is as under

"The follow is our detailed response on the aforesaid issue giving full background of the issue. In the Consultation Paper, AERA has reiterated its decision taken in Order No.3/2010-11 dated 20.05.2010 on permitting 10% increase in Base Airport Charges (BAC). Order No.3/2010-11 was challenged before the AERAAI in Appeal! No.3/2C10, and vide Order dated 11.05.2011, the Tribunal had remanded the matter to AERA for a fresh consideration

1. "On perusal of the impugned order, we find that the Regulatory Authority has taken note various stands of the parties and has paragraph 9 summarized its opinion. There is no independent discussion on the various stands the parties. In a case of this nature, it was imperative for the Regulatory Authority indicate reasons in short of its conclusions.

2. Mere mention that it has considered the rival stand is not sufficient.

3. Therefore, without expressing any on the merits of the case we set aside the impugned order and remit the matter to the Regulatory Authority to pass a reasoned order after grant of opportunity to the parties for hearing and to place further materials, if any."

3. Thereafter, AERA issued the Consultation Paper for determining tariffs for the first Control Period, in which it has adopted the stand taken earlier with regard to the 10% increase in BAC:-

"There is nothing on record, presently, to change the views earlier taken by the Authority."

4. In it's first Tariff Order, the issue of provision of 10% increase in BAC has been dealt with in a cursory manner by AERA and it is merely stated that:-

"...the Authority finds no grounds to review the position already taken by it in Order No.3/ 2010-11 dt. 21.5.2010. "-

5. Therefore, there was no fresh consideration of the issue by AERA nor did AERA provide any independent reasons. This approach is contrary to the specific direction of AERAAT in its order.

6. The interpretation of Schedule 6 of the SSA (a contract between DIAL the Government of India) is the subject matter of challenge in appeal No.10/2012, which is pending consideration before the Tribunal. In view of this, it is just and proper that no final decision be taken on this issue, till adjudication by the Tribunal.

7. This response is being submitted without prejudice to the aforesaid contention, so that the matter is considered afresh by the Authority in line with the Tribunal's Order dared 11.05.2011.

Schedule 6 of SSA'

1. Under the State Support Agreement executed between the Government of India and DIAL (SSA), the

Government has a binding obligation to provide support in consideration for the operator implementing the objectives of 07v1DA namely operating, maintaining, developing, designing, construction, upgrading, modernizing, financing and managing the Airport.

2. One of the undertakings is that provision of a minimum of 10% increase in the Base Airport Charges, which is provided to the operator, every year from the 4th year onwards and for the remainder of the Term of the SSA with is co-terminus with

8. As an incentive, in the event the operator completes and commissions the Mandatory Capital Projects required to be completed during the first two (2) years from the Effective Date, the 10% increase in the base Airport Charges is to be made available from the 3rd year onwards.

3. Clause 3 of the SSA (Government Support) sets cut the support that the Government of India (GCS) undertakes to provide to DIAL. Clause 3.1.2 stipulates as follows.-

"The Aeronautical Charges for any year during the Term should be calculated in accordance with Schedule 6 appended hereto. For abundant caution it expressly clarified that the Aeronautical Charges as set forth in Schedule will not be negotiated post bid after the section of the Successful Bidder and will not be altered by the 'VC under any circumstances,"

"5. Schedule 6 can be examined in relation to the following periods-

Charges for the first two years: For a period of two (2) years from the Effective Date, the existing AAI airport charges (as set out in Schedule 8 appended hereto) ("Base Airport Charges") will continue. Base Airport Charges (BAC) are the charges which were prevalent on 26 04 2006 (as set in Schedule 9). BAC is therefore fixed charge.

Charges applicable in the third year: If the JVC 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"). This increase is not allowed if the Mandatory Capital Projects are not completed in the first two years, in which case the Base Airport Charges will continue to be applicable for the third year.

Charges applicable from the fourth year onwards: From the fourth year and for every year thereafter for the remainder of the Term, the AERA will set the Aeronautical Charges in accordance with Clause 3.1.1 read with Schedule 1.

This is 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.

From the scheme of Schedule 6, it is evident that:

a) Aeronautical Charges are to be determined by AERA in accordance with Schedule 6;

b) AERA is to set the Aeronautical Charges by applying the principles set out in Schedule 1;

c) Increase in aeronautical charges, equivalent to 10% of BAC available to the operator from the 4th year onwards and for the remainder; of the Term, and

d) If the operator completes and commissions the Mandatory Capital Projects required to be completed during the first two years, the increase in BAC is available to the operator from 3rd year as incentive.

e) BAC is a fixed charge / amount, which was known to the parties at the time of entering into the SSA, and there is no scope for negotiation or change in BAC.

7. In this context, Schedule 6 of the SSA confers two distinct and independent rights to DIAL:-

I. Provision of nominal increase over the BAC for calculating Aeronautical Charges for the duration of the third year (which provided as an incentive to the Airport Operator for completing the Mandatory Capital Projects before the third year); and

II. Provision of increase equivalent to of the BAC for each year after the commencement of the fourth year and for the remainder of the Term (which is not linked to any benchmarks to be by the operator)

8. The nominal increase of 10% over the BAC, as contemplated in Clause 1 is defined in Clause as "'incentive", However, the said defined term "'incentive" *has not been used in Clause 2. Clearly, it is evident that the intention of the parties was that the increase contemplated in Cause 1 was different from the increase contemplated in Clause 2*

9. The right to an increase equivalent to of BAC is therefore an absolute right granted to DIAL by the Government under Clause 2 of Schedule 6, as support for entering into OMDA."

Further DIAL provided its explanation for clause 2 of schedule 6. And scheme of SSA and OMDA finally stating that

"Seen in this context, the interpretation that Clause 2 of Schedule G only "saves" the increase of BAC provided the third year, is contrary to Schedule 6 and inconsistent with the objective of the SSA, which is "to enhance the smooth functioning and Viability of the JVC".

3.36. DIAL's response to APAO's comments on revenue-share pass through for calculation of tax is as under,

"The SSA schedule 1 lays down that what the component "T" — the Tax means while determining the components of building block for Target revenue. The letter "T" is defined in schedule 1 as under:

T =corporate taxes on earnings pertaining to Aeronautical Services

From this definition, following two categories emerge:

Tax needs to be calculated only for the earnings pertaining to aeronautical services:

In terms of Schedule 1 of the SSA, the corporate tax on earnings pertaining to Aeronautical Services should be separately calculated and added as a building block to compute the final target revenue. This approach consistent with the standards and practices accepted worldwide. This approach is contemplates an artificial division of DIAL's overall income and independent consideration of the earnings pertaining to Aeronautical Services to 'compute the tax component for the aeronautical side.

The SSA envisages corporate tax pertaining to aeronautical earnings be separately calculated and added as a building block to compute the fin target revenue. This calculation has no correlation with the statutory tax calculation, for various reasons like revenue share being allowed as apex and non-aero as also the past losses*

Revenue Share to AAI not being a pass through cost for determining the Target Revenue the same shall not be a deductible for computing the tax liability on the earnings pertaining to aeronautical services.

Under Schedule 1 of the SSA, tax is building block towards the target revenue the notional tax on aeronautical services (without considering revenue share as a deduction) need to be the building block of tax The reason for not considering the revenue share is that since the revenue share is not taken as O&M cost, it can also not be deducted for tax purposes. Acting contrary to the provisions of the SSA.

AERA has decided to take into account the revenue share as an opex which is contrary to concession agreement. Thus DIAL gets a lower tax. Add-on in the building block. This is not permissible and runs contrary to the provisions of the SSA. In our view AERA has committed error in methodology of calculation tar based the methodology which considers revenue share as opex. The key principle underlying the Concession Agreements and the AERA Act is that DIAL would have two separate tax calculations, one regulatory and the other statutory. They both have different purposes. The Statutory is calculated as per Income Tax act for payment of income tax whereas aero tax is mandated to be calculated as per provisions of the concession agreement.

"

3.37. DIAL's response to FICCI's comments on treatment of cargo and ground handling is as under

The OMDA creates a distinction between Aeronautical and Non-Aeronautical Services [Ref: Schedule 5 for Aeronautical Services and Schedule 6 for Non-Aeronautical Services].

Under OMDA, only the tariffs for Aeronautical Services are subject to regulation. Airport operators/ DIAL are/ is free to determine tariffs for Non-Aeronautical Services [Ref: Clauses 12.1 and 12.2 of the OMDA]

The Tariff Determination had to maintain the distinction between these services in accordance with the mandate of OMDA. The OMDA treats ground handling and cargo charges under the Non-Aeronautical category. The tariff for these two is to be determined by the Airport operator/ DIAL, without regulatory interference- Schedule 6 of the OMDA describes services which shall be treated as Non-Aeronautical Services.

"3. Cargo Handling

Cargo terminals

6. Ground handling services."

Classifying cargo and ground handling services in the aeronautical category, there will be an error of classification. The classification is not based on any intelligible basis and is contrary to the specific provisions of the OMDA.

AERA Act:

Section 13 of the AERA Act mandates that the AERA respects the sanctity and integrity of the concession agreements (i.e., the OMDA, the State Support Agreement ("SSA) and other Project Agreements).

Therefore, the law itself mandates the compliance with the Project Agreements. Any action of the AERA which is contrary to the provisions of the Project Agreements would constitute a violation of the statutory norm embodied in section 13 (1) (a) (VI), which will require reconsideration by this Hon'ble Tribunal.

Section 13(1) (a) (VI) of the AERA Act provides that: "13(1) The Authority shall perform the following functions in respect of major airports, namely:- To *determine the tariff or the aeronautical services taking into consideration (vi) The concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;"*

The scheme Of the AERA Act is clear under Section 13 the AFRA has to fix tariffs "taking into consideration" the concession agreements while fixing tariffs. The obligation to take into consideration the concession agreement (i.e., the OMDA and the SSA) under Section 13 of the AERA Act has to be read in the context of the laws of India and the AERA Act as a whole.

The AERA Act protects the integrity and sanctity of the contracts.

The Tariff Determination, to the extent it deviates from the provisions of the OMDA and the SSA, infringes on DIAL's settled contractual rights. The powers under Section 13 of the AERA Act respect the freedom to contract namely the concession agreements executed by the Central Government. The respondent's decisions have to be consistent with the SSA and the OMDA.

The Tariff Determination has 10 follow the statutory mandate and respect the rights conferred on DIAL under the OMDA which treats cargo and ground handling services as Non-Aeronautical.

Policy Direction of the Government had to be complied with:

MOCA vide letters dt. 12.3.2012 and 9.3.2012, in exercise of its powers under Section 42 of the AERA Act, issued a policy direction to the AERA to strictly comply with the terms of the Project Agreements (including, OMDA and the SSA) while determining tariff. The policy direction had to be complied with by the AERA while exercising its powers or discharging its functions. [Ref: Section 42(2)]

The Tariff Determination has to be consistent with the policy. Thus, the AERA cannot treat cargo and ground handling services as Aeronautical Services

As per Section 42(2) of the AERA Act, the AERA has to follow and comply with Central Government's policy directive5. The Central Government notified the AERA on 09.03.2012 qua compliance ~~project~~ contractual agreements:

"5. It is seen that Cargo and Ground Handling services are being treated 05 aeronautical services as per Section 2(a) of the AERA Act (Para 402 of Consultation paper). However, as per the Provision of OMDA and SSA, cargo and Ground Handling services are categorized non- aeronautical and the revenues accruing from these services may be treated as non-aeronautical revenue. "

The AERA had a statutory duty to act in accordance with the policy directives of the Government and to maintain the distinction between aeronautical and non-aeronautical as per OMDA and SSA (as directed vide letter dt. 9.3.2012).

3.38. DIAL's response to IATA comments on expenditure on inline screening is as under,

"We hereby confirm that no other funds are being utilized for this security related capex. The current inclusion is as per the mandate of MoCA. There is an inbuilt methodology to ensure efficiency of opex by way of competitive bidding."

3.39. DIAL's response to IATA comments on expenditure on inline screening is as under,

"We hereby confirm that no other funds are being utilized for this expenditure. There is no way that there can be double payment of a single spend as there is an inbuilt internal control system and the accounts are subject to audit.

These expenses are related to the amount spent and not allowed to be recovered earlier by the Authority. Secondly, the Authority has moved in tandem with the order from MOCA. Non consideration of the inline baggage expenses would be conflict MoCA advice"

3.40. DIAL's response to IATA comments on tariff fixation methodology is as under

"The Tariff fixation methodology as stated in the State Support for Delhi Airport does not envisage using norms for tariff determination, As such norms being proposed by Authority will violate concession agreement.

The use of norms by AERA the place of detailed examination of individual airport performance is major change in regulation which was not foreseeable when current privatization took place, and alter the balance those concessions.

While do not encourage norms for new developments due to various reasons given in subsequent pages of this submission, we reiterate that norms should not be applied to existing privatized airports.

Even the IMG report ac referred by the Authority states'

Airports developed through Public private partnerships

"In the case of airports developed through public Private Partnerships, the project authorities may adopt a case by case approach with respect to norms relating to unit area and unit costs. Based on the judicious consideration of international best practices and financial viability, the norms may be specified in each case prior to inviting bids for private participation.

As such these norms are not applicable to DIAL.

A detailed response in this regard has already been submitted to Authority vide our response to CP-16 vide letter number DIAL/2014-15/Fin-Acc/6476 bated 10th April 2015."

3.41. DIAL's response to ASSOCHAM comments is as under

"Retrospective change in laws and discretionary regulation are the least desired attribute of any regulator's philosophy. The regulation in the other regulated infrastructure sector is moving towards de regulation and relaxing regulation to ensure sustainability of the sector and invite private investment in the sector.

In the Ports sector, it was decided in 2014 that port projects set after April 1 2014 are allowed to set market regulated tariff.

In the roads sector, the government has accepted the recommendations of a committee that set up to remove roadblocks impeding the NHDP. The recommendation include relaxing the

- *cap on upside revenue potential*
- *Rationalizing the eligibility requirements for bidding, relaxing the conflict of the Interest clause, enabling early exit for the promoters, the National Highways Authority of India (NHAI) to toward projects that receive single bids,*

and reducing the lending risk by permitting larders to create a charge on the escrow account.

Excessive regulation leads to situation where the conduct of business losses original essence of earning on original investment and is only at the mercy of the regulator to look for any return on the investment. Any aberration with respect to change in principles as adopted by the Authority only exacerbates the situation and results in the deep losses."

3.42. DIAL's response to Fraport's comments is as under,

"a) Cargo screening revenues being treated as AERO by AERA: Cargo handling is to be treated as a non-aeronautical service under Schedule 6 of OMDA which is binding contract/ a Concession Agreement with a sovereign government. In recognition of the same, MOCA taken a decision dated 09.03.2012 (in accordance with the Concession Agreement) that revenue from cargo and ground handling accrued to the airport operator would be categorized as non-aeronautical and conveyed the same to AERA

Under the new ground handing policy also MOCA has classified the cargo screening as handling function which is non-aeronautical under the concession agreement. As such the same need to be reiterated that cargo screening is also a handling function and need to be treated as being Non Aeronautical.

b) Revenue Share not to be considered as Operating Cost for the purpose of arriving at AERO Tax figure The SSA entered between DAL and the Government of India lays down the methodology of fixation of Aeronautical Charges. Claus e 3.1.1 of SSA

Thus under clause 3. 1.1, revenue share paid/payable to AAI Shall be not be treated as costs for provision Of Aeronautical Services, While the definition of tax in the Schedule 1 Of SSA provides for tax only on Aeronautical Services, clause 3.1.1 clearly excludes revenue share as a cost for the provision o! Aeronautical Services. While AERA proposes to exclude revenue share from operating costs for computation Of tariff for Aeronautical Services, it is not *excluding the revenue share for The purpose of calculation of Tax in the building blocks and going b'/ the actual tax as per books.*

The stand and view taken b/ AERA that tax need to be trued up and be calculated with revenue share as expense is not correct in the context the purpose at aero tax determination. The revenue share paid to AAI is not allowed as a pass through cost as per SSA. Under Schedule 1, corporate taxes are to be allowed only earnings pertaining to Aeronautical services. Hence, corporate tax has to be computed on standalone basis in respect of aeronautical on notional basis. This disconnect is and not in line with the provisions of SSA and will put DIAL to serious financial jeopardy."

e. DIAL's own comments on Issues pertaining to Principles of Determination of Aeronautical Tariff

3.43. In addition to response to the comments from various stakeholders, DIAL has also submitted its own comments on Principles of Determination of Aeronautical Tariff proposed by the Authority in its Consultation Paper No 16/2014-15 dated 28.01.2015. These comments are presented below:

3.44. DIAL's comments on flexibility to design the tariff structure:

"Flexibility to levy charges

We hereby submit the evidence which shows that under concession agreement (State Support Agreement-SSA) DIAL has the flexibility to levy charges based on the principles given in Schedule 1 of SSA:

Extract of SSA:

The above extract confirms that within the overall cap, the JVC (i.e. DIAL) has been given the flexibility to impose charges."

3.45. DIAL's comments on consideration of concession agreements for the purpose of tariff determination are as under,

"Tariff determination needs to be done based on provision of concession agreements

We do not agree with the Authority's view that:

"a deviation from the provisions of SSA may need to be made to the extent of repugnancy to the express provisions of the Act."

We are of the view that the tariff determination, as mandated by AERA act should be done strictly in compliance with the terms of the Project Agreements (primarily, the OMDA and the SSA). The concession was granted in favour of DIAL after a competitive bidding process, where bids were invited, formulated and submitted based on the rights and obligations set out in the Project Agreements (unsigned versions of which were made available).

A deviation from the terms of the Project Agreements will vitiate the entire competitive bidding process and will destroy the basic fabric of the concession.

Thus, while determining tariff, the Authority must strictly comply with the Project Agreements. This is also consistent with the Authority's obligations under Section 13(1) (a) (vi) of the AERA Act.

The AERA Act does not give power to the Authority to go behind contractual rights.

On the contrary, Section 13 of the AERA Act mandates that the Authority respects the sanctity and integrity of the concession agreements (i.e., the OMDA, the SSA and other Project Agreements). Therefore, the law itself mandates the compliance with the Project Agreements. Any action of the Authority which is contrary to the provisions of the Project Agreements would constitute a violation of the statutory norm embodied in section 13 (1) (a) (vi).

The scheme of the AERA Act is clear. Under Section 13, the Authority has to fix tariffs —taking into consideration‖ the concession agreements while fixing tariffs. The obligation to take into consideration the concession agreement (i.e., the OMDA and the SSA) under Section 13 of the AERA Act has to be read in the context of the laws of India and the AERA Act as a whole."

3.46. DIAL's comments on treatment of cargo screening for the purpose of HRAB calculation are as under,

Valuation of Hypothetical RAB based on change in classification of revenue

DIAL does not agree with the treatment of cargo screening activity as aeronautical service. A more detailed response on this matter is provided in Chapter 7. However, if cargo screening is considered, though not admitted, as aeronautical service, then the value of Hypothetical RAB will also need to be changed from first control period onwards.

The following is the change in HRAB based on WACC considered by authority in first control period:

Hypothetical RAB addition due to Cargo Screening being treated as Aero.

Hypothetical RAB addition due to Cargo Screening being treated as Aero.	
Cargo Screening Revenue	*10.29*
Aero Expenses(cargo exp. Already considered)	*0*
WACC	*10.33%*
Hypothetical Asset Base	*99.61*

Hypothetical RAB addition due to Cute Revenue being treated as Aero.	
Revenues from cute charges	*2.7*
WACC	*10.33%*
Hypothetical Asset Base	*26.14*

"

"As such, the Revenue share payable is not to be calculated as pass through for provision of aeronautical services as admitted by Authority hereinabove.

However, this needs to be considered with holistic approach in entire tariff calculation. Authority cannot use this principle for one part of tariff calculation and violate the same in other."

"Under Schedule 1 of the SSA, tax is a building block towards the target revenue; the notional tax on aeronautical services (without considering revenue share as a deduction) needs to be part of the building block of aero tax.

The reason for not considering the revenue share is that since the revenue share is not taken as O&M cost, it can also not be deducted for tax purposes. Acting contrary to the express provisions of the SSA, the AERA has decided to take into account the revenue share as an opex which is prohibited in the *concession agreement. Thus, DIAL gets a lower tax add-on in the building block. This is not permissible and runs contrary to the provisions of the SSA.*

In our view, AERA has committed error in methodology of calculating tax based the methodology which considers revenue share as opex. The key principle underlying the Concession Agreements and the AERA Act is that DIAL would have two separate tax calculations, one regulatory and the other statutory. They both have different purposes. The Statutory tax is calculated as per Income Tax act for payment of income tax whereas aero tax is mandated to be calculated as per provisions of the concession agreement.

Hence, it is earnestly requested that Authority must review its working and calculate tax without considering Revenue share as a cost and allow the resultant tax figures as a building block accordingly."

3.47. DIAL's comments on treatment of cargo screening as aeronautical revenue are as under,

"Cargo Screening to be Non-Aeronautical

We thank the authority in treating cargo and ground handling services as non-aeronautical.

However the cargo screening services which are the integral part of cargo services cannot be treated as aeronautical services. The Authority has to treat the revenue from cargo screening activities as non-aeronautical revenue only.

Cargo handling is treated as a non-aeronautical service under Schedule 6 of OMDA which is a binding contract/ a Concession Agreement with a sovereign government, under which contractual rights have accrued. In recognition of the same, MoCA had taken a decision dated 09.03.2012 (in accordance with the Concession Agreement) that revenue from cargo and ground handling accrued to the airport operator would be categorized as non-aeronautical.

Cargo services include cargo screening which falls in the category/ class of cargo'.

Even if the screening of cargo helps in ensuring security, ultimately it is one of the functions of cargo handling service. Further, since cargo screening is part of cargo services, revenues (from cargo screening) have to be treated as non-aeronautical in line with MoCA's policy decision (already communicated to AERA).

It is also pertinent to note that in accordance with Schedule 6 of OMDA, all facilities established for the activities listed in Part I thereof, which includes cargo screening services, have to be treated as Non-Aeronautical Services. Hence any revenue generated from such assets and facilities is the revenue from Non-Aeronautical Assets

The above fact also has been supported by the new ground handling policy.

In the circular issued by DGCA (Sl. No. 7/2007, File No. 9/1/2002-IR) for Grant of permission for providing ground handling services at airports other than those belonging to the airports authority of India the ground handling is defined to include:

1.1. "Ground handling" means:

(i) ramp handling which shall include the activities specified in Annexure 'A';

(ii) traffic handling which shall include the activities as specified in Annexure 'B'; and

(iii) any other activity specified by the Central Government to be a part of either ramp handling or traffic handling.

The ANNEXURE 'B' related to traffic handling includes amongst others:

5. Security

5.1 Registered baggage X-ray scan check (baggage and cargo)

5.2 Surveillance/vigilance for registered baggage at baggage make-up/breakup area of the airport

5.3 Baggage identification/watch and ward of registered baggage

Therefore, the scanning of cargo (Cargo screening) is clearly part of ground handling activity as per the ground handling policy of the Government. Ground handling has already been clarified as a Non-Aeronautical activity under DIAL's concession agreements and further concurred by AERA as well. Hence, the cargo screening should be treated as Non-Aeronautical."

3.48. DIAL's comments on disallowance of specified non-aeronautical area and consideration of revenue therefrom are as under,

"If the Authority considers that assets built in this 8,652 sq.m as disallowed, then it would be wrong to reckon the non-aeronautical revenue generated from such assets. These assets have been were created and used by the airport operator for the services to the passengers.

Ultimately such assets are the Transfer Assets and are being used only for passenger services.

Our contention is that when such assets are being used for passenger services and the Authority is considering the revenue therefrom to determine the aeronautical tariff at the IGI Airport, it should consider cost of such assets in the RAB and allow the airport operator to recover its cost."

3.49. DIAL's further submission with regards to the Authority's current methodology is as under

"The Authority's proposal made in the Consultation Paper is based on a flawed and erroneous understanding of the terms of the SSA. The formula for calculating

Airport charges is prescribed in Schedule I to the SSA. DIAL submits that 'X-factor' is the calculation of the tariff increase in favour of the Airport operator.

The formula contemplates calculation at two stages. First, the 'X' factor has to be determined – this is done without taking into account the inflation index.

Thereafter, while determining the aeronautical charges, the inflation indexing is done based on the All India Consumer Price Index (Industrial Workers). This two stage approach is specifically provided for in Schedule 1 of the SSA.

A two stage approach must be followed - the value of 'X' has to be determined by the Authority by equating the NPV of the target and the actual revenue. The CPI inflation (the inflation index) has to be added to the tariff (when the aeronautical charges are to be determined). DIAL submits that as per the SSA, CPI adjustment should be made to the overall tariff, namely, that the adjustment is applied after the tariff has been calculated which would then reflect the effect of inflation on the overall tariff.

The SSA provides that CPI inflation will be added to the tariff and that an allowance would be provided towards inflation (CPI) over and above the target revenue.

Schedule I of the SSA lays down the methodology for calculation of the aeronautical charges and the X-Factor. The formula for calculation of the X-Factor has been prescribed at internal Pg. 27 of the SSA.

This determination is independent of inflation. It is only after determination of the X-Factor, while calculating the aeronautical charge that inflation is factored in.

Thus, under the SSA, CPI based indexing is to be carried out on the BAC after adjusting for the value of X-factor so derived at Stage-I. The Authority's approach is at odds with the methodology under the SSA and applies inflationary indexing while calculating the X-factor itself.

The Authority's approach is not in line with the SSA as it proceeded on the basis that the 'X-factor' had to be computed considering inflationary increases along with

'X-factor'. The stand and approach of the Authority that the CPI adjustment is part of the 'X-factor' is incorrect and is contrary to the SSA. The Authority while aggregating the target revenue from five building blocks has considered indexing from only two blocks with inflation viz. operation and maintenance costs and non-aeronautical revenues.

The Authority has not indexed the remaining three building block i.e. (Return on RAB, depreciation and taxes). Therefore, effectively, the value 'X' factor has been brought down/ eroded due to partial build-up of CPI in two building blocks which is then fully stripped in overall revenue while de-indexing. There is no basis on which CPI has been mandated to be allowed only on operation and maintenance costs and non-aeronautical revenues and not any other building blocks in the SSA – no explanation has been provided for the same in the CP.

DIAL submits that the Authority must first arrive at the aeronautical charges in accordance with the SSA without inflation and only thereafter give CPI inflation separately."

f. Authority's Examination of Stakeholder Comments on Principles of Determination of Aeronautical Tariff

3.50. The Authority has carefully considered the comments from the stakeholders as well as DIAL's own comments and responses to these stakeholder's comments regarding principles of determination of Aeronautical Tariff for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

3.51. In response to ACI's comments that *"We urge the AERA to ensure that the concessions are adhered in full"* and *"Framework has been relaxed"*, the Authority would like to highlight that its approach and methodology of tariff determination for DIAL is based on policy guidance regarding the determination of tariff for the aeronautical services provided to the Authority by the legislature under the provisions of the AERA Act. Accordingly, the Authority issued the Consultation Paper No 16/2014-15 dated 28.01.2015, after analysing the provisions of SSA as well as other relevant documents viz. OMDA etc. The Authority has carefully examined the covenants of SSA and OMDA in respect of DIAL for its implications on principles and mechanics of tariff fixation and has accordingly considered these provisions while determining the aeronautical tariff in respect of these airports for the 2nd Control Period.

3.52. In the matter of application of the Normative Approach where AOC has commented that *"It is further submitted that pending order on the Normative Approach for* *determination of building blocks, it is proposed that the Authority implements the same immediately on receipt in the current control period and only truing up should be done in the subsequent control period.".* The Authority would like to clarify that it has not yet finalised its view with respect to the Normative Approach. Once finalised, the approach will be applicable for all airports including DIAL, prospectively (from third Control Period and beyond), to the extent the Authority may decide it to be applicable.

3.53. With respect to APAO's comments on base airport charges *"Authority should have allowed 10% increase in Base airport charges as provided in Schedule 6 to the SSA. Clause 2 of Schedule 6 to the SSA"*, the Authority would like to highlight the discussion on the matter in para 30 to para 38 of the DIAL Consultation Paper No. 32/2011-12. The Authority does not find any new argument in the submissions for second Control Period and accordingly is not persuaded to reconsider its approach on the issue of increase in Base charges.

3.54. As regards DIAL's submission regarding providing CPI over and above determination of tariff while using CPI-X methodology, the Authority has had reference to the Schedule 1 of SSA, which provides as under,

"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:

$AC_i = AC_{i-1} x (1 + CPI - X)$

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

3.55. The Authority would also like to make reference to the illustrative calculation of CPI-X presented and described in Schedule 1 of the SSA. The calculation states that all numbers of the illustration are taken at current values, which means that inflation has been accounted for in the calculation before equating ARRs. The Authority has considered inflation, as appropriate, on various building blocks and hence has considered the building blocks at current values. Hence, the Authority decides to continue with the calculation of ARR by accounting for CPI in its calculations made before determination of 'X-Factor'.

3.56. The issue of treatment of security related expenditure incurred by DIAL was discussed in detail in Consultation Paper No. 16/2014-15 and has been reproduced in the para 3.12to 3.17 above. Accordingly, the Authority maintains its stance to:

3.56.1. To consider the expenditure projected to be incurred by DIAL towards creation of security related fixed assets during the second Control Period (currently estimated at Rs 93.11 crore) towards computation of RAB in respect of IGI Airport, Delhi, based on MOCA's Order AV 13024/03/2011-AS (Pt.I) dated 18.02.2014.

3.56.2. To consider expenses pertaining to inline baggage screening for the first Control Period, which were not allowed by the Authority at that stage, under the true-up exercise based on MOCA's Order AV 13024/03/2011-AS (Pt.I) dated 18.02.2014. Further consider the projections made by DIAL towards expenses pertaining to inline baggage screening for the second Control Period towards determination of Target Revenue for the second Control Period.

3.56.3. As and when the Central Government comes up with the SOP / Guidelines pertaining to the Rule no. 88 A of the Aircraft Rules, 1937, wherein the expression "expenditure on aviation security" is clarified, consider such clarification for an appropriate treatment to capital expenditure and operating expenditure incurred by DIAL on account of security related requirements.

3.57. After issuance of the Order in respect of Normative Approach for determination of Building Blocks, DIAL will be covered under the normative approach to the extent the Authority decides it to be applicable. This would be applicable to DIAL only for subsequent control periods i.e. third Control Period and beyond.

3.58. The Authority notes that other comments from the Stakeholder are specific to certain building blocks. These comments have been addressed by the Authority in the respective chapters for those building blocks.

Decision No. 1 Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order regarding the Principles for Determination of Aeronautical Tariff in respect of IGI Airport, Delhi:

1.a. The Authority decides to consider the principles of SSA and OMDA as discussed in paras 3.6 to 3.9 of this Order for determination of aeronautical tariff in respect of IGI Airport, Delhi.

1.b. To consider the expenditure projected to be incurred by DIAL towards creation of security related fixed assets during the second Control Period (currently estimated at Rs. 93.11 crore) towards computation of RAB in respect of IGI Airport, Delhi, based on MOCA's Order AV 13024/03/2011-AS (Pt.I) dated 18.02.2014.

1.c. To consider expenses pertaining to inline baggage screening for the first Control Period, which were not allowed by the Authority at that stage, under the true-up exercise based on MOCA's Order AV 13024/03/2011-AS (Pt.I) dated 18.02.2014. Further consider the projections made by DIAL towards expenses pertaining to inline baggage screening for the second Control Period towards determination of Target Revenue for the second Control Period.

1.d. As and when the Central Government comes up with the SOP / Guidelines pertaining to the Rule no 88 A of the Aircraft Rules, 1937, wherein the expression "expenditure on aviation security" is clarified, the Authority decides to consider such clarification for an appropriate treatment to capital expenditure and operating expenditure incurred by DIAL on account of security related requirements.

1.e. After issuance of the Order in respect of Normative Approach for determination of Building Blocks, DIAL will be covered under the normative approach to the extent the Authority decides it to be applicable.

4. Control Period

a. DIAL Submission on Control Period

4.1. With regard to the Control Period, DIAL had stated in its submissions that Schedule 6 of the SSA requires that AERA/ GOI to regulate the Aeronautical Charges of DIAL from the start of 4th year from the Effective Date. Further, the Schedule 1 of the SSA states that tariffs are to be set once every five years and therefore requires a five-year tariff filing. Accordingly, DIAL had considered the 5 year block comprising 2009-10 to 2013-14 as the first regulatory period and subsequently filed the tariff for second control period starting from 1st April 2014 to 31st March 2019.

b. Authority's Examination of DIAL Submissions on Control Period

4.2. The Authority proposed to consider the second Control Period to commence from 01.04.2014 and last till 31.03.2019. The Authority noted that DIAL has proposed the same duration for the second Control Period.

c. Stakeholder Comments on Issues pertaining to Control Period

4.3. Airline Operators Committee (AOC) stated its views around the difficulty for the Airlines in adjusting to delayed tariff implementation.

> *"It is submitted that there has been a delay in determination of tariffs for the Second Control Period and the same should be avoided. In any case, the authority proposes to take the Second Control Period to be from 1/4/2014 to 31/3/2019. It is submitted that the Control Period should be changed and should be made only prospective and not retrospective and for the past period the old tariff of the first control period should be maintained. In case a truing up is required, for the period between the end of the First Control Period and the Second Control Period, the same should be done in the prospective tariff in the Second Control Period with the amended period. The Airlines should not be called upon to pay arrears for the past period.*

4.4. Commenting on the matter of sufficiency of lead time in tariff determination exercise, FICCI stated that

"Industry feels that delay in determination of tariffs for the second control period could have been avoided given that there was sufficient lead time for the process to have started and concluded before the beginning of the second control period. Industry would like to urge AERA to maintain timeline for tariff determination for the 3rd control period and beyond to ensure timely revision of tariff & their implementation."

4.5. With respect to the Control Period, IATA also presented its views as below

"IATA agrees with the proposed start and end dates of the second Control Period. But IATA views that the delay in determination of tariffs for the second control period could have been avoided given the sufficient lead time available for the process to have started and concluded before 1 April 2014. Following the lengthy delay in issuance of the Consultation Paper, stakeholders were then given only a month to scrutinize the information-heavy CP, provide comments at the stakeholders' meeting and then provide a written submission. AERA is urged to maintain a strict timeline when it comes to tariff determination for the 3rd control period and beyond to ensure that tariff implementation takes place from the beginning of each control period. The consultation process with stakeholders should also last at least ten weeks from the time of issuance of the CP. "

d. DIAL's response to Stakeholder Comments on Control Period

4.6. DIAL's response to comments by AOC is as under,

"SSA had envisaged the creation of an independent economic regulator to determine tariffs from the commencement of the fourth year (4th) after the Effective Date.

The AERA Act 2008 envisages that the Authority shall determine the tariff once in 5 years, indicating a control period of 5 years. In line with the provisions of the AERA Act and the covenants of SSA the duration OF the Control Period needs to be 5 years. Since the first Control Period ended as on 31.03.2014, the second Control Period is to commence from 01.04.2014 and last till 31.03.2019.

As regards to arrears, there are no arrears being paid by airlines."

4.7. DIAL's response to comments by FICCI is as under,

"The tariff in I control period has led to erosion of approx. 40% on net worth of DIAL. The first Tariff Order has been challenged before the Appel ate Tribunal and is pending consideration. Therefore, some of the fundamental principles of tariff determination are under consideration of the Tribunal.

Until and unless these issues are settled the tariff process should be put on hold. DIAL on its part has provided all the clarifications and information as sought by the Authority for the tariff determination at the earliest."

4.8. DIAL's response to comments by IATA is as under,

"There are several issues related to tariff determination of the First control perod which have been challenged by DIAL Appeal NO. 10/2012 before the Appellate Tribunal and are pending consideration.

The tariff order of the first control period has resulted in a negative return to DIAL in I control period. The proposed tariff of the II control period will also result in wipe off of the entire net worth of DIAL. As such the Authority must await the disposal of appeal at AERAAT before a final decision is taken on tariff for II control period."

e. DIAL's own comments on Issues pertaining to Control Period

4.9. DIAL has not submitted any comments on the issue pertaining to control period.

f. Authority's Examination of Stakeholder Comments on Control Period

4.10. The Authority has carefully considered the comments from the stakeholders as well as DIAL's comments and response to these stakeholders' comments regarding Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

4.11. The Authority has noted stakeholder comments regarding the time of issuance of Order. The Authority would like to clarify that the process of determination of aeronautical tariff is an extensive and voluminous exercise requiring analysis of various building blocks. As appropriate, latest actuals for a concluded Financial Year are also incorporated in the calculations to keep the determination realistic. Further the evolving nature of the industry necessitates extensive deliberation on several aspects. It is also important to mention that determination of aeronautical tariff is on NPV basis neutralizing gains/losses over the given time period.

4.12. With respect of FICCI's comment *"Industry would like to urge AERA to maintain timeline for tariff determination for the 3rd control period"*, the Authority appreciates the concerns and would take adequate steps to avoid such delays.

Decision No. 2 **Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order regarding the Control Period,**

2.a. **The Authority decides to consider the second Control Period as 01.04.2014 to 31.03.2019.**

5. Development Fee and its adjustment to RAB

a. Authority's Examination of Development Fee and its adjustment to RAB

5.1. The Authority had referred to the following Orders in respect of Development Fee (DF) to be levied at IGI Airport, Delhi while examining the issues associated. These orders are given as below:

5.1.1. Order No. 28 / 2011-12 dated 08.11.2011 in the matter of levy of Development Fee by Delhi International Airport (P) Ltd. (DIAL) at IGI Airport, Delhi

5.1.2. Order No. 12 / 2012-13 dated 25.07.2012 in the matter of Review of levy of Development Fee by Delhi International Airport Pvt Ltd. at IGI Airport, Delhi

5.1.3. Order No. 30 / 2012-13 dated 28.12.2012 in the matter of Review of levy of Development Fee at IGI Airport, Delhi

Order No. 28 / 2011-12 dated 08.11.2011

5.2. The Authority had, based on its examination of DIAL submissions, identified the allowable project cost in respect of IGI Airport, Delhi as Rs. 12,502.86 crore. The allowable project cost, means of funding the project, and the funding gap in respect of IGI Airport, Delhi were identified by the Authority as below:

Table 1: Allowable project cost, means of funding the project, and the funding gap as per Delhi Tariff Order No. 3/2012-13

Particulars	Rs. in crore	
Final project costs as submitted by DIAL in Applications		12,857.00
Items proposed to be excluded		
Apron	23.82	
Runway 10-28	37.50	
Escalation for reinforcement	35.67	
Upfront Fee	150.00	
Gross floor area 8652 sq.	107.15	
Total exclusions		354.14
Balance (Allowable Project Cost)		12,502.86
Means of Finance		
Equity capital and Share Application Money less upfront fee	2,300.00	
Rupee Term Loan	3,650.00	
Foreign currency loan	1,616.00	
Internal accruals	50.00	
Refundable Security Deposits	1,471.51	
Total Means of Finance		9,087.51

Particulars	Rs. in crore	
Funding Gap		3,415.35

5.3. The Authority had also noted that DIAL had collected DF of amount Rs. 1,484.08 crore till 01.06.2011. The balance funding gap was of Rs 1,931.27 crore. The Authority segregated the funding gap of Rs. 1,931.27 crore in two stages: Confirmed funding gap of Rs. 1,230.27 crore based on the project cost already incurred by DIAL – Stage 1 and Balance funding gap of Rs. 701.00 crore based on project cost not incurred till 31.03.2010 by DIAL – Stage 2.

Order No. 12 / 2012-13 dated 25.07.2012

5.4. As per the Order No. 28/2011-12 dated 14.11.2011, review was to be undertaken by the Authority. The Authority permitted DIAL to collect DF for the noted funding gap of Rs. 1230.27 crores (NPV as on 1.12.2011).

Order No 30 / 2012-13 dated 28.12.2012

5.5. In its Consultation Paper No 32 / 2012-13, the Authority calculated the amount of DF remaining as on 01.01.2013. The calculation is presented as under:

Table 2: Calculation of balance DF as per Consultation Paper No 32 / 2012-13

	Rs. in crore	Rs. in crore
Loan Disbursement - Tranche 1		1,210.00
Loan Disbursement - Tranche 2		286.50
Total Loan Disbursement. -Tranche 1 and Tranche 2		1,496.50
Principal repayment till 30.11.2012	458.25	
Estimated principal repayment for Dec 2012	40.00	
Total principal repayment till 31.12.2012		498.25
Remaining principal to be repaid as on 01.01.2013		998.25
Balance amount remaining for Stage 1		0.27
Balance amount remaining for Stage 2		414.50
Total amount remaining as on 01.01.2013		1,413.02

5.6. In this Order No 30 / 2012-13 dated 28.12.2012, the Authority also discussed the issue of adjustment of RAB on account of DF in respect of IGI Airport, Delhi

Adjustment of RAB on account of DF

5.7. In line with its Order No. 32/2012-13 dated 15.01.2013 in the matter of determination of aeronautical tariffs in respect of CSI Airport, Mumbai, the Authority decided to consider the same methodology of adjustment of RAB on account of DF funding for DIAL. DIAL responded to the Authority's clarifications with the following details:

Table 3: DIAL submission on DF securitization

INR Crore	MOCA Order	AERA Order 28/2011-12	AERA Order 12/2012-13	AERA Order 30/2012-13	Gross Total
Drawdown by way of securitization	1827.00	1210.00	286.50	1200.85	4524.35
Prepayments of DF loans		561.86		786.08	1347.94
Net securitized by DIAL					3176.27

Table 4: DIAL submission on reconciliation between the DF securitization and DF adjustments in its books

INR Crore	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total
DF securitized	250.00	1577.00		1210.00 +286.50	1200.85		4524.35
DF Adjustment as shown in FA schedule			1817.00	1236.90	(2.80)	(2.90)	3048.20
DF collection charges				11.10	3.20	2.90	17.20
DF pending capitalization (ATC Tower)							350.00
Total DF adjustment in schedule							3415.40

5.8. The Authority in its Order No 28 / 2011-12 had allowed the amount of Rs. 3,415.35 crore as the total DF. The Authority also noted that the net securitization actually made by DIAL, as certified by the Auditor certificate, stands at Rs. 3176.41 crore. The Authority proposed to adjust the balance amount of Rs. 238.94 crore in RAB as and when the New ATC block is capitalized by DIAL in its books.

5.9. To follow the approach for DF apportionment as discussed in paras 5.18 and 5.19 of the Consultation Paper No 16/2014-15 dated 28.01.2015, the Authority had considered the actual DF securitization schedule submitted by DIAL, which is as follows.

Table 5: Securitization of DF by DIAL as considered by the Authority in Consultation Paper No. 16/2014-15

INR Crore	FY2008-09	FY2009-10	FY2010-11	FY2011-12	FY2012-13
DF Securitization by DIAL	250.00	1577.00	0	648.14	701.27
Total					3176.41

5.10. As per the formulation of adjustment of RAB on account of DF (paras 8.62 to 8.71 of the Order No. 32/2012-13 dated 15.01.2013), the values of capitalized aeronautical assets and aeronautical CWIP assets considered by the Authority for apportionment of year-wise DF available with DIAL were as follows:

Table 6: DF considered towards Adjustment of RAB by the Authority in respect of DIAL in Consultation Paper No. 16/2014-15

Value in INR crore	FY2008-09	FY2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Aeronautical assets capitalized in a year for the purpose of DF apportionment (A)	1,011.54	1,398.44	4,466.67	4,338.89	0.00
CWIP assets recorded in books of DIAL (B)	4,393.49	7,859.42	195.58	124.33	47.74
Allocations into aeronautical CWIP @ 89.25% (C)	3,921.19	7,014.53	174.56	110.96	0.00
Aeronautical CWIP considered for the purpose of DF apportionment (D)=(A)+(C)	4,932.73	8,412.97	4,641.23	4,449.85	0.00
Ratio for apportionment of DF into aeronautical capitalization (E =A/D)	0.21	0.17	0.96	1.00	1.00
DF Securitization by DIAL (F)	250.00	1,577.00	0.00	648.14	701.27
DF brought forward from previous year(G)	0.00	198.73	1,480.56	55.68	0.00
DF available for apportionment into aeronautical capitalization and CWIP (H = F + G)	250.00	1,775.73	1,480.56	703.82	701.27
DF to be considered towards aeronautical capitalization (I =H*E))	51.27	295.17	1,424.88	703.82	701.27
DF to be considered towards aeronautical CWIP (J= H – I)	198.73	1,480.56	55.68	0.00	0.00
DF to be considered for adjustment into RAB (Ki)	51.27	295.17	1,424.88	703.82	701.27
Total DF adjusted into RAB during 1st Control Period = Sum of Li for 1st Period	**3,176.41**				

5.11. Based on the material before it and its analysis, the Authority proposed the following in its Consultation Paper No 16/2014-15 dated 28.01.2015

5.11.1. To consider DF funding of RAB such that fund available to DIAL on account of DF for investment in a year (including any DF apportioned towards CWIP in the previous year brought-forward to the given year) would be apportioned over expenditure incurred on the aeronautical assets capitalized in the given year and the expenditure incurred on aeronautical CWIP in the given year as per the scheme indicated in Paras 8.62 to 8.71 of Order No 32 / 2012-13 dated 15.01.2013. While the fund apportioned to the expenditure incurred on the aeronautical assets capitalized in a year would be adjusted from RAB in the given year, that amount which is apportioned to expenditure incurred on aeronautical CWIP is proposed to be carried over to the subsequent years for adjustment from RAB in those years.

5.11.2. Accordingly, to adjust DF of Rs. 3176.41 crore (out of the allowed DF of Rs 3415.35 crore by the Authority in respect of IGI Airport, Delhi) from the capitalizations made by DIAL till FY 2012-13

5.11.3. To adjust the balance amount of DF of Rs. 238.94 crore from the RAB of DIAL when the "New ATC block" is capitalized by DIAL in its books.

5.11.4. Based on the above, to consider the adjustments in RAB in respect of IGI Airport, Delhi on account of DF as per Table 6 above.

b. Stakeholder Comments on Issues pertaining to Development Fee and its adjustment to RAB

5.12. ACI commented on the change in methodology of DF adjustment to RAB. They have stated that

"Change in methodology of treatment

The Development Fee (DF) adjustment is being changed retrospectively based on the new method wherein DF is adjusted from the Regulatory Asset Base (RAB) based on the year of borrowing.

... The philosophy which laid the foundation and was the basis for the first control period order of DIAL should not be subject to any further interpretation."

5.13. APAO also submitted their inputs on the change in methodology of DF adjustment in Consultation Paper No 16/2014-15 dated 28.01.2015 as compared to the Authority's position in the first control period where they have stated that:

"AERA has proposed to consider changed methodology for adjusting DF and return on RAB. DF is proposed to be reduced from the RAB in the year the securitized loan was borrowed against it.

The reduction of DF from the RAB was done in the year of capitalization and was approved by the AERA in the Order for 1st Control period. Now, the AERA has reopened the whole issue and reduced the DF from the RAB in the year of borrowing instead of year of capitalization which is not as per the principles.

AERA proposes to change the principle of RAB determination (DF adjustment) which was finalised and approved by itself earlier in the 1st control period order. Changing this principle leads to change in tariff for 1st control period which is inconsistent with the provisions of AERA Act, 2008.

In the 1st control period, AERA has allowed the principle of reducing the DF as and when the asset is capitalized in the DIAL's books. This is a more robust methodology and easy to understand and implement. A sudden change in the already allowed building block leads to uncertainty.

Rationale for DIAL reducing DF from RAB during 2010-11 for money borrowed in 2009-10 was that there was no major capitalization of asset during this intervening period. As such the DF adjustment was warranted only when the asset was capitalized.

APAO Recommendation: The earlier principle of reducing RAB based on year of capitalization of DF assets be restored."

c. DIAL's response to Stakeholder Comments on Development Fee and its adjustment to RAB

5.14. DIAL's response to comments by ACI is as under,

"Authority has revisited its own decisions taken in the 1st control period. This raises the doubt over the sacrosanctity of its own orders and exacerbates the regulatory risk in the sector. This needs to be avoided.

Authority has to establish credibility of the regulatory contract is most important, and that the public interest is best served by stable long-run arrangements where regulators honour their commitments and orders."

5.15. DIAL's response to comments by APAO is as under,

"The principles of the adjustment of DF in first control period were finalized by Authority after due consultation process. The principles once set after due consultation with all stakeholders should not be revised. Change in stand without any change in circumstances, as case of DIAL, is unwarranted and inappropriate.

DIAL's own comments on Issues pertaining to Development Fee and its adjustment to RAB"

d. DIAL's own comments on Issues pertaining to Development Fee and its adjustment to RAB

a. DIAL's comments on the DF adjustment of RAB are as below,

"...

Change in methodology of adjustment of DF is a change in principles compared to first control period

The principles of the adjustment of DF in first control period were finalized by Authority after due consultation process. The principles once set after due consultation with all stakeholders should not be revised. A change in stand without any change in circumstances, as in case of DIAL, is unwarranted and inappropriate.

The circumstances and methodology of the treatment proposed by MIAL was very different from the one settled for DIAL. Change in methodology will result in Penalizing DIAL because of the above change is unjustified and inappropriate."

"Following is the summary of our contentions:

2. *Retrospective Change not consistent with AERA act:*

AERA proposes to do retrospective change in the RAB, which was approved earlier in the 1st control period order. Changing RAB leads to change in tariff for 1st control period which is inconsistent with the provisions of AERA Act, 2008.

As per the Act the adjustments in tariff of a control period, if so warranted can be done within the said control period only. Moreover, there is no change in the circumstances of DIAL so far as these adjustments related to DF are concerned which can warrant a change in principles of determination of tariff by AERA.

3. *Different treatment at other airport do not warrant a change at DIAL:*

The facts that there was a different treatment at some other airport do not enable the Authority to use the same method here, particularly when the facts and circumstances differ from airport to airport. This is also important because of the fact that the methodology adopted by the other airport was very different from the methodology adopted by DIAL. As such DIAL's methodology did not need any amendment.

4. *Regulatory Uncertainty:*

In the 1st control period, AERA has allowed the principle of reducing the DF as and when the asset is capitalized in the DIAL's books. A sudden change in the already allowed building block leads to uncertainty. As already submitted to authority, rationale for reduction of DF in RAB during 2010-11 for money borrowed in 2009-10 is as under:

The major assets capitalized in 2009-10 were:

a) Terminal 1D, which was completed and capitalized majorly in April 2009, which was prior to borrowing of DF.

b) VRS capitalization: which was notional capitalization as payment was to be made based on agreed payment plan. As such the money borrowed was not utilized for assets capitalized during 2008-09 or 2009-10.

Under the treatment proposed by Authority, the DF money is being reduced from RAB even when the aforesaid asset has not come in existence.

The proposed treatments by the authority with respect to DF need to be reconsidered in line with our submission. It's earnestly requested that the proposed treatment be reversed by the authority and the original methodology of adjusting DF be maintained while determining the tariff for second control period."

e. Authority's Examination of Stakeholder Comments on Development Fee and its adjustment to RAB

5.16. The Authority has carefully considered the comments from the stakeholders as well as DIAL's comments and response to these stakeholder's comments regarding Development Fee and its adjustment to RAB in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

5.17. The Authority has noted comments from ACI and APAO regarding its approach for adjustment of RAB on account of DF that this approach is different from its approach followed in the first Control Period. APAO has commented that *"AERA proposes to change the principle of RAB determination (DF adjustment) which was finalised and approved by itself earlier in the 1st control period order".*

5.18. The Authority would like to highlight that it had stated in DIAL Tariff Order 03/2012-13 dated 20.04.2012 that *"The amount of Rs.3415.35 crore (including both at stage 1 and stage 2, vide Order No.28/2011-12 dated 14.11.2011) collected or to be collected as Development Fee would not be included in RAB."* As regards the mechanism of adjustment of RAB on account of DF, the Authority stated in its Delhi DF Order No. 30/2012-13 dated 28th December 2012, as below:

"... The current decision of the Authority is limited to the determination of DF and its tenure in respect of IGI Airport-New Delhi. The issue of taking into account AAI's comments regarding adjustment of RAB on account of DF would arise at the time of determination of tariff for IGI Airport, New Delhi in the next Control Period (commencing w.e.f 01.04.2014). The Authority, therefore, decides to consider the issue of adjustment to RAB in case of DIAL, as may be required at the time of the next Control Period."

5.19. The Authority, subsequently, had the opportunity to deliberate the adjustment of RAB on account of DF in detail in its Order No 32/2012-13 dated 15.01.2013 in respect of CSI Airport, Mumbai. After detailed discussions and analysis of comments from the stakeholders (including AAI) on this issue, the Authority presented its approach for adjustment of RAB on account of DF in para 8.56 to 8.62 of Order No. 32/2012-13.

5.20. As highlighted in the above extract from its DF Order, the Authority had clearly mentioned that it will consider the issue of DF adjustment to RAB in case of DIAL, as may be required, at the time of the next Control Period, i.e. the second Control Period. Having presented its approach in Order No 32 dated 01.15.2013 and in line with its Delhi DF Order No. 30/2012-13, the Authority now has the opportunity to incorporate the adjustment of RAB on account of DF in respect of DIAL. Accordingly, the approach to DF adjustment applicable to DIAL as per the Authority's examination in Consultation Paper No 16/2014-15 dated 28.01.2015 is in line with the Authority's earlier stance and should not be considered as a retrospective change. Hence, the Authority would like to highlight that it has been consistent in its approach and has not deviated from its philosophy of the first control period.

5.21. However, during further reconciliation and based on updated certificates provided by DIAL, The Authority has noted that the actual DF draw down schedule is given as below:

Table 7: Securitization of DF by DIAL as considered by the Authority in its final Order

INR Crore	FY2008-09	FY2009-10	FY2010-11	FY2011-12	FY2012-13
DF Securitization by DIAL	250	1577	0	867.08	510.67
Total					3241.37

5.22. In view of the above, the Authority decides to follow the same approach as proposed by it in the Consultation Paper No 16/2014-15. Accordingly, the values of capitalized aeronautical assets and aeronautical CWIP assets considered by the Authority for apportionment of year-wise DF available as per Table 7 are as follows:

Table 8: DF considered towards Adjustment of RAB by the Authority in respect of DIAL

Value in INR crore	FY2008-09	FY2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Aeronautical assets capitalized in a year for the purpose of DF apportionment (A)	1,011.54	1,398.44	4,373.48	4,338.89	0.00	0.00
CWIP assets recorded in books of DIAL (B)	4,393.49	7,859.42	195.58	124.33	47.74	31.33
Allocations into aeronautical CWIP @ 89.25% (C)	3,921.19	7,014.53	174.56	110.96	0.00	0.00
Aeronautical CWIP considered for the purpose of DF apportionment (D)=(A)+(C)	4,932.73	8,412.97	4,548.04	4,449.85	0.00	0.00
Ratio for apportionment of DF into aeronautical capitalization (E =A/D)	0.21	0.17	0.96	1.00	1.00	1.00
DF Securitization by DIAL (F)	250.00	1,577.00	0.00	867.08	510.67	36.62
DF brought forward from previous year(G)	0.00	198.73	1,480.56	56.82	0.00	0.00
DF available for apportionment into aeronautical capitalization and CWIP (H = F + G)	250.00	1,775.73	1,480.56	923.90	510.67	36.62
DF to be considered towards aeronautical capitalization (I =H*E))	51.27	295.17	1,423.74	923.90	510.67	36.62
DF to be considered towards aeronautical CWIP (J= H – I)	198.73	1,480.56	56.82	0.00	0.00	0.00
DF to be considered for adjustment into RAB (Ki)	51.27	295.17	1,423.74	923.90	510.67	36.62
Total DF adjusted into RAB during 1st Control Period = Sum of Li for 1st Period						3,241.37

Decision No. 3 Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order regarding the Development Fee and its adjustment to RAB,

3.a. The Authority decides to consider DF funding of RAB such that fund available to DIAL on account of DF for investment in a year (including any DF apportioned towards CWIP in the previous year brought-forward to the given year) would be apportioned over expenditure incurred on the aeronautical assets capitalized in the given year and the expenditure incurred on aeronautical CWIP in the given year as per the scheme indicated in Paras 8.62 to 8.71 of the Order No 32 / 2012-13 dated 15.01.2013. While the fund apportioned to the expenditure incurred on the aeronautical assets capitalized in a year would be adjusted from RAB in the given year, that amount which is apportioned to expenditure incurred on aeronautical CWIP is proposed to be carried over to the subsequent years for adjustment from RAB in those years.

3.b. Accordingly, the Authority decides to adjust DF of Rs. 3241.37 crore (out of the allowed DF of Rs. 3415.35 crore by the Authority in respect of IGI Airport, Delhi) from the capitalizations made by DIAL till FY 2012-13.

3.c. The Authority decides to adjust the balance amount of DF of Rs. 173.98 crore from the RAB of DIAL when the "New ATC block" is capitalized by DIAL in its books.

3.d. Based on the above, the Authority decides to consider the adjustments in RAB in respect of IGI Airport, Delhi on account of DF as per Table 8 above.

6. Consideration of True-ups for first Control Period in respect of DIAL

6.1. At the time of determination of aeronautical tariff for the first Control Period, the audited financials of DIAL were available to the Authority for FY 2009-10 and FY 2010-11. The Authority had relied on the financials of these two years and made projections for the remaining three years of the first Control Period, namely FY 2011-12, FY 2012-13 and FY 2013-14. Now DIAL along with its submissions for the second Control Period, has made available the audited financial statements for FY 2011-12, FY 2012-13 and FY 2013-14.

6.2. The Authority, while determining various elements of the building blocks in its Delhi Tariff Order 03 / 2012-13, provided for true-ups / claw-backs in respect of certain items. These true-ups were to be considered based on the actual values of respective items in the first Control Period (except for certain items decided by the Authority not to be trued-up, such as WACC and Non-aeronautical revenue) towards determination of aeronautical tariff for the next Control Period commencing from 01.04.2014.

6.3. As regards broad approach of the Authority with respect to true-ups of various elements that go into determination of aeronautical tariff, which are individually indicated in the relevant decisions of the Delhi Tariff Order 03 / 2012-13, the Authority recognized that the overarching purpose of the true-ups is to enable the Airport Operator to get a fair rate of return on his investments (consistent with the quality of service as well as the risk factors for the airport in question). Hence an important part of the exercise of tariff determination was to compare the ex-post (at the end of the Control Period) Aggregate Revenue Requirements (ARR) of the airport with what was estimated as the entitlement of ARR at the time of determination of tariff. The actual ARR that the Airport Operator is entitled to at the end of the Control Period depends on the actual values of various Regulatory building blocks as considered by the Authority, after these values are trued-up, ex-post, at the end of the control period, based on the figures available as per the audited balance sheet of the company.

6.4. On the revenue side, items to be considered for true-up relate to revenues from aeronautical services to match the ARR. The Authority noted that the 30% share of non-aeronautical revenue is a part of the regulatory building blocks for the calculation of ARR.

6.5. Within the above framework, the Authority gave its examination with respect to true-up of various items / building blocks, in Consultation Paper No 16/2014-15 dated 28.01.2015, which is replicated as under

6.6. The Authority proposed to adopt the following approach in providing true-up to the airport operator for the first Control Period as per Delhi Tariff Order 03 / 2012-13. The Authority proposed to provide a true-up against the actual entitlement of DIAL in terms of Aggregate Revenue Requirement (ARR) based on actual values of regulatory building blocks for the first Control Period. The ARR was estimated based on the building blocks, namely, Regulatory Asset Base (RAB), Hypothetical Regulatory Asset Base (HRAB), WACC, Depreciation, Operating Expenses, Taxation and Non-Aeronautical Revenue for the first Control Period as per the actual audited financial and traffic information. Whereas, vide Decision No. 29 of Delhi Tariff Order 03/2012-13 the Authority decided not to true-up the WACC, with regards to the Non-Aeronautical Revenue, the value for Non-Aeronautical Revenue projection was based on Scenario 3 discussed in para 374 of the Consultation Paper No. 32/2011-12. The Authority continued with its decision of not truing-up WACC. As regards the Non-Aeronautical Revenue, the Authority proposed to consider it as per the Authority's Delhi Tariff Order 03/2012-13 except treatment of some items as given in the paras 6.40, 6.41 to 6.47 below. The re-estimated ARR is compared with the actual aeronautical revenue as per audited financials, to obtain the true-up value.

6.7. The Authority had taken note of the submissions made by DIAL insofar as it relates to its appeal regarding various building blocks considered by the Authority while determining the tariff for the first Control Period. The Authority, however, proposed to proceed with the true-up of various building blocks based on its approach as indicated in this para and the actual figures reflected in the audited balance sheet of

DIAL pertaining to the first Control Period, which would be subject to the final outcomes of the appeal proceedings before the Appellate Tribunal.

True-up of Regulatory Asset Base

6.8. The Authority had computed RAB in the first Control Period in order to determine the return on RAB based on the WACC of 10.33% as per its Decision No. 29 of the Delhi Tariff Order 03 / 2012-13. RAB considered for the purpose of estimating return was based on the average of opening and closing balances of RAB where closing RAB for a year was arrived at by incorporating additions / deletions / adjustments to aeronautical asset base of DIAL to the opening balance of RAB in that year.

6.9. While determining RAB for the first Control Period, the Authority had considered the actual audited numbers of additions / deletions / adjustments to assets of DIAL for FY 2009-10 and FY 2010-11 and projections of the same for the remaining years, namely FY 2011-12, FY 2012-13 and FY 2013-14. Similarly the Authority had considered the actual audited numbers of depreciation for FY 2009-10 and FY 2010-11 and projections of the same for the remaining years, namely FY 2011-12, FY 2012-13 and FY 2013-14. With the actual audited numbers for all five years of the first Control Period being available to the Authority now, it has examined these actual audited numbers for the purpose of truing-up of respective additions / deletions / adjustments to assets of DIAL.

6.10. In this regard, the Authority has noted from the financial statements submitted by DIAL that the actual capital investment in the years FY2011-12, FY2012-13 and FY2013-14 varied from what was considered by the Authority during the first Control Period. The Authority in its Delhi Tariff Order 03/2012-13 (Decision Truing-up 2) had decided that it may consider the future capital expenditure and future maintenance capital expenditure incurred by DIAL during the balance Control Period based on the audited figures and evidence of stakeholder consultation as contemplated in the SSA, as well as the review thereof that the Authority may undertake in this behalf. The Authority examined the actual audited numbers for these three years i.e. FY2011-12, FY2012-13 and FY2013-14 as below.

Table 9: Additions to RAB as considered by the Authority for the 1st Control Period as per Delhi Tariff Order 03/2012-13 and actual aero additions submitted by DIAL during FY12, FY13, and FY14

Additions to RAB	FY2011-12	FY2012-13	FY2013-14
Projected aeronautical additions as per Delhi Tariff Order No. 3 / 2012-13	550.41	78.92	0.00
Actual Addition as submitted by DIAL in their calculations for Return on RAB	372.56	74.06	113.59
Actual aeronautical additions as per DIAL submissions	560.94*	74.06	33.20**

*Includes 188.38 Cr. Partial capitalization of DF interest as accounted for in DIAL's books as mentioned in 6.26.6 below

**An amount of Rs. 80.39 Cr. has been capitalized by DIAL in their books on account of SFIS script which the Authority has not considered as it is considered in the nature of grant in the books of DIAL.

6.11. While determining the tariff for the first Control Period in respect of Delhi Airport, the Authority had considered the additions / deletions to RAB as per the figures given in the Table 10.

Table 10: Assets considered by the Authority in Delhi Tariff Order 03 / 2012-13 for the first Control Period based on actuals till FY 2010-11

INR crore	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Additions to assets (tangible and intangible) as shown in the books of DIAL	214.94	83.67	1,891.61	889.40	9,494.19
Deletions		0.77	-	7.41	-
Balance	214.94	82.90	1,891.61	881.99	9,494.19
Segregation into					
Aero assets	62.46	50.52	1,866.37	540.01	8,230.75
Non-aero assets	2.48	32.38	25.24	91.10	1,047.65
Non-admissible assets (Upfront Fee)	150.00	-	-	-	-
Forex Fluctuation (AS 11 adjustments)				-	11.65*
Airport Concessionaire Rights				250.88	
Disallowed assets					204.14

Notes:

While the aero assets were considered by the Authority towards addition into RAB, the other elements were not considered for determination of aeronautical tariff in Delhi Tariff Order 03 / 2012-13.

* - Refer para 6.12 below

6.12. The Authority notes that DIAL had considered the foreign exchange fluctuation (net gain) of Rs. 11.65 crore for FY 2010-11 in its submissions during the first Control Period. Accordingly DIAL, in its submissions, had adjusted this gain of Rs. 11.65 crore while calculating the additions to assets in FY 2010-11 and reduced the additions to assets by this amount. However, the Authority had not factored this adjustment in the RAB while determining the tariff for the first Control Period. In line with its current approach of not considering the foreign exchange fluctuation, the Authority, proposed to factor the adjustment of Rs. 11.65 crore in additions to RAB of FY 2010-11 and accordingly recomputed the ARR for the first Control Period as per Table 11:

Table 11: Re-computation of RAB for FY 2010-11 in Consultation Paper No. 16/2014-15

Rs crore	Considered by the Authority in Delhi Tariff Order 03 / 2012-13	Proposed re-computation under the current determination
Additions to assets (tangible and intangible) as shown in the books of DIAL	9,494.19	9,494.19
Deletions	-	-
Balance	9,494.19	9,494.19
Adjusted by		
Disallowed assets	204.14	204.14
Forex Fluctuation (AS 11 adjustments)	11.65	
Aero assets	8,230.75	8,241.08
Non-aero assets	1,047.65	1,048.97

6.13. Vide Decision no 3.b of its Delhi Tariff Order 03 / 2012-13, the Authority had decided to true up the difference between the return on RAB calculated based on actual date of commissioning/ disposal of assets and the return on RAB calculated considering that such asset has been commissioned/ disposed-off half way through the Tariff Year by adjusting the differences for each year in the Control Period at the end of the Control Period.

6.14. In this regard, the Authority noted that there could be various dates in a year, at which the capitalization of different assets may have been undertaken by the airport operator. The RAB to be considered for the purpose of return will need to factor in such dates of capitalization and the value of such assets. The Authority had also proposed to adjust RAB on account of DF based on the approach discussed in para 5.18 of the Consultation Paper No. 16./2014-15 dated 28.01.2015. The Authority noted that DIAL has availed the DF funding (through collections or through drawdowns of securitization loans) on various dates in a year. Hence, to be able to follow the approach of adjustment of RAB on account of DF by considering the actual dates of availing the DF funds, corresponding values of aeronautical capitalization and aeronautical CWIP values were (Refer para 5.18 of in Consultation Paper No 16/2014-15 dated 28.01.2015) will need to be considered to apportion the available DF funding into aeronautical capitalization and aeronautical CWIP values respectively. The Authority found that this approach required validation of a large number of accounting data points to be considered and the data submitted by DIAL had not yet been duly reconciled with the financial statements. The Authority noted that in this background an alternative approach could be to consider all the asset capitalizations to have been made halfway through the year and to consider all the DF funding to be available to DIAL at the mid of the given year. However, all the DF funding available to DIAL in a year would be considered for apportionment into aeronautical capitalization and aeronautical CWIP values as per the approach discussed by the Authority above.

The DF funding value apportioned to aeronautical capitalization would be reduced from total aeronautical capitalization in that year. Such adjusted (reduced) aeronautical capitalization will be added to the opening RAB for that year and then average of the opening and closing RAB values will be considered for the application of WACC for the purpose of determination of Return on RAB. The Authority has proposed this approach of averaging of RAB under its Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 dated 28.02.2011. On account of issues pertaining to authentication and verification of data points under the first approach, the Authority found the alternate approach of considering average value of opening and closing RAB values as more appropriate. Accordingly the Authority proposed to adopt the approach of considering the average value of opening and closing RAB values for the purpose of determination of Return on RAB.

6.15. The Authority noted that asset addition for the years FY 2009-10 and FY 2010-11, as submitted by DIAL under current exercise, varies from that considered by the Authority during the first control period. The Authority sought clarifications from DIAL. The Authority had also sought a reconciliation of the amounts submitted by

DIAL now with what is reflected in the books of DIAL. The Authority is in receipt of submission from DIAL detailing the project items developed during FY 2011-12, FY 2012-13 and FY 2013-14. As regards asset addition during FY 2009-10 and FY 2010-11, DIAL highlighted during discussions that the variation from the values submitted during the first Control Period is on account of construction contracts getting finalized over a period of time as well as inclusion of PSF assets in the books of DIAL. Pending reconciliation of these values, the Authority proposed to make the following adjustments to the calculations submitted by DIAL: Aero asset additions till the year FY2011 have been taken as per the Delhi Tariff Order 03 / 2012-13 and aero asset additions for the year FY2012 to FY2014 have been taken from DIAL's auditor certificate. Corresponding adjustments have also been made to depreciation for the year.

6.16. In line with the Authority's approach towards DF apportionment as calculated in Table 8 above, DF adjustment to RAB has also been updated and corresponding adjustments to depreciation have been considered.

6.17. As regards the asset allocation, the Authority sought from DIAL the allocation of its assets into aeronautical and non-aeronautical assets in line with the principles for determination of aeronautical tariff considered by the Authority in Delhi Tariff Order 03 / 2012-13. DIAL got a study conducted by Jacobs for asset allocation in respect of IGI Airport, Delhi and had submitted the same to the Authority. The study report is currently being examined by the Authority. For the time being, the Authority proposed to adopt the asset allocation considered by it in the first Control Period i.e. 89.25% towards aeronautical assets and remaining towards non-aeronautical assets. Further as per Decision 4 of its Delhi Tariff Order 03 / 2012-13, the Authority had commissioned an independent study by ICWAI Management Accounting Research Foundation on allocation of assets at IGI Airport, Delhi. ICWAI Management Accounting Research Foundation (ICWAI-MARF) is a well-known institution, incorporated under Section 25 of the Companies Act, 1956 by the Registrar of Companies, West Bengal on 17th August, 2009. Their Study was based on the Jacobs Consultancy Report (dated 14th June 2011) which provides the allocation of

Terminal Buildings between Aeronautical and Non-Aeronautical Assets and concluded that DIAL's allocation of assets for the first Control Period as appropriate. As per the study, the allocation of 89.25% and 10.75% towards aeronautical and non-aeronautical assets respectively for the first Control Period should be considered. The approach and outcomes of the Study are elaborated in the in paras 7.7 to 7.10 below.

6.18. In working out the closing RAB, the Authority had also adjusted for the amount of Development Fee (DF) realized by DIAL during the first Control Period. The Authority had provided the mechanism of adjustment of RAB on account of DF in the Decision No. 5 of its Order No. 32/2012-13 dated 15.01.2013 in respect of CSI Airport, Mumbai. The Authority accordingly proposed to consider the same approach for adjustment of RAB on account of DF in respect of DIAL as well. The proposed adjustments had been detailed in paras 5.18 and 5.19 of the Consultation Paper No. 16/2014-15.

6.19. Accordingly, the RAB adjustment on account of DF and Return on RAB proposed to be considered by the Authority in respect of IGI Airport, Delhi for the 1st Control Period were presented as below:

Table 12: RAB and Return on RAB as per audited financial statements of DIAL considered by the Authority for the 1st Control Period in Consultation Paper No. 16/2014-15

In crore	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Opening RAB	0.00	61.34	108.40	1,850.33	2,155.22	8,556.19	8,077.18	7,131.62
Add Additions during the year	62.46	50.52	1,866.37	540.01	8,241.08	560.94	74.06	33.20
Less Sale of Assets	-	-	-	-	-	0.01	0.56	-
Add Depreciation Written back	-	-	-	-	-	-	0.02	-
Depreciation charged	1.12	3.46	43.82	110.29	252.19	358.17	317.81	361.69
DF Apportioned	-	-	80.62	124.83	1,587.91	681.77	701.27	-
Less Disposals and Depreciation	1.12	3.46	124.44	235.12	1,840.11	1,039.95	1,019.62	361.69
Closing Regulatory Asset Base	**61.34**	**108.40**	**1,850.33**	**2,155.22**	**8,556.19**	**8,077.18**	**7,131.62**	**6,803.13**
Rate of Aeronautical	3.60%	3.94%	4.54%	5.40%	3.78%	3.74%	3.84%	4.97%

In crore	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Asset Depreciation								
Opening Hypothetical RAB (HRAB)	-	-	-	467.00	441.80	424.15	406.66	388.73
Add Additions to HRAB	-	-	467.00	-	-	-	-	-
Less Depreciation on HRAB	-	-	-	25.20	17.65	17.49	17.94	23.20
Closing HRAB	-	-	467.00	441.80	424.15	406.66	388.73	365.52
Average HRAB	-	-	233.50	454.40	432.98	415.41	397.70	377.13
Opening Total RAB	-	61.34	108.40	2,317.33	2,597.02	8,980.34	8,483.84	7,520.35
Closing Total RAB	61.34	108.40	2,317.33	2,597.02	8,980.34	8,483.84	7,520.35	7,168.65
Average RAB (RAB for return)	**30.67**	**84.87**	**1,212.87**	**2,457.17**	**5,788.68**	**8,732.09**	**8,002.10**	**7,344.50**
WACC Rate	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%
Return on Capital Employed	**3.17**	**8.77**	**125.29**	**253.83**	**597.97**	**902.03**	**826.62**	**758.69**

True-up of Operation and Maintenance Expenses

6.20. As regards Operation & Maintenance Expenses, the Authority, in Decision No. 14 of its Delhi Tariff order 03 / 2012-13, had decided to accept the forecasts for 2012-13 and 2013-14 made by DIAL. However, it had also decided to commission an independent study to assess the efficient operating costs of IGI Airport New Delhi for the entire control period. The study was proposed to be commissioned by the Authority in line with the requirements in Schedule 1 of SSA where it mentions efficient operation and maintenance costs pertaining to aeronautical services as a building block for determination of Target Revenue and accordingly establishing the efficiency of operation and maintenance costs was considered important. The Authority also decided that, if the costs of efficient operation and maintenance, assessed in the independent study are lower than the values used by the Authority, then it will claw back this difference in the next control period commencing from 01.04.2014.

6.21. As per this decision, the Authority commissioned an independent study by ICWAI Management Accounting Research Foundation to assess the efficient operation and maintenance costs of IGI Airport, Delhi.

6.22. The Authority is in receipt of a letter from ICWAI vide letter no. ICWAI-MARF/DIAL/2014/07 dated 27.10.2014 regarding this study. The Authority noted from the letter that the actual operating cost incurred by DIAL for the year FY 2012-13 can be considered as efficient operation and maintenance cost for the airport in the first Control Period. An extract of the letter is reproduced below,

"...During the course of our analysis of the data/information made available by DIAL, it has been observed that the operating and maintenance expenses of FY 2012-13 were efficient during the first control period.

The Authority may take the operating and maintenance expenses incurred for the FY 2012-13 as the costs for efficient operation in the formulating the consultation paper for the next control period."

6.23. In line with this letter from ICWAI, the Authority had reference to the actual values of operating expenses under all sub-heads as available from DIAL's audited financial statements as well as Auditor's Certificates submitted by DIAL for the first Control Period. The actual operating expenses of DIAL during the first Control Period as noted by the Authority were presented in Table 11 of the Consultation Paper No. 16/2014-15. The Authority also notes that actual operating expenses for FY 2012-13 and FY 2013-14 are much lower than those projected during the first Control Period. The Authority also notes that the operation and maintenance cost for FY 2013-14 comes to Rs. 673.67 crore (excluding airport operator fee, property tax, VRS and interest on DF), which is an increase of 10.46% over FY 2012-13. Considering that inflation in FY 2013-14 was 9.50%[1] the real increase in operating expenses from FY 2012-13 to FY 2013-14 works out to less than 1%.

Table 13: Operating & Maintenance Expenses noted by the Authority from financial statements / auditor certificates of DIAL for the 1st Control Period

Operating Expenses, INR Crore	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
VRS Aero	80.00	32.72	48.18	19.38	19.07
Interest on DF*	0.00	0	162.12	0	0
Staff Cost**	101.66	139.34	142.61	123.72	122.65

[1] CSO release 30th May 2014

Operating Expenses, INR Crore	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Administrative & General Expenses	85.44	132.23	153.14	140.95	161.81
Electricity & Water Charges	31.21	60.82	85.73	98.12	106.26
Operating Expenses	109.55	193.68	210.10	247.10	282.96
Airport Operator Fee	13.01	15.38	17.61	18.91	68.00
Property Tax	0.00	0.00	15.00	5.53	60.92
Total	**434.42**	**574.26**	**834.49**	**653.71**	**821.67**

* as considered by the Authority in its Delhi Tariff Order 03 / 2012-13

** includes inline screeners cost

Allocation of Operation & Maintenance Expenses

6.24. The Authority noted that the operating expenses presented in the books of DIAL include both aeronautical and non-aeronautical expenses and accordingly it needed to be allocated into aeronautical expenses, which was to be considered by the Authority as a regulatory building block towards determination of Aggregate Revenue Requirements for DIAL.

6.25. While determining operating expenses for the first Control Period, the Authority had considered the actual audited numbers of DIAL for FY 2009-10 and FY 2010-11 and projections of operating expenses for the remaining years, namely FY 2011-12, FY 2012-13 and FY 2013-14 and allocated these numbers into aeronautical and non-aeronautical components.

6.26. The Authority had noted during the first Control Period that DIAL had got a study conducted by Jacobs to establish the ratio for allocation of operating expenses into aeronautical and non-aeronautical components. DIAL had submitted that while there are certain costs which can be directly classified as Aeronautical and Non-Aeronautical, there were others which could not be directly classified. In such cases, relevant drivers (including direct allocation, area allocation, and asset base allocation) were used by Jacobs to allocate such costs. DIAL had submitted that while the ratio for allocation of manpower costs was worked out by Jacobs on the basis of split of activities undertaken by respective departments, ratio for allocation of non-staff costs / administrative costs was arrived at by Jacobs on the basis of a detailed analysis of the activity of its departments and the functions of these departments.

The Authority had considered the allocation ratios established by Jacobs in respect of DIAL for the first Control Period. These were as follows:

6.26.1. Manpower cost incurred by DIAL for FY 2009-10 and FY 2010-11 was allocated into aeronautical and non-aeronautical components based on application of such an allocation ratio (considered by the Authority during the first Control Period at 89.79%). This allocated manpower cost was adjusted for the cost incurred by DIAL on inline screeners. The cost thus arrived was considered as manpower cost of DIAL. Vide its Decision No. 15 of the Delhi Tariff Order 03/2012-13 the Authority had decided to adopt 1471 (w.e.f 01.04.2011) as the manpower requirement till the end of the Control Period.

6.26.2. Electricity and water expenses were considered net-off recovery from the concessionaires and were taken at 100% allocation into aeronautical expenses.

6.26.3. Administrative and General Expenses (excluding Property Tax) were allocated into aeronautical component based on application of an allocation ratio of 70.28%.

6.26.4. Other operating expenses (excluding Airport Operator Fee) were allocated into aeronautical component based on application of an allocation ratio of 91.89%.

6.26.5. Elements of operating expenses namely, Property Tax and Airport Operator Fee were allocated into aeronautical component based on application of a weighted average of allocation ratios for the above four elements, which worked out to 87.54%. As regards the Airport Operator Fee, the Authority proposed to follow an alternative approach of allocation discussed in para 17.29 and 17.38 of Consultation Paper No 16/2014-15 dated 28.01.2015. As per this alternate approach, 3% of aeronautical revenues of DIAL is to be considered as aeronautical component of Airport Operator Fee. The Authority has sought views of the stakeholders for finalization of this approach. Pending such finalization, the Authority proposed to consider 3%

of aeronautical revenues of DIAL as aeronautical component of Airport Operator Fee.

6.26.6. As per Decision No. 16 of its Delhi Tariff Order No. 3/2012-13, the Authority had decided to expense out the interest on DF Loan for the entire period of 01.03.2009 to 30.11.2011 as operating expenditure. This issue was discussed in para 18.1 to para 18.6 of the Delhi Tariff Order No. 3/2012-13. The total interest for such period amounted to Rs. 350.50 crore. The Authority has noted the difference in treatment decided by it in the said Order and that made by DIAL in its books. While the Authority expensed out the amount of Rs. 350.50 crore as per the schedule of interest payment certified by the auditor, DIAL has capitalized an amount of Rs. 188.38 crore and expensed out the balance of Rs. 162.12 crore. In this regard, the Authority noted the following from the Note 29 (b) (iii) of the Financial Statement of FY 2012-13:

"In its DF Order, issued on November 14, 2011, AERA had stated that treatment of interest paid on debts raised by the Company on securitization of DF and liability would be considered at the stage of tariff determination. Further, based on submissions made, by the Company and other stakeholders, AERA in its order No. 03/2012-13 issued on April 24, 2012 considered the aforesaid interest amount aggregating to Rs. 350.50 Crores for the period from March 1, 2009 till November 30, 2011 as an operating cost for the purpose of tariff determination and not to be adjusted against the DF receipts.

In view of the aforesaid order and the fact that the Company has used DF loans obtained against DF receivable for the construction of the airport, the Company has capitalised a portion of interest aggregating to Rs. 188.38 Crores till the date of commencement of operations of the domestic and international terminals at the airport and interest aggregating to Rs 162.12 crores subsequent to such commencement of operations is charged to the statement of profit and loss."

6.26.7. The Authority noted this difference in treatment. Based on the treatment made by DIAL in its books, the Authority proposed to expense out the interest amount of Rs. 162.12 crore in FY 2011-12 and capitalize the amount of Rs. 188.38 crores and consider such capitalization towards RAB in FY 2011-12. As DF was considered solely for funding of aeronautical assets, the ratio for allocation of expensed interest on account of DF securitization loan (Rs. 162.12 crore) into aeronautical component as well as for allocation of capitalized interest of Rs. 188.38 crore into aeronautical component was kept at 100%.

6.26.8. Additionally, the Authority had noted that DIAL had capitalized VRS expenses in its books towards intangible assets. However, the Authority had decided to expense out the VRS payments made by DIAL to AAI, as these costs are more in the nature of costs associated with staff matters under the concession agreements and do not build any additional assets. The ratio for allocation into aeronautical component for VRS payments made by DIAL to AAI was kept at overall weighted average ratio of 87.54%. The Authority had reconsidered its approach and was of the opinion that VRS expense has been on account of manpower and its related costs and accordingly proposed to consider the allocation of VRS payment to AAI into aeronautical and non-aeronautical components at the rate of allocation of manpower costs at 87.79%.

6.27. The Authority, based on its detailed examination of various sub-heads of operating expenses, noted that DIAL had incurred expenses on account of Management Fees, Professional and Consultancy Fee and Corporate Costs. The Authority has noted from the Financial Statements that the expenses incurred by DIAL towards professional and consultancy services were Rs. 52.55 crore and Rs. 61.72 crore for FY 2012-13 and FY 2013-14 respectively and those towards corporate costs were Rs. 27.62 crore and Rs. 35.00 crore for FY 2012-13 and FY 2013-14 respectively. The total expenditure towards consultancy and corporate fee for the first Control Period works out to Rs. 280.57 crores and Rs. 89.62 crores respectively. The Authority had sought details on the nature of services availed against these expenses and received the same.

6.28. As regards the professional and consultancy expenses, DIAL stated as under:

"The professional and consultancy charges include expenses on account of:

- Legal consultancy undertaken for various Legal cases pending at several Hon'ble Courts in the country, legal opinion undertaken for various business related matters.

- Training: DIAL follows the philosophy of investing in its people. During the years, various courses and conducted to empower and upgrade the skill set within the company. The employees are sent to the best of B - Schools like IIM Ahmadabad, XLRI, IIM Bangalore, IIM Lucknow etc. In addition, there are function specific trainings which are provided to the employees to level up their skill set and bring more efficiency into the system.

- HR consultancy, undertaken for the recruitment of the new employees

- Expenditure on internal audit, tax audit etc.

- Certification fees

- Consultation charges paid to the banks

- Technical consultancy

- Other expenses containing, consultancy provided to various departments on projects as and when required. In many cases, these projects are mandated by the bankers, regulators etc.

The professional and consultancy fee increase is attributed to various new studies and consultancies. It included studies related to facility planning, comparison with other major airports globally in light of upcoming Master Plan Update and other facility improvements, feasibility study for the solar project at the airport etc."

6.29. As regards the corporate costs, DIAL stated as under:

"...We would also like to clarify that, DIAL is a group entity of the GMR Infrastructure Limited ("GIL") which holds its investments in DIAL through holding company called GMR Airports Ltd ("GAL"), receives several services from the parent company and the holding company. DIAL pays the management fees towards the allocated costs for having availed the services...

...The costs incurred are in nature of 'Indirect costs'. The proposed cost allocation model for GIL & GAL is to recover the cost incurred in providing common corporate services to the business for strategic leadership & governance, business sustenance support and functional & managerial expertise.

...The Cost allocation exercise is not a revenue generating exercise for GIL & GAL and it does not include any 'markup' i.e. they are at zero markup basis and hence only a means of cost recovery.

... DIAL Board also has approved the allocation of corporate cost..."

6.30. The Authority noted DIAL submissions on expenditure incurred towards Professional and Consultancy services and corporate costs as well as justifications for the same.

6.31. The Authority proposed to consider the inline baggage screening cost towards determination of aeronautical tariff and hence had not removed the same from staff cost as it had adjusted during determination of tariff for the first Control Period.

6.32. Accordingly, the Authority proposed to consider the values as presented in the Table 14 towards truing-up of aeronautical operating expenses for the first Control Period:

Table 14: Operating & Maintenance Expenses considered by the Authority towards truing-up for the 1st Control Period in Consultation Paper No. 16/2014-15

Operating Expenses, INR Crore	Cost Allocation	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
VRS Aero	89.79%	71.83	29.38	43.26	17.40	17.12
Interest on DF	100.00%	0.00	0	162.12	0	0
Staff Cost	89.79%	91.28	125.11	128.05	111.08	110.12
Administrative & General Expenses#	70.28%	60.04	86.24	106.19	95.88	108.13
Electricity & Water Charges*	100.00%	31.21	61.29	86.89	98.17	106.54
Operating Expenses##	91.89%	100.67	177.97	193.06	227.06	260.01
Airport Operator Fee	**	13.01	15.38	17.61	18.91	68.00
Property Tax	87.54%	0.00	0.00	13.13	1.21	6.07
Total		**368.03**	**495.37**	**750.31**	**569.72**	**676.00**

* - In some years, DIAL has clubbed electricity and water charges and in others electricity and fuel charges, adjustments have been made accordingly

** Taken as 3% of aero revenue for previous year

Excludes Provisions for Bad Debts

Excludes Cargo Expenses

True-up of Depreciation

6.33. The Authority, vide Decision No 9 of its Delhi Tariff Order 03 / 2012-13, had provided that it will true up the difference between the depreciation calculated based on actual date of commissioning/ disposal of assets and the amount of depreciation calculated considering that such asset has been commissioned/ disposed of half way through the Tariff Year by adjusting at the end of the Control Period the Future Value of such difference.

6.34. Based on the actual audited values of depreciation available to the Authority for FY 2011-12, FY 2012-13 and FY 2013-14, the Authority proposed to consider the depreciation values recorded in the books of DIAL for these years for the purpose of truing-up the depreciation. The Authority understands that DIAL had adjusted the value of Fixed / Tangible assets in its books on account of DF realized by it. Post such adjustments, depreciation recorded in the books of DIAL do not include depreciation attributable to DF and hence no further adjustment on this count is required. The Authority sought a confirmation from DIAL in this regard. DIAL, vide its submission dated 19.09.2014 in response to the Authority's clarification, had stated as under:

"...we would like to clarify that the Auditor Certificate for Depreciation and Amortization during 1st Control Period submitted to the Authority is as per the Audited Financials and these do not include assets capitalized out of DF Funds."

6.35. The Authority considered the additions to aeronautical assets and depreciation on aeronautical assets for the years FY2009-10 and FY 2010-11 as per its Delhi Tariff Order 03/2012-13 and those for FY 2011-12, FY 2012-13 and FY 2013-14 from DIAL's submission on actual additions. The Authority had made relevant adjustments in asset addition as given in the table below:

Table 15: Adjustment to Aero Depreciation for RAB calculation in Consultation Paper No. 16/2014-15

Rs Crore	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Depreciation charged By DIAL Considered for Calculation	-	-	-	-	-	(373.53)	(327.82)	(373.74)
Depreciation charged as per AERA (Actuals till FY2011 as per Delhi Tariff Order No. 03/2012-2013)	(1.12)	(3.46)	(47.48)	(121.38)	(250.92)	(366.94)	(322.08)	(367.21)
Depreciation after being	(1.12)	(3.46)	(43.82)	(116.29)	(252.19)	(358.17)	(317.81)	(361.69)

Rs Crore	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
adjusted for DF								

6.36. The Authority had applied the tariff year wise average depreciation rate for aeronautical assets on Hypothetical Regulatory Asset Base (HRAB) to derive the depreciation on HRAB as per Decision No. 10b of the DIAL Tariff Order 03 / 2012-13. Calculations for the same are presented in Table 12.

True-up of corporate taxes

6.37. As regards corporate taxes, the Authority had projected that DIAL will pay taxes of Rs. 196.08 crore and Rs. 345.54 crore in FY2012-13 and FY2013-14 respectively. These were considered by the Authority for the purpose of estimating target revenue at the time of determination of tariffs for the first Control Period. The Authority, vide Decision No 18 of its Delhi Tariff Order 03 / 2012-13, also decided to review the actual corporate taxes on aeronautical services paid by DIAL, based on the audited figures as may be available and true up the difference between the actual corporate tax paid and that used by the Authority in the forecast.

6.38. With the audited financial statements for FY 2012-13 and FY 2013-14 being available to it, the Authority noted that DIAL has not paid any tax in these years. The Authority notes that SSA prescribes consideration of corporate taxes on earnings pertaining to aeronautical services as a building block. The Authority, in its Delhi Tariff Order 03 / 2012-13, had noted that corporate taxes are statutory payments due to the Government. Further, the tax is being considered as a cost in the target revenue computations. Therefore, if the actual tax paid in any of the years (in the control period) were lower than the tax forecast to have been paid (and accordingly included in the target revenue calculation), it would lead to a situation wherein DIAL would be unjustly enriched. In view of this, the Authority has decided that only the actual tax paid that can be ascribed to aeronautical services will be reckoned for the purpose of determining the target revenue.

True-up of Non-aeronautical Revenue

6.39. As per Decision 19 of Delhi Tariff Order 03 / 2012-13, the Authority had decided to retain the forecasts proposed under scenario 3 of its projections of Non aeronautical revenue. At the time of determination of tariffs for the first Control Period, non-aeronautical revenues were estimated based on the projections of relevant passenger and air traffic growth, penetration and inflation for each of the sub-heads under non-aeronautical revenues, as indicated in paras 21.2.16 to 21.2.17 of the Delhi Tariff Order No. 3/2012-13. At the time, audited value for non-aeronautical revenues realized by DIAL in FY2009-10 and FY2010-11 i.e. the first two years of the first Control Period were available. For these two years, the Authority had considered the higher of the projected value or actual value of each sub-head for the purpose of estimation of the total non-aeronautical revenue. Such higher value was considered as base for projection of revenue from that sub-head of non-aeronautical revenue. For remaining financial years, values were projected based on the relevant drivers.

6.40. The revenues hence obtained were given in the Delhi Tariff Order No 03/2012-13 (Table 35 -3) and are as given in the table below:

Table 16: Non-Aeronautical Revenues considered by the Authority in its Delhi Tariff Order No. 03/2012-13

Building Blocks Calculation	FY2010	FY2011	FY 2012	FY 2013	FY 2014
Non Aeronautical revenue incl. cargo	494.63	686.90	880.07	1,096.03	1,346.40

6.41. The Authority had received the Ministry of Civil Aviation's letter No.AV.24032/4/2012-AD, dated 09.03.2012 which stated that revenues from Cargo and Ground Handling services accruing to the airport operator should be regarded as non-aeronautical, irrespective of whether these services are provided by the airport operator or concessionaires appointed by the airport operator. In line with this letter, the Authority proposed to consider the revenue generated by DIAL from cargo and ground handling services as non-aeronautical revenue. The revenue of Rs. 135.59 crores from cargo in FY2009-10 was treated as aeronautical revenue at the time of determination of aeronautical tariffs for the first Control Period. However, based on the said MoCA letter, the Authority proposed to consider this amount as non-aeronautical revenue. However, revenue from CUTE was proposed to be considered as aeronautical revenue as discussed in Consultation Paper No 16/2014-15 dated 28.01.2015.

6.42. Further, the Authority proposed to continue to consider fuel throughput (FTP) revenues as aeronautical revenues as per its Decision No. 24.d. in the Delhi Tariff Order 03/2012-13. The Authority is of the view that any fee consequent to the supply of fuel to the aircraft (which is an aeronautical service), called by any name whatsoever (fuel throughput/license fee etc.), would be an aeronautical revenue as per the provisions of both AERA Act 2008 and OMDA. Vide Decision No. 22.a. of the same Order (refer paras 21.5.1 to 21.5.7 for discussions), the Authority had considered the revenue from Into Plane services as non-aeronautical revenue. However, based on the details elaborated in paras 20.32 to 20.34 below of Consultation Paper No. 16/2014-15, the Authority proposed to consider revenue from Into Plane services as aeronautical revenue.

6.43. The Authority, during the determination of tariff for the first Control Period, had not considered the revenues realised by DIAL from "Other Income" (typically including Interest Received Deposit with Banks, Income from Current Investments, Income from Non-Current Investments, Interest received - Delayed payment, Sale of Others material /Scrap others, Profit on Sale of Depreciable Assets, Dividend income, Realized Foreign Exchange Gain/Loss, Misc. income Others, Liquidated Damages received, Management Fee, Tender cost recovery) as non-aeronautical revenue. These values, as submitted by DIAL, were as follows:

Table 17: DIAL's submission of Other Income for the first control period

INR crore	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
Interest Received - Deposits with banks	1.22	6.52	1.08	1.35	0.8
Interest Received-Deposits with Others	2.87				0.32
Profit on sale of Investments		6.02	15.46	22.73	17.41
Interest Received - Delayed Payment	6.01		19.78	38.44	9.59
Sale of Other Materials / Scrap - Others	0.78	0.33	0.63	0.87	1.38
Profit on sale of Depreciable Assets			0.22		0.39
Dividend				17.05	26.4
Management Fees					10.5
Realized Foreign Exchange Gain/Loss -		0.5	1.11	0.41	0.0
Miscellaneous Income Others	0.00		0.04		14.95

INR crore	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
Tender Cost recovery	7.59	5.15			
Total Other Income	18.56	18.52	38.32	80.85	81.74

6.44. However the Authority examined the revenue streams as indicated in above and is of the view that revenues arising out of Sale of Other Materials / Scrap – Others, Profit on sale of Depreciable Assets, Management Fees, Miscellaneous Income Others and Tender Cost recovery should form part of the non-aeronautical revenue of the airport and therefore needed to be considered towards determination of aeronautical tariff in terms of the provisions of AERA Act and Schedule 1 of SSA.

6.45. As regards the other streams not reckoned towards tariff determination, the Authority's examination was as given below.

6.45.1. While considering such revenue, the Authority, in line with its decision not to consider the impact of fluctuations in foreign exchange, proposed not to consider the "Realized Foreign Exchange Gain/Loss". Also the Authority noted that DIAL had realized dividend income from its investments in JVs. However as the assets pertaining to the JVs were not being reckoned for the purpose of determination of RAB, the Authority is of the view that the dividend income accruing to DIAL from such JVs should also not be considered towards cross-subsidisation.

6.45.2. Further the Authority is of the view that the interest income received by DIAL (on bank deposits, other deposits and on account of delayed payments) was part of the cash flow management undertaken by DIAL. DIAL has clarified that at the time of tariff determination for the first Control Period, it had not submitted a request to the Authority for considering the interest on working capital loan. Thus the Authority did not consider the interest on working capital as an operating expense in its determination of tariff in respect of DIAL. Accordingly the Authority was of the view that the interest income generated by DIAL was part of their internal cash flow management and was therefore not considered as part of cross-subsidisation.

6.45.3. The revenues from remaining items under "Other Income" which were not considered by the Authority earlier towards cross-subsidization are now proposed to be considered for cross-subsidization.

6.46. After making the above adjustments of treating certain revenue as aeronautical and certain others as non-aeronautical revenue, the Authority recomputed the non-aeronautical revenue to be considered for cross-subsidisation in respect of DIAL for the first Control Period. With respect to the true-up of non-aeronautical revenues, the Authority had detailed its approach for the projections in paras 21.2.14 to 21.2.24 of its Delhi Tariff Order 03 / 2012-13. The Authority noted that, from 2008-09 onwards DIAL had set up JVCs with respect to some streams of non-aeronautical revenues (JVCs with the concessionaires appointed for these streams with equity participation). The Authority also noted from DIAL's submission that one of the objectives behind the formation of JVs was to increase the non-aero revenue to DIAL. Accordingly, projections were done with intent to reflect this objective. The Authority in its approach had considered the higher of the actuals or the projected revenues to arrive at the non-aeronautical revenues to be considered towards cross-subsidisation.

6.47. As per Decision No. 19, Scenario 3 was proposed for the purpose of considering non-aeronautical revenue for the first Control Period in Delhi Order No.03/2012-13, based on the growth drivers also indicated in the said Order. The Authority did not explicitly either provide for true up or state that it will not true-up. The Authority in its Delhi Tariff Order 03 /2012-13 had stated as under,

"...

(i) The non-aero activities were concessioned to third parties even before 2008-09. However, from 2008-09 onwards DIAL adopted a different business model and most of these activities were concessioned to JV companies where DIAL held equity stake.

(ii) In the presentation made to the Authority, DIAL strongly supported this new business model on the grounds that the concession through JV route would achieve higher revenues.

(iii) Therefore, now, it cannot fairly be the case of DIAL that revenue received by it from these activities during 2009-10 and 2010-11 should be in any way less than the 2008-09 revenue figures duly adjusted by the growth drivers. In case a different view is to be taken, it would undermine the objective of change in business model followed by DIAL.

(iv) DIAL commissioned the new terminal T3 in 2010-11, which was operationalised for international flights from 28th July 2010 and for domestic flights from 11th November 2010. As highlighted by DIAL in its response regarding operating costs estimates, the terminal area post T3 has increased from a total of 1,25,160 sq.mts to 6,79,047 sq.mts (an increase of 442%). Due to this massive increase in terminal area and other related developments, DIAL have themselves proposed that revenue for last 4 months of 2010-11 may be used to forecast revenue for the balance tariff years of the Control Period. In other words, DIAL have proposed 2010-11 figures to be the basis for forecast for the remaining years of the control period. The actual non-aeronautical revenues of DIAL for 2010-11 is Rs.594 crore and the annualised Non Aeronautical revenues for 2011-12 as per DIAL's submission is Rs.703 crore. The projected Non Aeronautical revenues for 2010-11 and 2011-12 as per Authority's methodology is Rs.686.89 crore and Rs. 835.25 crore. As can be seen the numbers arrived by the Authority is higher than both the actuals of 2010-11 or the annualised figures for 2011-12.It will thus be clear that as far as treating 2010-11 as base year is concerned the Authority's view is same as that of DIAL.

(v) In the scheme of SSA, 30% of the non-aero revenue is to be shared towards target revenue determination thereby proportionately reducing the aeronautical tariff. Therefore, it is important for the Authority to ensure disincentives against lower than expected non-aeronautical revenues.

...

The Authority decided to retain the forecasts as proposed in the Non-Aeronautical Revenue Scenario 3 as proposed in the Consultation Paper (Ref para 374 of CP-32/2011-12 dated 03.01.2012)

..."

6.48. In view of the above i.e. the formation of JVCs, it was expected that the non-aeronautical revenues to DIAL would increase. However the Authority noted that non-aeronautical revenue realized by DIAL are less than those projected at the time of determining aeronautical tariffs for the first Control Period.

6.49. The Authority also noted that DIAL, vide their letter dated 06.01.2015, had requested for true-up of the non-aeronautical revenues which were projected during the first Control Period. The Authority noted that its purpose of not explicitly providing for true-up of non-aeronautical revenue during the first Control Period was based on the premise that the model adopted by DIAL through JVC route was to increase the non-aeronautical revenue accruing to DIAL, which would have allowed them to keep the upside. Now if the Authority was to true-up the non-aeronautical revenue realized by DIAL for the first Control Period, it would defeat the very purpose for which JVCs were set up by DIAL. The Authority, accordingly, proposed not to true-up the non-aeronautical revenue realized by DIAL for the first Control Period.

6.50. Hence, the Authority proposed not to true-up the non-aeronautical revenue projected apart from making adjustments for (1) streams of Other Income (Refer paras 6.44 and 6.45 above), (2) Revenue from ITP considered (Refer para 6.42 above) and (3) cargo revenue (Refer para 6.41 above). Thus, the non-aeronautical revenues considered by the Authority in the Consultation Paper No. 16/2014-15 were as below,

Table 18: Non-Aeronautical Revenues considered by the Authority for 1st Control Period for true-up in Consultation Paper No. 16/2014-15

Non-Aeronautical Revenues, INR Crore	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Non Aero as per previous model	494.63	686.90	880.07	1,096.03	1,346.40
Cargo Handling					

Non-Aeronautical Revenues, INR Crore	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
	135.59	-	-	-	-
Other Income considered as Non-aeronautical revenue	8.46	11.50	16.35	23.60	44.63
Adjustment for ITP (-)	0.00	1.17	1.02	1.25	1.36
Non Aero for the purpose of true-up	638.68	697.23	895.40	1118.38	1389.67

True-up of Aggregate Revenue Requirement

6.51. Thus, the target revenue estimated for the first Control Period were as below,

Table 19: Target Revenues considered by the Authority for 1st Control Period in Consultation Paper No. 16/2014-15

Target Revenue, INR Crore	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Return on RAB	253.83	597.97	902.03	826.62	758.69
Total Aeronautical Operating Expenses	368.03	495.37	750.31	569.72	676.00
Depreciation & Amortization	135.49	269.84	375.66	335.75	384.90
Taxes	-	-	-	-	-
Gross Target Revenue	757.35	1,363.18	2,027.99	1,732.08	1,819.58
Cross Subsidization	191.61	209.17	268.62	335.52	416.90
Net Target Aero Revenue	565.74	1,154.01	1,759.37	1,396.57	1,402.68

True-up of Aeronautical Revenue Realized by DIAL

6.52. The target aeronautical revenue for DIAL is compared against aeronautical revenues realised by DIAL as per its financial statements in the first Control Period. The difference is either over recovered or under recovered ARR or under recovered ARR and accordingly the net present value of the target revenue (entitlement) and actual aeronautical revenue (realisation) was considered by the Authority as part of the true-up and to be carried into 2nd Control Period and accounts.

Table 20: True-up considered by the Authority for the 1st Control Period in Consultation Paper No. 16/2014-15

True-up, INR Crore	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Actual Aero Revenue					
LPH	283.58	337.24	350.17	764.09	854.93
UDF	-	-	0.00	1322.27	1805.63

True-up, INR Crore	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
PSF	104.10	121.35	128.12	30.22	0.00
FTP+ITP	84.99	106.06	128.15	120.98	134.81
Other (baggage X-ray in 2009-10)	29.50	1.16			
CUTE	4.96	5.07	4.63	10.37	10.98
Aero Cargo - Screening	5.45	16.27	19.25	18.87	21.91
Total	512.58	587.15	630.32	2266.80	2828.26
Target Aero Revenue	565.74	1,154.01	1,759.37	1,396.57	1,402.68
Difference (Target – Actual)	53.16	566.86	1,129.05	(870.23)	(1,425.58)
Discount rate (10.33%)	1.63	1.48	1.34	1.22	1.10
NPV of the difference as on 01.04.2014	**86.91**	**839.95**	**1,516.33**	**(1,059.31)**	**(1,572.84)**
True-up as on 01.04.2014					**(188.96)**

6.53. Regarding truing-up of Target Revenue for the first Control Period for DIAL, based on the material before it and its analysis, the Authority proposed

6.53.1. To true-up RAB along with Depreciation based on actual additions during the first Control Period towards determination of tariff for the second Control Period as elaborated in para 6.14 above.

6.53.2. To consider the average of opening RAB and closing RAB values and apply WACC on this average RAB to arrive at the Return on RAB under the true-up exercise as elaborated in para 6.14 above.

6.53.3. To adjust RAB on account of DF based as presented in Table 8

6.53.4. To consider allocation of assets of 89.25% and 10.75% towards aeronautical and non-aeronautical assets respectively for the first Control Period as per ICWAI report.

6.53.5. To true-up RAB along with Depreciation for the first Control Period as presented in Table 12

6.53.6. To not true-up WACC of 10.33%, which was considered by it in its Delhi Tariff Order 03 / 2012-13

6.53.7. To consider inline baggage screening expenses incurred by DIAL during the first Control Period towards determination of aeronautical tariff and hence include it as part of the operating expenses being considered for true-up

6.53.8. To consider the same ratios for allocation of operating expenses into aeronautical and non-aeronautical components as considered by it in its Delhi Tariff Order 03 / 2012-13 except VRS which will be allocated at the rate of manpower allocation

6.53.9. To consider revenue accruing to DIAL from ITP service providers for the first Control Period as aeronautical revenue

6.53.10. To consider revenue accruing to DIAL from Cargo and Ground Handling and for the first Control Period as non-aeronautical revenue

6.53.11. To consider revenue accruing to DIAL from CUTE counter charges as aeronautical revenue

6.53.12. To consider the aeronautical component of Airport Operator Fee as per para 17.29 of Consultation Paper No 16/2014-15 dated 28.01.2015

6.53.13. To consider revenue realized by DIAL under the head "Other Income" (excluding income from interest, dividend and forex gain/loss) during the first Control Period towards cross-subsidisation under the current exercise

6.53.14. To not true-up non-aeronautical revenue for the first Control Period in its Delhi Tariff Order No. 03 / 2012-13 as elaborated in para 6.46 and 6.47 above.

6.53.15. To true-up corporate taxes based on actual taxes paid by DIAL during the first Control Period and accordingly consider nil taxes for the first Control Period towards determination of aeronautical tariff for the second Control Period

6.53.16. On balance, to consider true-up of Rs. 188.96 crore as on 01.04.2014 (over-recovery by DIAL in the first Control Period) towards determination of aeronautical tariff for the second Control Period

6.53.17. To add the above true-up in the ARR to be considered for determination of aeronautical tariff for the second Control Period

a. Stakeholder Comments on Issues pertaining to True-ups for first Control Period

6.54. APAO has commented on change in methodology for adjusting DF and return on RAB, stating as below,

"AERA has proposed to consider changed methodology for adjusting DF and return on RAB DF is proposed to be reduced from the RAB in the year the securitized loan was borrowed against it. The reduction of DF from the RAB was done in the year of capitalization and was approved by the AERA in the Order for 1st Control period. Now, the AERA has reopened the whole issue and reduced the DF from the RAB in the year of borrowing instead of year of capitalization which is not as per the principles.

AERA proposes to change the principle of RAB determination (DF adjustment) which was finalised and approved by itself earlier in the 1st control period order. Changing this principle leads to change in tariff for 1st control period which is inconsistent with the provisions of AERA Act, 2008.

In the 1st control period, AERA has allowed the principle of reducing the DF as and when the asset is capitalized in the DIAL"s books. This is a more robust methodology and easy to understand and implement. A sudden change in the already allowed building block leads to uncertainty.

Rationale for DIAL reducing DF from RAB during 2010-11 for money borrowed in 2009-10 was that there was no major capitalization of asset during this intervening period. As such the DF adjustment was warranted only when the asset was capitalized.

APAO Recommendation:

The earlier principle of reducing RAB based on year of capitalization of DF assets be restored."

6.55. IATA has commented on each proposal of the Consultation Paper No 16/2014-15 dated 28.01.2015 issued by the Authority. Regarding the true-up of RAB and depreciation, consideration of return on RAB on average of opening and closing RAB, it has commented respectively that:

"

i. IATA understands that AERA is looking to use actual figures in order to true up depreciation and RAB. Although there is merit in taking into account actual values, what still appears missing is an assessment of whether DIAL had made these investments in an efficient manner. It may therefore be appropriate for AERA to make such an assessment (which projects were supposed to be delivered, at what budget, what was the actual amount spent, etc.) to determine whether the actual values could have been lower.

ii. IATA agrees with this approach.

iii. Using the average RAB ((opening + closing) /2) is a common regulatory assumption and IATA considers it appropriate.

iv. The method for truing up RAB is acceptable. However, IATA's comments above pertaining to 4.a.i. and 4.a.iv. should be taken into account in the calculations."

The 4.a.i and 4.a.iv have been captured in para 6.59 below.

6.56. APAO has commented as below with respect to interest on DF,

"AERA has disallowed interest on Development Fee as operating cost and capitalized in the books

i. As per Decision No. 16 of its Delhi Tariff Order No. 3/2012-13, the AERA had decided to expense out the interest on DF Loan for the entire period of 01.03.2009 to 30.11.2011 as operating expenditure.

ii. Now in the Consultation Paper in discussion, AERA proposes to allow interest on Development Fee to the extent it is charged to the Profit and Loss on the ground that any interest post the commencement of operations of the terminal 3 is to be expensed out as per the treatment done in the books of accounts.

iii. AERA may note that as discussed previously that regulatory and statutory accounts are two separate books of account. Allowed in one regulatory accounts may be disallowed in the statutory accounts and vice versa.

APAO Recommendation:

APAO suggests that AERA may please consider the order no.3 sacrosanct and should not alter the principles already settled."

6.57. Further, APAO has commented on the proposal to consider interest on DF as Capex, stating that:

"AERA has proposed to consider interest on DF as capex

Interest on DF has been reduced from the 1st control period Operating Cost building block, and it has been added to the RAB. Approx. INR 188 crores were taken off in the 2009-10 2010-11 and 2011-12 which was allowed as a part of operating cost building block. The removal from opex and addition to RAB means that in short run DIAL will face cash problem.

The regulator in the 1st control period allowed the DF interest up to June 2011 as a part of Operating Expense.

Now the Authority has changed its stand and wants to treat this as Capex.

APAO Recommendation:

There should not be any change in treatment compared to what was approved in first control period. Internationally regulatory accounts and statutory accounts are kept separate as treatment of various items in regulatory is many a times different from statutory accounts. In the case of DIAL the Hypothetical Asset Base is part of RAB in regulatory and not part of the statutory accounts. There is no need for regulatory accounts to follow statutory accounts as the two are prepared on different principles. "

6.58. FIA has commented on the treatment of interest on DF for the first control period stating that:

"Interest spent on securitization of DF has been wrongly considered for tariff determination

60. As per Para 6.26 .7 of the Consultation Paper, out of total interest of RS.350.50 crores spent by DIAL (for the period from March I, 2009 to November 30, 2011) on loans taken by securitization of DF, interest of RS.162.12 crores is proposed to be expensed off and balance RS.188.38 crores has been capitalized under RAB as 100% aeronautical component during true up exercise of 1st

Control Period. The treatment of interest as adopted by the Authority is in sync with the treatment of interest made by DIAL in its books. As per para 18.6 of the Previous Order,

"The Authority has noted that the assets funded out through DF have not been included in the RAB and the debt raised by DIAL on securitization of DF has not been considered as an element in the means of finance. Therefore the cost of this debt is not being allowed to be recovered through WACC"

61. It seems that the Authority has decided that the DF (directly or indirectly) should not impact tariff determination process; either through inclusion in WACC or through inclusion of DF funded assets in RAB. Accordingly, finance cost of securitization of such DF should not be included either in RAB or in operating expenditure for the purpose of determination of tariff. Hence, it is submitted that treatment of interest of RS.350.5 crores is inappropriate, as by concurring to this treatment, finance costs on DF is being considered for tariff determination. Accordingly, capital expenditure of Rs.188.38 crores and operating expenditure RS.162.12 crores should be reduced from RAB, and operating expenditure respectively for the determination of aeronautical tariff."

6.59. Regarding the consideration of allocation of assets for the first Control Period, based on the ICWAI report, IATA has commented as below,

> *"IATA disagrees with this approach. As highlighted in IATA's submission for the first control period, we consider that the proportion of assets allocated to aeronautical activities is too high. The allocation percentages are sensitive to the assumptions made. For arriving at the 89.25%:10.75% allocation values, the assumptions used would likely be skewed in favour of the airport. The large allocation towards aeronautical activities is mainly due to the fact that common areas have been split on the basis of surface area. This does not reflect the fact that these common areas are equally needed for aeronautical and non-aeronautical activities. In this regard, we believe that the split*

should have been done on a 50:50 basis. We urge AERA to commission a study that would review the cost allocation percentages based on a different set of assumptions."

6.60. Regarding true-up of WACC, IATA has commented as below,

"This is consistent with the decision made in the previous determination. AERA should not waver from it so as not to create regulatory uncertainty."

6.61. Regarding the issue of considering "Other Income" as non-aeronautical revenue and truing up the same in the first Control Period, APAO has commented as below,

"AERA proposes to consider Other Income as Non Aero and true up for the first control period despite order on contrary.

1. *AERA has revisited its own order no.3/ 2012-13 wherein other income was not used for cross subsidization. In the Consultation paper, AERA now proposes to consider, revenues arising out of Sale of Other Materials / Scrap – Others, Profit on sale of Depreciable Assets, Management Fees, Miscellaneous Income Others and Tender Cost recovery, as non-aeronautical revenue of the airport and cross subsidize towards ARR for the 1st Control Period.*
2. *AERA may note that as per the Schedule 1 of the SSA which defines the principles of tariff fixation shows cross subsidization towards non aero revenues*

APAO would like to highlight that other income does not fall into the Revenue Share Assets. Hence, any cross subsidization towards other income is against the SSA.

APAO Recommendation:

i. Other income was not part of cross subsidization in first control period and any stand to contrary tantamount to a change in principle and is best avoided.

ii. Other Income does not accrue from Revenue Share Assets as per the provisions of SSA and as such is not part of Non Aeronautical income which is to be used for cross subsidization."

6.62. On the matter of the "Other Income" IATA commented that,

"AERA should determine whether the income classified under 'Other Income' are related to aeronautical or non-aeronautical services. If it is the former, then AERA should consider 100% of the revenues and not just a 30% share. "

6.63. Regarding the matter of treatment of Into plane services (ITP) and cargo screening as aeronautical revenue in the first control period, APAO has commented that,

"AERA has proposed to consider Into Plane as Aeronautical: Was treated as Non Aero in first control period.

i. AERA has mentioned that as per the letter from the Ministry of Civil Aviation, the revenues from Cargo / Ground handling were to be considered as non-aeronautical regardless and irrespective of whether these services are provided by the airport operator himself or concessionaire. Taking a nod from the letter, AERA mentions that if the differentiation of provision of this service by the airport operator himself or by a concessionaire (including JV) appointed by the airport operator were to be disregarded, the revenue from ITP services in the hands of DIAL should be treated as aeronautical revenue.

ii. APAO highlights the fact that AERA has yet again used discretion in classifying ITP and cargo screening as aero. In the same letter AV.24032/04/2012-AD dated 10.09,2012, any income from cargo is to be considered as non aero. The relevant extract is as follow:

"This Ministry had already, in the context of IGI Airport, Delhi, clarified to AERA vide letter dated 9.3.2012 that revenues from Cargo and Ground Handling services accruing to the airport operator should be categorized as non-aeronautical revenues as provided under the OMDA."

APAO Recommendation:

"APAO would request Authority to consider into plane as non-aeronautical considering the fact that DIAL is getting only a concession fee for allowing Concessionaires to provide services within the Airport and DIAL is not providing any service to anyone in this regard. This Concession fee is similar to what airport operator receives from flight caterers or ground handlers for allowing them to provide services to customers including airlines within airport premises. ICAO's Policies on Charges for Airports and Air Navigation Services, appendix 3- Glossary of Terms defines Revenues from non-aeronautical sources as referred above in earlier paragraph is most relevant in this case as well."

6.64. As regarding ITP, IATA has stated that,

"As Into-Plane service is an aeronautical activity, IATA supports AERA's proposal to consider the revenue that the airport derives from it as aeronautical revenue."

6.65. On the matter of true up of non-aeronautical services APAO has commented as below,

"i. In the 1st Control period, AERA had decided not to take non aeronautical revenues under the ambit of True Up. This decision of AERA was unilateral and lacked any rational justification.

ii. DIAL is penalized for not achieving very high non aero revenues projected by AERA for FY2013 and FY2014. At the same time, to make a matter worse, non-aero revenues have not been considered for True Up as considered in other airports including Mumbai, Bengaluru, Hyderabad, Lucknow etc.

iii. AERA has mentioned that its purpose of not explicitly providing for true-up of non-aeronautical revenue during the first Control Period was based on the premise that the model adopted by DIAL through JVC route was to increase the non-aeronautical revenue accruing to DIAL, which would have allowed DIAL to keep the upside.

I. APAO submits that many of the other airport operators in country have outsourced the non-aeronautical part of the business. The returns *accruing to DIAL in terms of revenue share and lease rentals are similar to what accrues to the other airports. The only difference is that DIAL has a share in the equity of the JVCs. This was done to ensure an efficient control of the operations and provide strategic inputs to help them to achieve long term competence. Using this as a plea for non-true up of non-aero seems unreasonable on AERA"s part.*

ii. *Furthermore, APAO notes that despite putting extensive efforts to increase the non-aeronautical revenues in the 1st Control Period, it still has not been able to match the projections considered by AERA for FY2013 and FY2014. Excessively high projections led to unrealistic targets to be met by DIAL*

iii. *In the 1st Control Period, Non aero revenues were forecasted on the following basis:*

a. "The non-aeronautical revenues for various revenue heads for 2008-09 to be considered as the base figure for forecasting the non-aeronautical revenues for FY 2009-10 and 2010-11, escalated by the historical passenger/ cargo growth rates plus a certain %age increase due to higher penetration as may be applicable (as proposed by DIAL) for those years"

b. "For 2011-12 to 2013-14, the base value of revenue arrived for 2010-11 to be projected based on the traffic growth plus a certain %age year on year increase due to penetration as per DIAL"s estimate.

On the basis of the above-mentioned approaches, the Authority arrived at the following numbers for non-aeronautical revenue

Year/ Rs in crores	Non Aeronautical Revenues under Scenario 1	Non Aeronautical Revenues under Scenario 2	Non Aeronautical Revenues under Scenario 3
2009-10	605	605	495
2010-11	599	599	687
2011-12	708	726	835
2012-13	772	810	986
2013-14	832	904	1146

a) As per Schedule 1 of SSA, 30% of the gross revenue generated should be utilized for calculating target revenue. It does not state that higher non aeronautical revenue should be considered. APAO propose to utilize actual non aeronautical revenue for financial year 2010 and 2011.

APAO Recommendation:

In our view putting unachievable targets and also not truing up such revenue leads to making airport unviable. With the current proposal entire net worth of DIAL will stand eroded. As such it is requested that a reasonable approach be followed and the non-aero revenue be trued up because it was highly unrealistic growth which was projected earlier by the Authority itself."

6.66. CII commented on the true up of non-aeronautical revenues and Other Income stating that,

"True up of non-aero of first control period:

Background: AERA proposes not to true up the Non-Aeronautical revenues in the 1st Control Period. There was no mandate of not truing up in first control period order. AERA has allowed true up for all airports. This leads to a suspicion of being discriminated and gives wrong signal to potential investors.

In commensurate with stand on operating expenses, AERA may consider Truing up of non-aero revenues. The stand taken by AERA with respect to Operating Cost and Non Aero could severally impact the financial viability of the airport.

CII request: As such AERA may be advised to take a balanced approach and either do true up of both items or not to true up both. Similarly Other income was not part of cross subsidization in the 1st control period. This change in principle need to be avoided and be advised accordingly."

6.67. Regarding true up of non-aeronautical revenue in the first Control Period, IATA has commented that,

"This is in line with the Authority's decision in the Delhi tariff order 03/2012-13."

6.68. On the matter of treatment of revenue from cargo and ground handling services and CUTE as aeronautical, IATA has commented that,

"'The proposal by the authority to treat services for cargo and ground handling as aeronautical services but yet calculate the X-factor by treating revenues derived from the same services as non-aeronautical revenue is contradictory and confusing. Treating such revenues as non-aeronautical revenues for the purpose of tariff determination clearly violates the AERA Act. AERA has to be fully guided by the AERA Act and we urge the authority to redress this violation. As CUTE is an aeronautical service, we support AERA's proposal to consider it as aeronautical revenue. "

6.69. On the issue of true up of the operating expenses, APAO's comments are stated below,

"AERA proposes to True up Operating Expenses based on Actuals: entire saving in opex taken away.

i. DIAL is being penalized for being efficient by clawing back the extra entitlement allowed towards operating cost building block in the order no.3/ 2012-13. The approach promotes inefficiency and may set a precedent for other airports, who may follow loose cost control system and spend more in the last few years of the control period.

ii. APAO recognizes that a fundamental aspect of the CPI-X process is that airports are encouraged to improve performance by receiving the short term benefits for doing so. To the extent that airports outperform target set, the ultimate benefits will be felt by users in the form of reduced costs in years following the next regulatory review, when the gains are incorporated in the regulatory cost base.

APAO Recommendation:

Under CPI-X, the saving in opex for one control period is retained by the Airport while users benefit by way of reduced base cost for next control period. As such the proposed methodology is in violation of concession agreement."

6.70. CII also commented on the true up of operating expenditure stating that,

"Efficiency study and true up of opex

Background: AERA proposes to disallow the difference in the actual operating cost incurred during FY13 and FY14 and operating cost allowed under building block in the Order No.3/2012 – 13. DIAL had done several initiatives in 1st control period. AERA has taken away saving from these initiatives. This will mean that in future, airport operators will have no incentive to save costs. This will lead to an inefficient system.

CII request: AERA may be advised to share the efficacy in opex induced by airport operator to airport and not to true up opex."

6.71. Regarding cost allocation in the first Control Period, IATA has commented that,

"The rationale for allocation of opex is similar to that for asset allocation. In this regard, and in line with our comments in 4.a.iv, we request the Authority to reconsider the cost allocation percentages proposed."

6.72. Regarding the true up related to inline baggage screening expenses incurred by DIAL during the first Control Period, IATA has commented that,

"This item was discussed under Proposal #1. Provided the costs of these activities are not being funded elsewhere and the activities are being delivered efficiently, we would agree with this measure.

However, AERA has not provided an opinion on whether these activities are being delivered efficiently and IATA is of the view that AERA should first determine that the services are being delivered efficiently before allowing the costs."

6.73. On the matter of Airport Operator Fee, IATA commented that,

"Given that the cost allocation percentages to aeronautical and non-aeronautical tills remains debatable, it should not form the basis for assignment of the Airport Operator Fee. As aeronautical revenues and non-aeronautical revenues are clearly demarcated, we support the Authority's

proposal to assign 3% of gross aeronautical revenue as the portion of aeronautical costs associated with the Airport Operator Fee."

6.74. Regarding true up of taxes, IATA has commented that,

"We fully support the proposal by the Authority to true up taxes. It would be unfair to allow revenues to pay for taxes that were never incurred. "

6.75. On the overall true up, IATA has stated that provided its respective comments are taken into account and the true up cost is adjusted accordingly, the adjusted resultant value could be considered for the determination of aeronautical tariffs in the second Control Period.

b. DIAL's response to Stakeholder Comments on True-ups for first Control Period

6.76. DIAL's Response to APAO submission on RAB and methodology of adjustment DF from RAB is as below,

"The principles of the adjustment of DF in first control period were finalized by Authority after due consultation process. The principles once set after due consultation with all stakeholders should not be revised. Change in stand without any change in circumstances, as case of DIAL, is unwarranted and inappropriate"

6.77. DIAL's Response on APAO submission on change in treatment of DF interest is as below,

"AERA has reviewed its earlier decision the 1st control period order. The entire amount was allowed in operating expenditure building block. But the current proposal which involves removing from operating expenditure building block and adding to RAB is inconsistent and needs to be reverted back."

6.78. DIAL's Response on APAO submission on change in treatment of other income is as below,

"Other income was not part cross subsidization in the 1st control period Hence. It should not be considered. Moreover, other income does not fall into the Revenue Share Assets. Hence, any cross subsidization towards other income is against the SSA.

The Into-plane service is a non-aeronautical activity and this was the view taken by AERA for the first control period. We request the Authority to maintain the same position and treat Into-plane service as Non Aeronautical activity.

Authority's attention is invited on the following pre bid queries Of DIAL

Query: 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?	*Response: In respect of Services the only charges levied are Landing Fees, Parking Fees, Housing fees and the facilitation component of the Passenger Service Fee.*

It is relevant to note the response of AAI to the pre bid query as to what all constitutes Aeronautical income and the following the clarification provided in response thereto: The above goes on to show that only income arising from the below activities was proposed to be treated as aeronautical income of DIAL:

Landing

Parking

Housing

Facilitation component of PSF

All the other incomes were Non Aeronautical income. It is also relevant to the note the response to the following query which amply clarifies that the activity of hydrant refueling was carried out at the airport even before DIAL was awarded the concession of the IGI Airport.

Query: How many stands are provided with hydrant refueling	*Response: 9 in contact stands in The international apron. 12 remote stands in international apron. 6 cargo stands in the cargo apron*

This goes on to show that though the hydrant refueling was also being done at the airport before the award of concession but this activity was not included in the list of activities whose income would have to be treated as Aeronautical income. In view thereof, it should be treated as a non-aeronautical activity and consequently the income arising therefrom should be treated as Non Aeronautical income."

6.79. DIAL's response to APAO's comments on interest on DF capitalized is as below,

"This was considered under 1^{st} control period towards interest on development fee should be considered since it was finalized and settled."

6.80. DIAL's response on True up of Non Aero not allowed is as below,

"First control period order was silent on true up on Non Aeronautical:

The first control period tariff order was silent on the true up of Non Aeronautical' revenue. Since Authority is truing up everything, we find no logic in not doing a true up for Non Aeronautical as well.

We request the Authority be judicious and not penalize airport for good work done. The saving in opex being taken away and the non-aero realization not being trues up is killing the airport in two ways.

Abnormally high forecast and no true up - differential treatment for DIAL vis-ā-vis other major airports. As already discussed earlier the following is the non-aero forecast adapted by AERA in its various orders of tariff determination of various other airports.

The true up is allowed for all airports except DIAL. This again goes to show that DIAL is singled out. This goes on to show that the treatment meted to DIAL was unjust and need to be relooked into

Non Aeronautical and Joint Ventures:

The rationale of AERA that due to JVCs the non-aeronautical revenues should grow at a faster rate is incorrect, DIAL had first bid out the business e.g. duty free, cargo, advertising, etc. and thereafter entered into joint ventures with *partners as a minority equity holder. There for the concerned joint venture have a landlord concessionaire relationship with DIAL which is similar to many airports. The concession fees are revenue based and grow with the revenue of the concessionaire. The fact of having a joint venture in the concessioned business not only adds a shareholder role to DIAL and is distinct from the concessionaire role. This shareholder role cannot be used as a bases to justify a higher expectation of concession fees from the concessionaire. Hence for forecasted revenue. The JV model adopted by DIAL for non-aero activities has no bearing on the revenue earned by DIAL from concessionaire of such activities. Using this rationale to penalize DIAL for forecasting unrealistically is equivalent to penalizing DIAL and putting it at a disadvantage to other airports. Additionally other income was not part of cross subsidization in the 1st control period. Hence it should not be considered."*

6.81. DIAL's response on APAO's comments on True up of Opex is as below,

"DIAL's Response

The current methodology of truing up the entire is in violation of the concession agreement. Under concession agreement a CPI-X methodology needs to be adopted. However, the methodology being followed by Authority is a Rate of Return regulation and not CPI- X regulation.

The current 'true up' is against the principles of CPI The CPI-X is based on the view that the regulated industry (airport in this case) should set an efficiency target and should be exposed to the gains or losses the regulatory period, without 'true up' or 'claw back 'thereafter. "*

6.82. DIAL's response to CII's comments on operating expense true up is as below,

"We strongly are of opinion that the study done by AERA must have been shared with us for our comments before the same was accepted by Authority. This is a violation of natural justice.

AERA has conducted an efficiency study on operating cost of DIAL. AERA now proposes to consider the actual expenditure incurred in FY13 and FY14 as *efficient and it proposes to disallow the difference in the actual operating cost incurred during FY13 and FY14 and operating cost allowed under building block in the Order No 03. 2012-13- DIAL had done several initiatives in control period AERA has taken away saving from these initiatives. This will mean that in future airport operators will have no initiative to save costs. This will lead to an inefficient regulatory system"*

6.83. In response to IATA's comments to AERA's proposals in its Consultation Paper No 16/2014-15 dated 28.01.2015, DIAL commented as below,

i. *DIAL's Response: The RAB finalized by AERA after a detailed audit by two auditors namely KPMG and EIL. There was a consultation process done for the aforesaid capex and as per the benchmarking report he capex spend was one of the most efficient capex compared comparable airports as regards to additions there is a competitive bidding process which is followed to ensure efficiency.*

ii. *The first control period had envisaged for the actual date of capitalization methodology for computing the return on RAB. The new proposal is against its own previous order. A consistent approach in tariff determination is necessary for regulatory certainty. The Authority must therefore apply the same settled principles and rationale while determining tariff for the subsequent period.*

iii. *The DF amount should be reduced from RAB only when the asset has been put into use. However under the proposed mechanism of adjustment, the asset is being reduced from the books even before it is being capitalized in books. This is against the order No.3. /2012-13 for the first control period.*

iv. *The principles of area allocation study have been verified by the independent consultant appointed by AERA MARF and found to be correct. As such the IATA's suggestion.*

v. *No response*

vi. We support IATA's stand that the decision which have already been finalized in the first control period should not be revised by AERA. Consistency in approach is vital to regulatory certainty. The Authority must therefore apply the same settled principles and rationale while determining tariff for the second control period.

vii. As regards to opex like inline baggage screeners, the operating cost of DIAL have been found to be very efficient as analysed by Leigh Fischer and thereafter reviewed by ICWAMARF

viii. The principles of allocation study have been verified by the independent consultant appointed by AERA and ICWAMARF, and found to be correct. As such the IATA's suggestions hold no merit. The current suggestions of IATA is not backed by any evidence.

Evidence: However the new allocation as submitted by DIAL is backed by two auditor certificates and allocation studies.

ix. Into plane service is a non-aeronautical activity and the same was accepted by Authority in first control period. We request the authority to maintain the same position and treat Into-plane service as a Non Aeronautical activity. The Authority is to maintain a consistent approach while determining tariff to ensure regulatory uncertainty. The Authority is to maintain a consistent approach while determining tariff to ensure regulatory uncertainty. The Authority is to maintain a consistent approach while determining tariff ensure regulatory concern. The Authority is to maintain a consistent approach while determining tariff to ensure regulatory certainty. The Authority must therefore apply the same settled principles and rationale while determining tariff for subsequent control periods.

x. With reference to MoCA letter - Cargo and ground handling need to be treated as Non Aeronautical *xi. Ground handling services are non-aeronautical and revenues accruing from these services are non-aeronautical revenues. Hence the revenue generated from CUTE services, is revenue accruing from ground handling function and is to he treated as Non-Aeronautical; as per provisions of the concession agreement*

xii. Most of the non-aeronautical activities have been outsourced by DIAL and as such the airport operator's services are not required for the same. Secondly, the airport operator fee has no connection with aeronautical and non –aeronautical revenues. This is expenditure and there is no airport regulator in the world that does cost allocation based on revenue.

xiii. Other income include interest income on surplus funds, interest delayed payments and sale of scrap and depreciable assets, dividends etc. It is to be noted SSA provides that revenues from Revenue Share Assets are to be utilized for utilized for cross subsidization. Other income is not revenue from revenue Share assets and cannot be for subsidization.

xiv. We disagree with the stand of IATA's as the first control period order was silent on the true up of non-aero.

xv. We differ with the stand of IATA. (DIAL has also submitted its own comments to AERA's consultation paper in response to IATA's stand. These comments have been incorporated in DIAL's responses in the next section)

xvi. (DIAL has also submitted its own comments to AERA's consultation paper in response to IATA's stand. These comments have been incorporated in DIAL's responses in the next section)

xvii. No Response "

6.84. DIAL has also submitted more details in response to IATA's comments, which are same as those submitted by DIAL's in its own submission. These comments have been highlighted in the relevant section.

c. DIAL's own comments on Issues pertaining to True-ups for first Control Period

6.85. DIAL has submitted its views on the Authority's treatment of true up as below,

"Arbitrary decision on true ups.

There appears to be an arbitrariness in the treatment of non-aero and opex. The Non Aero forecast as considered by AERA in the 1st control period was highest amongst all other airports. To add to the pain, AERA has not considered true up on this account. This effectively translates to real loss to the company as a result of under achieving the forecasted numbers thereby reducing the return available to airport and making airport unviable,

And

Opex savings undertaken by DIAL has been completely trued up. This means that he entire efforts to save costs have been taken away in garb of efficient cost.

The decision to true up one item and not to true up is the unilateral decision of Authority which has put DIAL in great financial jeopardy leading to unviability of DIAL. All the savings done by airport have been taken away which is against the principles of CPI-X. In fact the proposed regulation by Authority is not CPI-X but a rate of return regulation.

If there was a true up allowed – it should have been allowed on both items or denied in both items.

No Opportunity to review the fining of ICWAI:

At the outset we submit that DIAL was not provided any opportunity to review, comment and provide its inputs on the findings of ICWAI in respect of their study on efficient costs. This is highly unfortunate as being the entity in question, its inputs would have been critical in this matter. In any case natural justice demands that for a study being done on DIAL, an opportunity must be given to DIAL to submit its comments on the same. DIAL therefore does not agree with the one line conclusion provided by AERA that the costs of 2012-13 as the base case for efficient costs. This is especially so because in this year, *given the cash crunch due to past losses, DIAL had deferred and postponed costs. We request that DIAL be provided an opportunity to review the ICWAI report and make relevant submissions on the same.*

First control period order was silent on true up on Non Aeronautical:

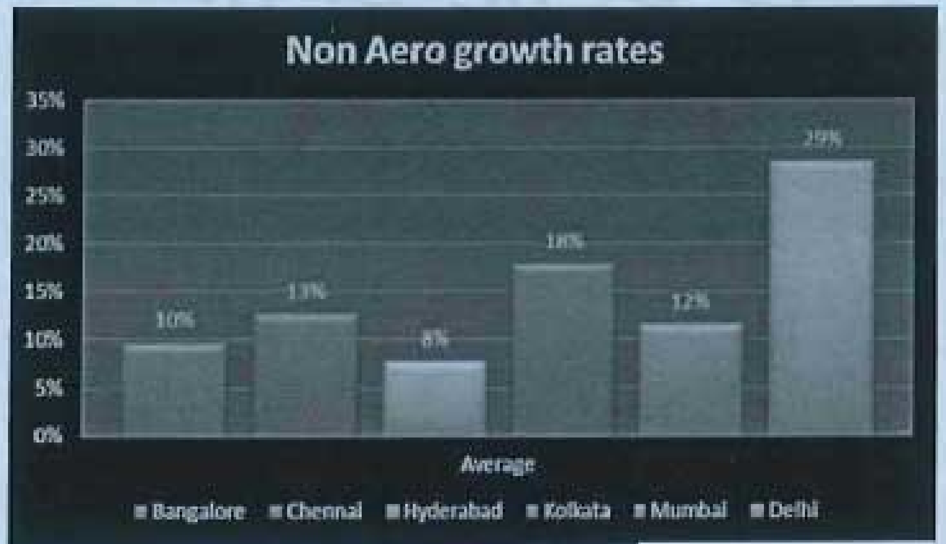
The first control period tariff order was silent on the true up of Non Aeronautical revenue. Since Authority is truing up everything, we find no logic in not allowing a true up of Non Aeronautical.

Authority has been truing up the non-aeronautical for all airports in India and we find no justification for a different approach being followed. The rationale needs to come clearly in this respect.

We request the Authority to be judicious and not penalize the airport for good work done. The saving in opex being taken away and the shortfall in non-aero realization not being trued up is killing the airport in two means."

6.86. DIAL has submitted that all other airports have been permitted Non Aeronautical revenue true up except for DIAL. DIAL has also submitted non aeronautical revenue projections from Authority's tariff orders for other private airports stated

"We hereby produce evidence to show that DIAL was mandated to achieve Non Aeronautical revenue which is almost double compared to other airports.



There is true up allowed for all airports except DIAL. This again goes to show that

DIAL is singled out. DIAL has been singled out and penalized without any reason. Non aero revenues have been considered for true up for Mumbai, Hyderabad, Bengaluru and other AAI airports. Growth targets are extremely high and unrealistic.

Authority had mandated us to revise non-aeronautical revenue for periods which were already closed and whose audits were over. This is practically not possible and Authority needs to review its decision of forecast of Non Aero where audited numbers were available"

6.87. Further, on the matter of other income, DIAL has said,

"Additionally other income was not part of cross subsidization in the 1st control period. Hence, it should not be considered. If the same is being considered, the entire non-aero should be trued up based on actuals. Furthermore, as per the Schedule 1 of the SSA which defines the principles of tariff fixation does not include other income as a part of non-aeronautical stream. The relevant extract from the SSA is as follows:

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 (e.g. Public admission fee etc.)

In addition, it is to be noted that other income does not fall into the Revenue Share Assets. Hence, any cross subsidization towards other income is against the SSA."

6.88. DIAL's submission on forex fluctuation states,

"Forex Fluctuation needs to be Part of RAB

Authority has not allowed Forex fluctuation as part of RAB. The current stand of Authority for not including the Forex fluctuation a part of RAB is not justified.

Foreign Currency borrowing is a part of the endeavour of DIAL to keep the charges low for passengers. The current stand of Authority means that airports will be forced to borrow at a higher cost in rupee terms.

The sourcing of funds at a lower rate in foreign exchange is for the benefit to the passenger / other stakeholders by way of a lower WACC. However, this means of funding also carries the inherent risk of foreign exchange fluctuations. Taking the benefit of a lower interest rate but not allowing the resultant Forex fluctuation goes against the principles of natural justice.

The fluctuation need to be incorporated as part of RAB because of following reasons:

1 The level of Forex borrowing is at normal levels:

The level of borrowing is at level generally accepted to be normal in the industry.

2 This borrowing was availed before the Authority"s current stand was finalized:

The borrowing structure cannot be amended now. However, this can at best be a guiding principle for future. In order to leverage an efficient financing structure and for reduction in interest cost, airport operators take foreign currency loans to part fund the project cost, the same is applicable for DIAL.

The Company has not retained the benefits of cheaper borrowing cost and is passed on to the passenger in the form of lower WACC. If the Company had taken

Domestic Loan instead of the ECB equivalent amount, the outflows of cash towards interest costs would have been much more

Also, it should be noted that the loss of Forex fluctuation on interest payments & principal repayments is real in nature and not a notional loss. DIAL has taken *the hit of the Forex fluctuations owing to interest and repayments servicing the ECB loan. This loss is not included in the computations of WACC.*

Therefore, it is requested to allow the Loss on impact of Forex Fluctuations by Inclusion of same in RAB Apart from above on one hand authority is not allowing loss due to foreign exchange fluctuation from ECB, on the contrary not allowing DIAL to keep the foreign exchange fluctuation benefit of UDF.

We will also like to highlight that we have not taken out costly exchange hedges as it has relied upon natural hedge derived from its own foreign exchange revenues. This is in line with international best practices and also helps to reduce the cost of hedging that would have otherwise been allowed to pass through to determine aero charges. However AERA has disallowed the Forex fluctuation related to foreign exchange borrowing but on the other hand the gains being made by DIAL due to foreign exchange fluctuation like that of higher UDF revenue, higher revenue of duty free due to Forex fluctuation are being considered as part of tariff determination. This puts DIAL in a double jeopardy and is totally unfair as the additional cost associated with Forex fluctuation are being burdened on DIAL whereas the natural hedge is being taken away. These sort of irrational decisions has aggravated the doubt over the viability of DIAL."

6.89. With respect to the true up of operating expenses DIAL has submitted the following:

"The current methodology of truing up the entire opex is in violation of the concession agreement. Under concession agreement a CPI-X methodology need to be adopted. However, the methodology being followed by Authority is a Rate of Return regulation and not CPI- X regulation.

DIAL response to CP-16/2014-15 Page 48 The current _true up' is against the principles of CPI-X. The CPI-X is based on the view that the regulated industry (airport in this case) should set an efficiency target and should be exposed to the gains or losses with the regulatory period, without _true up' or _claw back thereafter.

No Opportunity to review the finding of ICWAI:

At the outset, we submit that DIAL was not provided any opportunity to review, comment and provide its inputs on the findings of ICWAI in respect of their study on efficient costs. This is highly unfortunate as being the entity in question its inputs would have been critical in this matter. In any case natural justice demands that for a study being done on DIAL, an opportunity must be given to DIAL to submit its comments on the same. DIAL therefore does not agree with the one line conclusion provided by AERA that the costs of 2012-13 as the base case for efficient costs. This is especially so because in this year, given the cash crunch due to past losses, DIAL had deferred and postponed costs. We request that DIAL be provided an opportunity to review the ICWAI report and make relevant submissions on the same."

6.90. Further on the matter of allocation of expense for true up, DIAL has submitted that

"Opex Allocation

DIAL has submitted Auditors certificate of new opex allocation ratio based on Audited numbers and the same need to be taken into consideration by Authority

It is earnestly requested that the new opex allocation as filed with Authority may kindly be considered both for return as also for depreciation.

Airport Operator Fee allocation

The airport operator fee has no relationship with aeronautical and no aeronautical revenues, earned.

International Practice on allocation:

We have not found an example of any regulator which has recommended or required revenue based allocations. In fact regulators in some cases have specifically opposed it.

Terminal floor areas/asset base approach, in contrast appears to regarded as in line with expectations and in some cases it reflects requirement."

6.91. DIAL has further provided detailed submissions on methodology of allocation of expense across different countries and airports.

6.92. Further it has submitted the following with regards to the true up of the first control period,

"True up of operating expenses

The Authority has decided to true up the entire saving in operating expenditure. The current stand of Authority is

1 in violation of CPI-X methodology and

2 This also violates the provision of concession agreement. What is being envisaged is a rate of return regulation and not CPI-X methodology.

The current 'true up' is against the principles of CPI-X. The CPI-X is based on the view that the regulated industry (airport in this case) should set an efficiency target and should be exposed to the gains or losses with the regulatory period, without 'true up' or 'claw back thereafter.

This provides the incentives in the system and distinguishes it from incentive free rate of return regulation. CPI –X (or RPI-X as it originally was) was specifically created in rejection of the rate of return approach.

The State Support agreement of DIAL also makes the intention clear.

DIAL response to CP-16/2014-15 Page 62

Incentives Based: The JVC will be provided with appropriate incentives to operate in an efficient manner, optimizing operating cost, maximizing revenue and undertaking investment in an efficient, effective and timely manner and to this end will utilize a price cap methodology as per this agreement

The study of ICWA based on which a huge amount in excess of 600 crore has been trued up in the tariff determination process was done without any opportunity being given to DIAL to send its comments.

Natural justice demands that a DIAL must be given an opportunity before the report is accepted by the Authority ~~and taken~~ on board to true up the operating cost.

The report has been prepared and accepted without any view being taken from DIAL. We do not accept the finding of this report and shall like this report to be allowed to be reviewed by us.

Under the current proposed mechanism there is no incentive for the airport operator to save costs. As such this will lead to inefficiency in the system. No airport will work hard to save cost as this gives no benefit to it.

Apart from above there is inconsistency in true up proposed by Authority. Authority has unilaterally mandated true up of opex towards aeronautical services and denied true up of opex for non-aeronautical services.

	2010	2011	2012	2013	2014	
Non Aero revenue As forecasted for the 1st Control Period	148.39	206.07	264.02	328.81	403.92	
Gross Up at 30%	494.63	686.9	880.07	1,096.03	1,346.40	
Cargo Handling Revenues	135.99					
Sub Total	630.62	686.9	880.07	1,096.03	1,346.40	
Cross Subsidization at 30% (A)	189.19	206.07	264.02	328.81	403.92	
Non Aero - Actual revenue as per financials	599.76	593.23	798.05	918.51	1,023.31	
Cross Subsidization at 30% (B)	179.93	177.97	239.42	275.55	306.99	
Difference (B) - (A)	-9.26	-28.1	-24.6	-53.26	-96.93	
Discounting Factor	1.63	1.48	1.34	1.22	1.1	SUM
NPV Of Difference	-15.14	-41.64	-33.04	-64.83	-106.94	-261.59
Difference in Absolute Revenues	-30.86	-93.67	-82.01	-177.53	-323.09	-707.16

	2010	2011	2012	2013	2014	5 Year	Difference
Total Expenses - AERO Proportion Only	567	631	702	821	953	3,674	
Total Expenses (Aero proportion)- Approved by AERA for the 1st Control period True Up (AERO Proportion)	368	495	750	570	676	2,859	
Interest on DF	165	122	-99				

Total Expenses - Approved by AERA for the 1st Control Period True up (Aero portion) Adjusted for Interest on DF	*533*	*618*	*652*	*570*	*676*	*3,048*	*-626*

On the other hand saving in opex of approximately Rs. 600 Crores has been trued up by Authority.

Provision for Bad Debts

Authority has proposed to exclude the provision for bad debts from the operating expenses. It is to be noted that provision of bad debts are essentially a business expenses, which is incurred in any form of business. Every company makes effort not to incur bad debts but despite strong credit control mechanism, certain debts would go bad due to certain exogenous factors which are beyond the control of the company. Moreover, the various regulatory commissions in the electricity sector has allowed bad debts at actual, % of ARR and defined the absolute limit for bad debts during the control period.

We are dismayed at the above. This will contribute to the added deterioration of viability of DIAL. We request Authority to be judicious and to adhere to the principles laid down in the SSA for determination of tariff for second control period; else IGI Airport will be in peril."

6.93. On the matter of true up of depreciation DIAL stated as below,

"Depreciation and Forex and DF adjustment

We are against the methodology of change in adjustment of DF, disallowance of Forex fluctuation and the resultant change in depreciation. The DF amount needs to be reduced from RAB only when the asset has come into existence. However under the proposed mechanism of adjustment, the asset is being reduced from RAB even before the same is capitalized in books. The Forex fluctuation is arising from ECB borrowing relate to a borrowing done before AERA came into existence and cannot be reviewed at this stage. Also if this is *not allowed against borrowings, the gains from UDF and duty free also need to be taken out of the regulatory tariff determination. There cannot be double standards in this and a uniform policy need to be applied.*

The resultant change in the depreciation from the above adjustment also needs to be allowed."

6.94. On the matter of true up of taxes, DIAL has submitted that,

"The Authority needs to appreciate that there is no unjust benefit accruing to DIAL. To the contrary, if DIAL has not been allowed revenue share as part of building block, considering the same as cost for the purposes of tax calculation will unjustly put DIAL to a serious financial disadvantage. This approach of the Authority is thus not consistent and lacks merit.

The concession agreement needs to be read holistically and a logical and consistent approach on this issue followed.

The SSA schedule 1 lays down that what does the component —T|| – the Tax mean while determining the components of building block for Target revenue. The letter —Till is defined in schedule 1 as under:

From this definition, following two clarities emerge:

1. Tax need to be calculated only for the earnings pertaining to aeronautical services: In terms of Schedule 1 of the SSA, the corporate tax on earnings pertaining to Aeronautical Services should be separately calculated and added as a building block to compute the final target revenue.

This approach is consistent with the standards and practices accepted worldwide. This approach contemplates an artificial division of DIAL's overall income and independent consideration of the earnings pertaining to Aeronautical Services to compute the tax component for the aeronautical side.

The SSA envisages corporate tax pertaining to aeronautical earnings be separately calculated and added as a building block to compute the final target revenue. This calculation has no correlation with the statutory tax calculation, *for various reasons like revenue share not being allowed as opex and non-aero as also the past losses.*

2. Revenue Share to AAI not being a pass through cost for determining the Target Revenue the same shall not be a deductible for computing the tax liability on the earnings pertaining to aeronautical services .:

Under Schedule 1 of the SSA, tax is a building block towards the target revenue; the notional tax on aeronautical services (without considering revenue share as a deduction) need to be the building block of tax.

The reason for not considering the revenue share is that since the revenue share is not taken as O&M cost, it can also not be deducted for tax purposes. Acting contrary to the express provisions of the SSA, AERA has decided to take into account the revenue share as an opex which is contrary to concession agreement. Thus DIAL gets a lower tax add-on in the building block. This is not permissible and runs contrary to the provisions of the SSA.

In our view AERA has committed error in methodology of calculating tax based the methodology which considers revenue share as opex. The key principle underlying the Concession Agreements and the AERA Act is that DIAL would have two separate tax calculations, one regulatory and the other statutory. They both have different purposes. The Statutory tax is calculated as per Income Tax act for payment of income tax whereas aero tax is mandated to be calculated as per provisions of the concession agreement."

6.95. On the matter of non-aero revenues, DIAL has submitted that

"4.14 DIAL Response:

Cargo Screening:

Authority has considered cargo screening as Aeronautical and reduced the true up entitlement accordingly. Authority is requested to reconsider its decision and mandate it to continue to be treated as a Non Aeronautical activity.

Cute Charges

Common User Terminal Equipment (CUTE) is used as a facility for passenger check-in. As per the Ground Policy issued by GOI Circular No. 07/2007 of 28th September, 2007 the passenger check in services at the airport are in the nature of Ground Handling Service. Hence the revenue generated from CUTE services is a revenue accruing from ground handling function and needs to treated as Non Aeronautical as per provisions of concession agreement."

6.96. DIAL's further response on true up of the first control period with respect to non-aeronautical revenue and treatment due to JVCs

"First control period order was silent on true up on Non

Aeronautical:

The first control period tariff order was silent on the true up of Non Aeronautical revenue. Since Authority is truing up everything, we find no logic in not doing a true up of Non Aeronautical as well.

We request the Authority to be judicious and not penalize the airport for good work done. The saving in opex being taken away and the shortfall in non-aero realization not being trues up is killing the airport in two ways.

4.15.2 Abnormally high forecast and no true up – differential treatment for DIAL vis-à-vis other major airports. As already discussed earlier the following is the non-aero forecast adopted by AERA in its various orders of tariff determination of various other airports:

"Non Aeronautical and Joint Ventures:

The rationale of AERA suggesting that due to JVCs the non-aero revenues should grow at a faster pace is incorrect. DIAL had first bid out the business e.g. duty free, cargo, advertising, etc. and thereafter entered into joint ventures with partners as a minority equity holder. Therefore the concerned joint ventures have a landlord concessionaire relationship with DIAL which is similar to many airports. The concession fees are revenue based and grow with the revenue of the concessionaire. The fact of having a joint venture in the *concessioned business only adds a shareholder role to DIAL and is distinct from the concessionaire role.*

This shareholder role cannot be used as a basis to justify a higher expectation of concession fees from the concessionaire. Hence for AERA it should not make any difference in giving a true up to the actual revenue vis-à-vis the forecasted revenue. The JV model adopted by DIAL for non-aero activities has no bearing on the revenue earned by DIAL from concessionaires of such activities. Using this rationale to penalise DIAL for forecasting unrealistically is equivalent to penalising DIAL and putting it at a disadvantage to other airports.

Additionally other income was not part of cross subsidization in the 1st control period. Hence, it should not be considered.

4.15.4 Into Plane:

The Into-plane service is a non-aeronautical activity and the same was accepted by Authority in first control period. We request the Authority to maintain the same position and treat Into-plane service as a Non Aeronautical activity.

4.15.5 Fuel Throughput

Fuel throughput is Non Aeronautical as per the provisions of concession agreement as this income is not derived from fuel infrastructure. As per the provisions of Schedule 5 of OMDA, "Common hydrant infrastructure for aircraft fuelling services by authorized providers" is listed as Aeronautical Service.

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 a fee for a non-aero service and is similar to the concession fee charged for flight kitchen or concessions provided within the terminal for passenger facilitation. However, the revenues from fuel throughput fee may be included for the purpose of cross subsidization. This would be in line with the letter, spirit and methodology provided under OMDA."

d. Authority's Examination of Stakeholder Comments on True-ups for first Control Period

6.97. The Authority has duly considered and analysed comments received from DIAL and various stakeholders in respect of computation and provision of true-up to DIAL for the first Control Period. The Authority's examination and decisions in this regard are presented below.

6.98. The Authority has noted views provided by APAO, IATA, FIA and DIAL. The Authority has noted that the comments have been made on: a) Adjustment of RAB on account of DF b) approach for truing up of RAB. The Authority has addressed the matter of adjustment of RAB, in para 5.16 to 5.22 above. Regarding the latter, the Authority had sought information on asset additions/disposals to RAB based on actual date of capitalization. The Authority is in receipt of the auditor's certificate vide its submission dated 24.07.2015 certifying that,

"As part of our scope of work we have performed the following process in connection with issuance of Auditors Report on Examination of Prospective Information:

a. Understand work flow of the Fixed Assets Register (FAR) of the Company.

b. *Understand and Examine the process followed by the Company for Capitalization of Assets along with relevance of "Capitalization date" and "Depreciation Start date"*

c. *As demonstrated by the Management, Capitalization date is the date on which it is recorded in FAR and Depreciation start date is the date on which the asset is put to use / ready for its intended use, which is more relevant for calculation of depreciation.*

d. *We have examined the working done by the Management with respect to calculation of Regulatory Asset Base (RAB) using the date of capitalization till the 31st March of the following year on pro-rata basis. For Eg: An Asset which is already existing as on 01st April is considered for 365 days for the purpose of RAB and as assets added on 01st July, is considered the period on pro-rata basis from 01st July to 31st March of the following year for the purpose of Computing RAB.*

e. *We have been explained by the Management that Return of 10.33% is as per the computation of Airport Economic Regulatory Authority (AERA) while determining the Tariff for the first control period i.e. from 01st April 2009 to 31st March, 2014. Accordingly the same rate is used by us for the purpose of determining the Return on RAB.*

f. *Return on RAB is calculated using the rate as explained in para (e) which is applied on the RAB calculated as explained in para (d) above.*

Return on Regulatory Asset Base based on actual date of capitalization up to September 30, 2013

	DIAL Submission		FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14*
	Opening RAB		-	46.74	102.35	1,065.38	2,351.88	5,635.36	8,303.36	7,194.39
Add										
a)	Additions during the year	(i)	62.70	76.66	1,858.95	559.07	8,406.31	372.56	74.06	113.59
b)	Additions considered and allowed during the year for regulatory purpose (Pro rata additions)	(ii)	48.16	47.65	982.53	522.02	4429.62	362.20	33.59	98.41

c)	Additions not considered for the year	(iii)=(i)-(ii)	14.54	29.01	876.42	37.06	3,976.69	10.36	40.48	15.18
d)	Additions disallowed in previous year for Regulatory Purpose (Pro-rata additions) considered now	(iv)	-	14.54	29.01	876.42	37.06	3,976.69	10.36	40.48
	Net Additions during the year for Regulatory Purpose	B=(ii)+(iv)	48.16	62.19	1,011.54	1,398.41	4,466.68	4,338.89	43.95	138.89
Less										
	Sale of Assets during the year	(V)	-	(0.77)	-	(6.73)	-	(0.01)	(0.56)	-
	Depreciation written back on disposal	(vi)	0.04	-	0.54	-	-	-	0.02	-
	Depreciation charged	(vii)	(1.46)	(5.90)	(48.96)	(105.21)	(239.75)	(373.53)	(327.82)	(373.74)
	DF grant	(viii)	-	-	-	-	(943.44)	(1297.35)	(824.55)	-
	Disposals and Depreciation	C=v+vi+vii	(1.42)	(6.67)	(48.42)	(111.93)	(1183.19)	(1670.90)	(1152.91)	(373.74)
	Closing Regulatory Asset Base	D=A+B-C	46.74	102.25	1065.38	2351.88	5635.36	8303.36	7194.40	6959.55
	WACC Rate		10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%
	Return on Capital Employed		4.83	10.56	110.05	242.95	582.13	857.74	743.18	718.92

- *FY14 full year values have been taken from another submission by DIAL*

"

6.99. The Authority has considered the above Auditor Certificate for the purpose of true-up of RAB. The Authority has reviewed the submissions by DIAL and understands that the additions to the RAB have been considered on actual date of capitalization and that,

6.99.1. "Additions during the year" refers to capitalization made by DIAL during the respective financial year.

6.99.2. "Additions not considered and disallowed during the year for regulatory purpose (Pro rata additions)" was the value out of the above total capitalization to be considered by the Authority for regulatory purpose, based on actual dates of capitalization.

6.99.3. "Additions not considered for the year" represents the balance of the above two items and is carried forward to the capitalization in the next year.

6.100. Accordingly, the Authority has decided to true up RAB on the basis of actual date of capitalization / disposal of assets. The same effect would be provided for depreciation.

6.101. Further regarding the treatment of interest on DF, the Authority has noted the comments from APAO and FIA. In its Tariff Order for the first Control Period, the Authority had decided to expense out the interest on DF of Rs. 350.50 Crore as per the schedule presented in DIAL Order No.03/2012-13 for the First Control Period. The Authority has had reference to the books of account of DIAL and has noticed a change in treatment of Rs. 350.50 Crores in the books of account of DIAL. It is noted that DIAL has expensed out Rs. 162.12 Crore and capitalized Rs. 188.38 Crores in FY2011-12, as part of interest on DF. The Authority has taken APAO and FIA's comments into account and believes that expensing out of Interest on DF may be continued. However, given the change in treatment in DIAL's books, the Authority has decided to expense out the entire amount of Rs. 350.50 Crores in the year FY2011-12 itself.

6.102. Regarding asset allocation in the first Control Period, the Authority had decided as per the Delhi Tariff Order No. 3/2012-13 to consider the allocation of 89.25% (aeronautical): 10.75% (non-aeronautical) as per DIAL's proposal which was in turn based on the Jacob's (Leigh Fischer) report submitted to the Authority. As discussed below in para 7.30 below, the Authority had decided that it will commission an independent study to determine the asset allocation at the IGI Airport, Delhi, and take corrective action, as may be necessary, at the commencement of the second Control Period. ICWAI was mandated by the Authority to provide its independent view on the matter and it concluded that 89.25%:10.75% was the appropriate allocation up to March 31, 2011. Based on this report, the Authority has decided to continue with the same asset allocation for the entire first Control Period.

6.103. The Authority notes that DIAL has submitted to the Authority a fresh study for assessment of allocation of assets into aeronautical and non-aeronautical components as on 31.03.2014 conducted by Leigh Fischer (Earlier Jacobs), dated 11.11.2014. The Authority has requested AAI to undertake validation of this study

(Refer para 7.30 below) and outcome of this study will be considered by the Authority, as appropriate at the time.

6.104. In view of the above, RAB adjustment on account of DF as discussed in the previous chapter and Return on RAB considered by the Authority in respect of IGI Airport, Delhi for the 1st Control Period is presented below:

Table 21: RAB and Return on RAB considered by the Authority for the 1st Control Period

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Opening Pro Rata RAB	-	46.74	102.26	1,016.47	2,023.30	4,772.25	7,838.84	7,064.20
Additions during the year*	48.16	62.19	1,011.54	1,398.44	4,373.48	4,338.89	43.95	58.49
Sale of Assets	-	(0.77)	-	(6.73)	-	(0.01)	(0.56)	-
Depreciation Written back	0.04	-	0.54	-	-	-	0.02	-
Depreciation charged	(1.46)	(5.90)	(46.60)	(89.71)	(200.79)	(348.39)	(307.38)	(337.85)
DF Apportioned	-	-	(51.27)	(295.17)	(1,423.74)	(923.90)	(510.67)	(36.52)
Total Sale, Write back, Depreciation & DF	(1.42)	(6.67)	(97.33)	(391.61)	(1,624.53)	(1,272.30)	(818.59)	(374.47)
Pro Rata Regulatory Asset Base for Return (i)	46.74	102.26	1,016.47	2,023.30	4,772.25	7,838.84	7,064.20	6,748.22
Rate of Aero Depreciation	3.12%	5.77%	4.60%	4.47%	4.33%	4.55%	4.62%	5.51%
Opening Hypothetical Asset Base	-	-	-	467.00	446.11	425.91	404.66	383.10
Additions to Hypo Asset Base	-	-	467.00	-	-	-	-	-
Depreciation on Hypo RAB	-	-	-	20.89	20.20	21.25	21.56	25.72
Closing Hypo Asset Base (ii)	-	-	467.00	446.11	425.91	404.66	383.10	357.38
Average Hypo RAB (iii)	-	-	233.50	456.55	436.01	415.28	393.88	370.24
Opening Total Pro Rata RAB	-	46.74	102.26	1,483.47	2,469.41	5,198.16	8,243.50	7,447.30
Closing Pro Rata RAB (a) = (i)+(ii)	46.74	102.26	1,483.47	2,469.41	5,198.16	8,243.50	7,447.30	7,105.60
Additions not considered for the year but carried over to the	14.54	29.01	876.42	37.05	3,976.69	10.36	40.47	15.18

next year (b)								
Actual Closing RAB (a)+(b)	61.28	131.27	2,359.89	2,506.46	9,174.85	8,253.86	7,487.77	7,120.78
RAB for return (i)+(iii)	46.74	102.26	1,249.97	2,479.85	5,208.26	8,254.13	7,458.08	7,118.46
WACC Rate	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%
Return on Capital Employed	4.83	10.56	129.12	256.17	538.01	852.65	770.42	735.34
* Adjustments (Disallowances) have been made in aeronautical asset additions to RAB on account of Aeronautical portion of disallowed assets (Rs. 93.19 Cr. For FY10-11) and SFIS (Rs. 80.39 for FY 13-14)								

6.105. As regards non-aeronautical revenue, the Authority has noted APAO's comment on the matter of consideration of "Other Income" as non-aeronautical revenue. As stated in para 6.43 of the Consultation Paper No. 16/2014-15 dated 28.01.2015, the Authority, during the determination of tariff for the first Control Period, had not considered the revenues realised by DIAL from "Other Income" (including Interest Received Deposit with Banks, Income from Current Investments, Income from Non-Current Investments, Interest received - Delayed payment, Sale of Others material /Scrap others, Profit on Sale of Depreciable Assets, Dividend income, Realized Foreign Exchange Gain/Loss, Misc. income Others, Liquidated Damages received, Management Fee, Tender cost recovery). In the matter of Other Income, the Authority has decided the below mentioned treatment specific for the first control period as below:

6.105.1. Revenues arising out of Sale of Other Materials / Scrap – Others, Profit on sale of Depreciable Assets, Management Fees, Miscellaneous Income, Others and Tender Cost recovery will be considered towards cross-subsidization.

6.105.2. DIAL has realized dividend income from its investments in JVs. However as the assets pertaining to the JVs are not being reckoned for the purpose of determination of RAB, the Authority is of the view that the dividend income accruing to DIAL from such JVs should also not be considered towards cross-subsidisation.

6.105.3. Interest income received by DIAL (on bank deposits, other deposits and on account of delayed payments) was considered by the Authority as part of the cash flow management undertaken by DIAL and was therefore not considered as part of the cross-subsidisation in the first Control Period. The Authority continues with its proposed treatment and decides to not consider these interest incomes towards cross-subsidization as a one-time exception for the first Control period.

6.105.4. The Authority has also taken into consideration DIAL's submission that profit on sale of investments is of the nature of cash investments done by DIAL in mutual funds and similar treasury instruments based on availability of cash from time to time. Accordingly, the Authority is of the view to consider this item as a part of the cash flow management of DIAL and accordingly decides to not consider the profit for the same towards cross-subsidization as an exception for the first control period.

6.105.5. The revenues from remaining items under "Other Income" which were not considered by the Authority earlier towards cross-subsidization have now been considered for cross-subsidization.

6.106. While the Authority decides to follow the above treatment in respect of "Other Income" for the purpose of true-up for the first Control Period, it is of the view that, all components of "Other Income" should be accounted under aeronautical or non-aeronautical categories, in the future, as far as possible. However, going foward, the Authority asks DIAL to classify all revenue heads, including other income as either aeronautical or non-aeronautical while submitting its proposal for the third Control Period.

6.107. Regarding treatment of revenue from Into Plane Services (ITP) in the first Control Period, the Authority has noted comments from APAO and IATA. The Authority had at the time of tariff determination for the first Control Period, treated revenue from ITP as non-aeronautical revenue on the basis of who is providing the service. As the service is provided by third party concessionaires, the revenue to DIAL from the same was considered non-aeronautical in nature. However, the Authority has made reference to the Schedule 5 of the OMDA, according to which "Common hydrant infrastructure for aircraft fuelling services by authorized providers" clearly refers to the ITP services, is categorised as an Aeronautical revenue. As per the Chapter 1 of AERA Act 2008 as well, fuelling service is Aeronautical. Based on this principle the Authority decides to consider revenue from ITP as aeronautical revenue. This was elaborated in the Consultation Paper No. 16/2014-15, as mentioned in para 6.42 above, para 20.27 and para 20.28 below).

6.108. As regards IATA's comments on treatment of revenues from Cargo and Ground handling services as non-aeronautical revenues, the Authority believe that it is not in violation of the AERA Act 2008. The Authority notes that, as per the Chapter 1 of the AERA Act 2008, these "services" are considered aeronautical in nature. The Authority had considered the revenue from these services as non-aeronautical revenue at the time of the first Control Period, on the basis of who the service provider is. Subsequent to that, MoCA vide its letter No.AV.24032/4/2012-AD, dated 09.03.2012 stated that revenues from Cargo and Ground Handling services accruing to the airport operator should be regarded as non-aeronautical, irrespective of whether these services are provided by the airport operator or concessionaires appointed by the airport operator. Accordingly the Authority had decided to treat revenue from Cargo and Ground Handling Services as non-aeronautical revenue.

6.109. On the matter of treatment of CUTE services and cargo screening, the Authority, in its orders for tariff determination of DIAL and MIAL during the 1st Control Period, had considered them as an integral part of the Ground Handling and Cargo Handling Services respectively. In case of DIAL, the revenues and expenses pertaining to CUTE services and cargo screening were therefore treated as aeronautical based on the nature of its service. The Authority had continued with this treatment, in the Consultation Paper No. 16/2014-15 in respect of the 2nd Control Period Tariff of DIAL.

6.110. The Authority has further analysed the treatment of CUTE counter services and cargo screening services. The Authority has had reference to Schedule 5 and Schedule 6 of the OMDA to classify the service under the pertinent head. However, the Authority did not find specific mention of the term "CUTE counter service" and "cargo X-Ray screening" service under aeronautical or non-aeronautical services mentioned there in. The Authority did however, find a mention of "Check-in concourse" and "X-Ray service for carry on and checked-in luggage" as part of aeronautical services under schedule 5 of the OMDA. Based on these terms, it may be inferred that CUTE counter services and cargo X-Ray screening services can be classified as an aeronautical services. This view is still held by a member of the Authority. However, the Authority had further sought opinions from the Ministry of Civil Aviation and AAI and had also sought legal counsel on the matter. The Authority is in receipt of their response, and has also received views from MIAL on the matter. The ministry has suggested that these services be treated as non-aeronautical unless there are pressing reasons to presume otherwise. Hence, it was noted that all the above views concurred that CUTE counter services and Cargo X-Ray screening services may be treated as Non-Aeronautical in nature. The Authority does not find it prudent to infer the nature of treatment of any service when signing parties to the OMDA themselves concur on the treatment of the service. This view is also consistent with the view taken by the Authority in its MIAL Tariff Order no. 32/2012-13. Hence, the Authority has in principle decided to consider cargo X-Ray screening services and CUTE counter charges to be non-aeronautical in nature.

6.111. The Authority is of the view that CUTE counter services are integral to the overall provision of IT services at the airport. Currently IT services are provided by both DIAL and IT JV at different parts of the airport. The Authority has had reference to the agreements entered into by DIAL and the IT JV. However, the Authority is unable to segregate the assets, services, revenues and costs of the IT JV into aeronautical and non-aeronautical appropriately. The Authority, based on its perusal of these agreement and other submissions by DIAL, feels the need for an independent study to examine the issue of allocation of assets, services, revenues and costs for the IT JV, into aeronautical and non-aeronautical. The Authority also notes that DIAL has not provided the details on CUTE counter assets and that its year wise capitalization of IT-JV are on the higher side. The Authority would accordingly take this report into account, at the time of determination of tariff for the third Control Period and give an appropriate treatment to CUTE services at the time. Pending the outcome of the study, revenues from CUTE counter services and CUTE counter charges are being taken as aeronautical for computation of the X Factor in this Order. Accordingly, CUTE service and CUTE counter revenues shall be treated accordingly, based on the outcome of the IT JV study.

6.112. As regards cargo screening, the Authority has received details of revenues and expenses incurred by DIAL on this account. DIAL has also submitted that, it does not have any assets corresponding to cargo screening on their books. The Authority is of the view that in case there are any cargo screening assets in the books of DIAL, it will have to be treated as non-aeronautical assets. Asset allocation and O&M cost allocation ratio will have to be revised accordingly. This revised allocation will be accounted for along with the Study related to IT-JV as mentioned in para 6.103 above.

6.113. In response to APAO, CII and DIAL's comments regarding the true-up of non-aeronautical revenues, the Authority had detailed its approach for the projections in paras 21.2.14 to 21.2.24 of its Delhi Tariff Order No. 03 / 2012-13. The Authority has noted that non-aeronautical revenue realized by DIAL in the period is less than those projected at the time of determining aeronautical tariffs for the first Control Period. In the said Order, the Authority did not explicitly either provide for true up or state that it will not true-up. Reconsidering its proposal presented in the Consultation Paper No 16/2014-15 in view of the comments from the stakeholders, the Authority is of the view that the projections of non-aeronautical revenue made for DIAL at the time of determination of tariff for the first Control Period were more than what was made for other airports and accordingly non-aeronautical revenue for the first Control Period has now been considered for true-up.

6.114. In view of the above, the Authority has considered the following towards non-aeronautical revenues of DIAL for the first Control Period:

Table 22: Non-Aeronautical Revenues considered by the Authority for 1st Control Period for true-up

Non-Aeronautical Revenues, INR Crore	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14

Non-Aeronautical Revenues, INR Crore	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Non Aeronautical Revenues	424.45	454.65	669.64	774.71	882.58
Cargo Revenues	34.27	122.31	109.21	110.51	118.82
Cargo Handling Revenues	135.59	-	-	-	-
Other Income	8.46	5.48	0.89	0.87	27.22
Non Aeronautical Revenues for the purpose of true-up	602.77	582.44	779.74	886.09	1,028.62

6.115. The Authority has noted comments from APAO, CII and DIAL that by truing up operating expenses penalising DIAL for being efficient. However, the Authority would like to clarify that at the time of tariff determination for the first Control Period decided to accept the forecasts for FY2012-13 and FY2013-14 made by DIAL. It had also decided to commission an independent study to assess the efficient operating costs of IGI Airport New Delhi for the entire control period. The Authority had further decided that if the costs of efficient operation and maintenance, assessed in the independent study are lower than the values used by the Authority, then it will claw back this difference in the next control period commencing from 01.04.2014.

6.116. In line with the same, the Authority had commissioned an independent study by ICWAI. The Authority is in receipt of a letter from ICWAI that states that *"the Authority may take the operating and maintenance expenses incurred for the FY 2012-13 as the costs for efficient operation in the formulating the consultation paper for the next control period."* Further, considering that the inflation in FY 2013-14 was 9.50%[2], the real increase in operating expenses from FY 2012-13 to FY 2013-14 works out to less than 1% and hence FY2013-14 was considered as the base for projections for the second Control Period operations and maintenance expenses. Further, with respect to DIAL's comment that the Study was not shared with DIAL, the same was available on the Authority's website for over a month and DIAL had the opportunity to comment on the same.

[2] CSO Release 30th May 2014

6.117. Regarding consideration of bad debts, the Authority has noted CII's comments. The Authority wishes to clarify that as per the Delhi Tariff Order No. 3/2012-13, the provision for bad debts is not provided by the Authority; however bad debts are expensed out.

6.118. The Authority has noted IATA's support regarding stance on the inline baggage screening expenses. In the absence of the comments from other stakeholders, the Authority continues its previous stance in the Consultation Paper No. 16/2014-15 and decides to consider the inline baggage screening expenses incurred by DIAL towards security related requirements for determination of aeronautical tariff. Further, the Authority has decided to bring to the attention and information of MoCA, the inclusion of these elements of expenses of security; as the same is presently determined and monitored by MoCA.

6.119. The Authority had sought stakeholder comments on the matter of allocation of the Airport Operator fee. Airport Operator fee being paid by DIAL is at 3% of Gross revenue of Airport. The Authority had discussed two approaches for computing the airport operator fee in para 17.29 and 17.38 of Consultation Paper No 16/2014-15 dated 28.01.2015. One approach is to consider the weighted average ratio of 87.54% for allocation (based on cost allocation) of Airport Operator Fee into aeronautical and non-aeronautical components for the second Control Period. The second approach is to consider 3% of aeronautical revenue as aeronautical component of Airport Operator Fee.

6.120. The Authority has noted the comments received from IATA as well as APAO and DIAL (Chapter 17) on this matter. The Authority noted from the Airport Operator Agreement that the Airport Operator fee is based on the gross revenue of DIAL and that the scope of Airport Operator includes both aeronautical and non-aeronautical services. Accordingly, the Authority has decided to consider 3% of aeronautical revenues of DIAL as aeronautical component of Airport Operator Fee.

6.121. In view of the above, the Authority has considered the following as operating and maintenance expense:

Table 23: Operating & Maintenance Expenses considered by the Authority towards truing-up for the 1st Control Period as per discussion in para 6.1 above and 6.2 above

Operating Expenses, INR Crore	Cost Allocation	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
VRS Aero	89.79%	71.83	29.38	43.26	17.40	17.12
Interest on DF	100.00%	0.00	0.00	350.50	0.00	0.00
Staff Cost	89.79%	90.25	123.49	124.27	106.47	104.65
Administrative & General Expenses	70.28%	60.04	86.24	106.19	95.88	108.13
Electricity & Water Charges*	100.00%	31.21	61.29	86.89	98.17	106.54
Operating Expenses	91.89%	100.67	177.97	193.06	227.06	260.01
Airport Operator Fee**	3.00%	13.01	15.21	17.13	18.33	67.44
Property Tax	87.54%	0.00	0.00	13.13	1.21	6.07
Total		367.00	493.59	934.42	564.53	669.97

* In some years, DIAL has clubbed electricity and water charges and in others electricity and fuel charges, adjustments have been made accordingly

** Taken as 3% of aero revenue for previous year

6.122. The Authority has noted IATA's comment in support of Authority's computation of tax. The Authority has also noted DIAL's comment on this matter and on expensing out of revenue share to AAI. The Authority is not persuaded to change its stance in the Consultation Paper No. 16.2014-15, reproduced in para 6.37 and 6.38 above, and has decided to consider the tax as nil in FY2012-13 and FY2013-14.

6.123. With respect to VRS, the Authority had not received any comments and in view of the Authority, the stance as per the Consultation Paper No. 16/2014-15 will continue.

6.124. In view of the above decisions, the Authority has decided to provide a true-up of Rs. 36.33 crores for the first Control Period, based on the following table:

Table 24: True-up considered by the Authority for the 1st Control Period as per discussion in para 6.1 above and 6.2 above

Building Blocks Calculation	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Return on RAB	256.17	538.01	852.65	770.42	735.34
Total Expenses	367.00	493.59	934.42	564.53	669.97
Depreciation & Amortization	110.60	220.99	369.63	328.94	363.57
Taxes	0.00	0.00	0.00	0.00	0.00
Gross Target Revenue	733.77	1,252.59	2,156.70	1,663.89	1,768.88
Less: Cross Subsidization at 30% of Non-Aeronautical Revenues	182.47	179.61	239.70	271.49	315.16

Aeronautical Revenue Received	551.31	1,072.98	1,917.01	1,392.40	1,453.72
Landing, Parking, Housing	283.58	337.24	350.17	764.09	854.93
User Development Fee	0.00	0.00	0.00	1,322.27	1,805.63
Passenger Service Fee	104.10	121.35	128.12	30.22	0.00
Fuel Throughput Fee and Into Plane Revenues	84.99	106.06	128.15	120.98	134.81
Other (baggage X-ray in 2009-10)	29.50	1.16	0.00	0.00	0.00
CUTE Counter Charges	4.96	5.07	4.63	10.37	10.98
Total Aeronautical Revenue Realized	507.13	570.88	611.07	2,247.93	2,806.35
Difference	44.18	502.10	1,305.94	-855.53	-1,352.63
PV Factor	1.63	1.48	1.34	1.22	1.10
NPV of the difference as on 01.04.2014	72.22	743.98	1,753.89	-1,041.41	-1,492.36
True-up	36.33				

Decision No. 4 The Authority decides to adopt the following approach for consideration of true-up for the first Control Period, towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:

4.a. To true-up RAB along with Depreciation based on actual date of capitalization of assets during the first Control Period towards determination of tariff for the second Control Period as elaborated in Table 24.

4.b. To consider the Return on RAB based on actual date of capitalization of assets, as detailed in Table 21.

4.c. To adjust RAB on account of DF based as presented in Table 8

4.d. To consider allocation of assets of 89.25% and 10.75% towards aeronautical and non-aeronautical assets respectively for the first Control Period as per ICWAI report.

4.e. To not consider foreign exchange fluctuations in the determination of RAB and depreciation in the first Control Period (refer para 8.24)

4.f. To not true-up WACC of 10.33%, which was considered by it in its Delhi Tariff Order No. 03 / 2012-13

4.g. To consider inline baggage screening expenses incurred by DIAL during the first Control Period towards determination of aeronautical tariff and hence include it as part of the operating expenses being considered for true-up.

4.h. To consider the same ratios for allocation of operating expenses into aeronautical and non-aeronautical components as considered by it in its Delhi Tariff Order 03 / 2012-13 except VRS which will be allocated at the rate of manpower allocation.

4.i. To consider revenue accruing to DIAL from ITP service providers as aeronautical revenue in the first Control Period

4.j. To consider revenue accruing to DIAL from Cargo and Ground Handling and for the first Control Period as non-aeronautical revenue.

4.k. To commission an independent study on the allocation of costs and assets of the IT JV into appropriate aeronautical and non-aeronautical portion.

4.l. To consider revenues from CUTE counter charges as aeronautical revenue in the first Control Period, subject to outcome of the independent Study on IT-JV.

4.m. To consider 3% of aeronautical revenues of DIAL as aeronautical component of Airport Operator Fee in the first Control Period.

4.n. To consider revenue realized by DIAL under the head "Other Income" (excluding incomes discussed as under para 6.105) during the first Control Period towards cross-subsidization under the current exercise.

4.o. To true-up non-aeronautical revenue for the first Control Period as discussed in para 6.113 above.

4.p. To true-up corporate taxes based on actual taxes paid by DIAL during the first Control Period and accordingly consider "nil" taxes for the first Control Period towards determination of aeronautical tariff for the second Control Period.

4.q. On balance, to consider true-up of Rs. 36.33 crore as on 01.04.2014 (under-recovery by DIAL in the first Control Period) towards determination of aeronautical tariff for the second Control Period

4.r. To add the above true-up in the ARR to be considered for determination of aeronautical tariff for the second Control Period

7. Allocation of Assets (Aeronautical / Non-Aeronautical)

a DIAL Submission on Asset Allocation (Aeronautical / Non-Aeronautical)

7.1. DIAL's submission with respect to Allocation of Assets into aeronautical and non-aeronautical was based on the list of activities to be included in the Aeronautical services as given in OMDA schedule 5. DIAL stated that it adopted this approach for allocating costs and assets between aeronautical and non-aeronautical segments which was based on their principles of Full allocation, Attribution quality, Relevance, Consistency, Continuity, Avoidable Cost and Transparency.

7.2. In this matter, DIAL was advised by M/s Jacob Consultancy. The summary of aero and non-aero classification as obtained through this exercise for the terminal areas at IGIA was as given below:

Passenger Terminal	*Aeronautical Area %*	*Non-Aeronautical Area %*
Terminal 3	*84.07*	*15.93*
Terminal 1A	*96.00*	*4.00*
Terminal 1C	*75.00*	*25.00*
Terminal 1D	*83.00*	*17.00*
Terminal 1 (A,C&D)	*84.00*	*16.00*
Terminal 2	*84.20*	*15.80*
Overall Weighted Average	*84.10*	*15.90*

7.3. DIAL had also elaborated the methodology adopted for classification of assets into aeronautical and non-aeronautical based on which the allocation of the assets, as on March 31st 2013 and September 30th 2013 was submitted as below.

Gross Block	*FY2013 (Rs. Crores)*	*FY2013 (%)*	*FY2014 (H1) (Rs. Crores)*	*FY2014 (H1) (%)*
Aeronautical	*11,402*	*89.31%*	*11,419*	*89.31%*
Non Aeronautical	*1,364*	*10.69%*	*1,367*	*10.69%*
Total	*12,766*		*12,786*	

7.4. DIAL subsequently submitted the allocation of assets (as on 31st March 2014) into aeronautical and non-aeronautical, independently verified by statutory auditors:

Gross Block	*FY2014*	*FY2014*
	(Rs. Crores)	*(%)*
Aeronautical	*11,516*	*89.24%*
Non Aeronautical	*1,388*	*10.76%*

Total	*12,904*	

b Authority's Examination of DIAL's Submission on Asset Allocation (Aeronautical / Non-Aeronautical)

7.5. The Authority noted that DIAL in its submissions during the first Control Period had proposed an asset allocation of 89.25% and 10.75% towards aeronautical and non-aeronautical categories respectively as on 31st March 2011 based on Jacob's Report. The Authority had decided in Delhi Tariff Order 03/2012-13 to accept the DIAL proposal to take aeronautical asset allocation as 89.25% and non-aeronautical asset allocation as 10.75% for the first Control Period on the basis of the Jacobs' Report, in the absence of any other relevant basis for allocation at that stage.

7.6. Subsequently, the Authority commissioned a study by ICWAI Management Accounting Research Foundation on Allocation of Assets at IGI Airport, Delhi, which is agency promoted by the Institute of Cost Accountants of India. The Authority was in receipt of a letter from ICWAI dated 03.04.2014 confirming that it considers DIAL's allocation of assets for the first Control Period to be appropriate.

7.7. The Authority had also received the study from ICWAI-MARF titled "Report on Study of Allocation of Assets at Indira Gandhi International Airport, Delhi". Based on the outcome of the ICWAI study, the Authority proposed to consider allocation of assets of 89.25% and 10.75% (the ratio that was considered by the Authority at the time of determination of the tariff for the first Control Period in respect of IGI Airport, Delhi) towards aeronautical and non-aeronautical assets respectively for the first Control Period.

7.8. In its revised submission dated 23.07.2014, DIAL had submitted the allocation ratio of Aeronautical to Non Aeronautical to 89.24% and 10.76% respectively based on the Auditor's Certificate as of 31st March 2014. The comparisons of DIAL submissions are presented below,

Table 25: Comparison of Asset Allocation into aeronautical and non-aeronautical assets submitted by DIAL

DIAL submissions on allocation of assets	As per Jacob's report in Order no.03 (as of 31.03.2011)	11.11.2013 (as of 31.03.2013)	23.07.2014 (as of 31.03.2014)

Aeronautical	89.25%	89.31%	89.24%
Non-Aeronautical	10.75%	10.69%	10.76%

7.9. The Authority noted the revisions in allocation of assets between aeronautical and non-aeronautical assets submitted by DIAL. DIAL also submitted to the Authority a fresh study for assessment of allocation of assets into aeronautical and non-aeronautical components as on 31.03.2014 conducted by Leigh Fischer (Earlier Jacobs), dated 11.11.2014. An extract of the findings of the report have been reproduced from DIAL submissions as below:

Table 26: Asset allocation ratio as per Leigh Fischer report dated 11.11.2014

Sl. No.	Summary of Assets	New	New	Old	Old
1	Aeronautical Assets	11650.91	90.29%	11515.80	89.24%
2	Non-Aeronautical Assets	1252.80	9.71%	1387.92	10.76%
	Grand Total		100%		100%

7.10. Pending completion of its examination, the Authority proposed to continue with the results of the study carried out by ICWAI for the second Control Period and follow the same asset allocation as followed in the first control period. Regarding allocation of assets into aeronautical and non-aeronautical assets, based on the material before it and its analysis, the Authority proposed:

7.10.1. To consider allocation of assets of 89.25% and 10.75% towards aeronautical and non-aeronautical assets respectively for the first Control Period as indicated in para 7.19 and also for the second Control Period as indicated in para 7.20 of the Consultation Paper No 16/2014-15 dated 28.01.2015.

7.10.2. To true-up the allocation of asset into aeronautical and non-aeronautical component for the second Control Period as per para 7.20 of the Consultation Paper No 16/2014-15 dated 28.01.2015.

7.10.3. If the Authority finalizes its normative approach for determination of asset allocation presented in the Consultation Paper No. 05/2014-15 dated 12.06.2014 ("Normative Approach to Building Blocks in Economic Regulation of Major Airports), the Authority proposes to consider such finalized approach for allocation of assets in respect of IGI Airport, Delhi.

c Stakeholder Comments on Issues pertaining to Asset Allocation (Aeronautical / Non-Aeronautical)

7.11. ACI submitted that as per DIAL's submission, revised allocation should be considered for tariff determination

> *"We understand that DIAL has submitted the new allocation ratios based on the latest audited report. These should be considered in tariff determination. It is recommended that the revised allocation ration based on audited numbers be considered for tariff determination."*

7.12. AOC on the other hand, urged the Authority to follow revenue based allocation as stated below

> *"It has been proposed to allocate operating expenses and assets to aeronautical and non-aeronautical tills in the ratio of 89.25% and 10.75% and the same has been proposed for the Second Control period also. This allocation is too high and it would be pertinent to mention that revenues from non-aeronautical till are also substantial and therefore allocation for opex and assets should be based on a formula driven by revenues and costs for both the tills."*

7.13. APAO, while recommending using new asset allocation ratio submitted to the Authority, stated that

> *"AERA had considered an asset allocation ratio of 89.25% and 10.75% towards aeronautical and non-aeronautical categories respectively as on 31st March 2011 based on Jacob's Report for the 1st Control Period. The ratio was estimated since it was based on the CAD Drawings and not on the actual area utilized by the concessionaires.*
>
> *ii. It is critical to point out that DIAL had appointed the same consultant, Leigh Fisher (formerly Jacobs) to revise the asset allocation of terminals based on the actual area leased out to the concessionaire. Furthermore, an auditor certificate to that effect has been furnished to AERA.*

iii. As mentioned earlier, the ratio used in the 1st control period was estimated since at that time Terminal 3, the biggest terminal of DIAL, was not in operation at the time of determining the asset allocation ratio. Hence AERA is requested to consider the actual asset allocation ratio for the period in consideration, which is much more logical to consider and a rational extension to the estimated allocation that was used in the first control period. APAO believes there is enough evidence produced before AERA that it may decide to consider the new asset allocation ratio based on the realistic situation."

7.14. CII commented on the allocation as under,

"The new allocation ratio need to be adopted otherwise viability of DIAL will be compromised."

7.15. Regarding the same issue, FIA submitted that the Authority should commission an independent study which does not rely on the inputs of the Leigh Fischer report. FIA stated as under,

"The Authority has proceeded to continue with the asset allocation ratio of 89.25:10.75 (aeronautical: non - aeronautical) arrived in the Previous Order. The asset allocation ratio is also a subject matter of the Appeal. The Authority has arrived at this figure on the basis of ICWAI MARF's (defined below) review of Jacobs Consultancy's report on asset allocation ratio. It is submitted that ICWAI MARF ought to have conducted an independent study on the asset allocation ratio rather than basing the report on Jacobs Consultancy's Report. Further, the Authority has not appreciated the fact that the asset allocation ratio of 89.25:10.25 has been challenged by the FIA in the Appeal and the same is sub-judice. Therefore, there may be a change in the asset allocation ratio depending on the outcome of the Appeal."

"The Authority could not have proceeded to rely on the ICWAI MARF's Report which is not an independent analysis of the asset allocation ratio and is based on the Jacobs Consultancy Report. It would have been prudent for the Authority to have commissioned a separate study on the allocation of aeronautical resources."

7.16. Further FIA added as below

"The clarifications or reports relied on by DIAL may only support the DIAL's claims. Such reports do not provide an independent evaluation of the issues at hand. The Authority may consider formulating a mechanism for the engagement of consultants by the Authority for the determination of aeronautical tariff. Such a mechanism will ensure transparent and independent evaluation of the components of the aeronautical tariff."

"The Authority has proposed to proceed with the aeronautical to non-aeronautical asset allocation decided in the Previous Order, which is 89.25:10.75, which is a subject matter of the Appeal. The asset allocation ratio is therefore subject to the outcome of the Appeal. The Authority has based this proposal on the basis of the ICWAI Management Accounting Research Foundation's ("ICWA1- MARF") review of the Jacobs' Consultancy

Report submitted for the 1st Control Period. It is pertinent to note that Jacobs' Consultancy Report was issued on 14.06.2011. Further the Jacobs' Consultancy Report was with respect to the period ending 31.03.2011. Therefore, the ICWAI- MARF's assessment of asset allocation ratio is based on an old report which may not be relevant for the 2nd Control Period.

DIAL has submitted a study by Leigh Fischer dated 11.11.2014. Leigh Fischer's report stipulates a higher ratio of 90.21:9.79. The Authority has not yet reviewed the Report dated 11.11.2014 issued by Leigh Fischer, Further, pending the review of the Report the Authority has proceeded to proceed with the ratio of 89.25:10.75 which has been confirmed by ICWAI MARF.

The Authority could not have proceeded to rely on the ICWAI MARF's Report which is not an independent analysis of the asset allocation ratio and is based on the Jacobs Consultancy Report. It would have been prudent for the Authority to have commissioned a separate study on the allocation of aeronautical resources.

The Authority has further proposed that the Authority will consider the issue of asset allocation, if the Authority finalizes its normative approach for determination of asset allocation presented in the Consultation Paper No. 05/2014-15 dated 12.06.2014. It is submitted that asset allocation ratio is an important criteria which has a bearing on various other building blocks of the Target Revenue, It is pertinent to note that:

(a) DIAL has continued to provide studies which support DIAL's claim on asset allocation ratio;

(b) Studies commissioned by the Authority have considered studies submitted by DIAL's consultants as a reference point;

(c) Due to the lack of any independent analysis of the asset allocation ratio, the consumers were subjected to increased charges, as DIAL's consultants suggested a skewed asset allocation ratio favoring DIAL;

(d) Authority's review of the asset allocation ratio does not seem to take into account the construction of new assets. It is submitted that one of the key issues which was raised with respect to the Previous Consultation Paper was increased capex of DIAL.

The Authority in the Previous Order considered asset allocation ratio of 89.25:10.75. However, with the asset construction undertaken during the previous control period, there is a high likelihood that the asset allocation ratio may have changed. "

"In view of the foregoing submissions, it is submitted that the Authority ought to pass a reasoned order on issues like 'bifurcation of assets into aeronautical & non aeronautical' instead of seeking time to review the Leigh Fischer Report. Further, in paragraph 7.18 of the Consultation Paper has stated that "pending completion of its examination, the Authority proposes to continue with the results of the study carried out by ICWAI for the 2"d Control Period and follow the same asset allocation as followed in the 1st Control Period". The Authority seems to have proposed that the Authority will revise the asset allocation ratio

from 89.25:10.75 only on the basis of the Leigh Fischer report submitted by DIAL. It is submitted that revision of the ratio solely on the basis of the Leigh Fischer report may be construed as premising the revision on the submissions made by DIAL. The Authority may clarify that the Authority will consider other factors/ reports while revising the asset allocation ratio. Further, it is submitted that assets of common nature like fire station, perimeter roads, boundary wall, sub-stations etc., should be classified as mixed assets and should be apportioned accordingly.

The below table shows the mismatch between allocation of assets and revenue generated from those assets in case of DIAL. Based on the below table it is submitted that 45% of the total revenue (i.e, the non - aeronautical revenue) is generated by 10% of asset base. Therefore, there is a clear mismatch with respect to asset allocation and the revenues realized.

Revenue. and asset share -Aero and Non Aero			
Particulars	Asset bifurcation	Total revenue	% share
Aeronautical	89.25%	7,731	54.28%
Non Aeronautical	10.75%	6,511	45.72%
Total	100%	14242	100%

As per para 6.4 of Delhi Tariff Order 03/2012-13, the International Air Transport Association (IATA") had suggested 50:50 between aeronautical and non-aeronautical service. The IATA further submitted further submitted that available data from European airports shows that the proportion of assets allocated to the aeronautical category averages around 70%.Hence at least 70: 30 should have been accepted in the tariff order subject to the determination by the experts appointed by the Authority. Other comparable international airports with same model of tariff determination have assumed ratio of Aeronautical asset base which range from approximately 49% to 82% of total asset base. Hence, FIA has adopted a ratio of 70:30 between aeronautical and non-aeronautical service to analyze impact on target revenue. The analysis indicates that if ratio of aeronautical to non-aeronautical assets changes to 70:30, target revenue will reduce by 16%."

7.17. Commenting on the matter of lack of mechanism to commission independent studies, FIA said that

> *"Lack of Mechanism to Commission Independent Studies*
>
> *It is submitted that the reports submitted by DIAL or any operator may be coloured by the approach proposed to be taken by DIAL. Therefore, the Authority may consider to commission studies/ reports through independent consultants. The Authority may consider the following while suggesting such course of action:*
>
> *(a) The consultant should report to the Authority only; and*
>
> *(b) All communications/ interactions between the consultant and DIAL should be with the knowledge of the Authority; and*
>
> *It is submitted that the report so prepared may be subject to scrutiny by stakeholders as well as DIAL. The above approach may help provide a neutral opinion on the building blocks forming the aeronautical tariff determination mechanism."*

7.18. FICCI has commented that allocation ratio should be updated and realistic. FICCI stated as under,

> *"It has not been considered on the basis of actual data; instead the old allocation ratio has been considered. It has been suggested by our members that AERA should consider the asset allocation ratio which is realistic and reflect the true picture of the DIAL. "*

7.19. IATA has submitted that the current ratio is too high in favour of aeronautical assets and that a fair split in the ratio of 50:50 should be made. They have stated

> *"We request the Authority to reconsider the proposed asset allocation percentages which puts too high an allocation to aeronautical activities. We do not believe using surface area to allocate costs for common areas is a fair split. As mentioned previously, we believe that these costs should be split on an equal basis (50:50)."*

"AERA should carry out further investigation on the different ways that assets could be allocated and make a determination on the basis of these studies. This should then be incorporated into the determination through a true up exercise."

"IATA agrees with this approach but reiterates that once the order is passed, the allocation percentages should be considered applicable immediately and truing up is then carried out in the subsequent third control period."

d DIAL's response to Stakeholder Comments on Asset Allocation (Aeronautical / Non-Aeronautical)

7.20. Regarding ACI's comments, DIAL has responded as below,

"DIAL's Response: We strongly recommend this proposal. The new allocation ratio is based on the actual data and provides the more recent state of affairs at the airport The old allocation ratio was based on the CAD drawings since the final structure was not yet finalized when it was determined in the control period. Authority may take cognizance since the various building block are considered for true ups to ensure the actuality is always reflected in the regulatory approach of the airport. Majority of the true ups are being targeted to hurt the company. The new asset allocation ratio, in sync with the regulatory philosophy of reflecting the actual position in practice is being proposed to be excluded "

7.21. DIAL's response to AOC's comments on allocation ratio is as below,

"There is no fact based submission on the issue of allocation being too high. Such representations which are not based on any rationale should not be considered by the Authority.

The a location methodology adopted by DIAL has been reviewed by independent consultants who have agreed with the fairness of the allocation exercise undertaken by DIAL"

7.22. DIAL's response to APAO's comments on allocation ratio is as below

"DIAL had originally submitted the estimated ratio based on the CAD Drawings. Subsequently DIAL has undertaken a new study with the same Consultant who had provided the terminal asset allocation ratio for the 1st control period and provided the actual data for arriving at the new terminal ratio

This was further concurred by the statutory auditors. AERA requested to make appropriate changes in the tariff calculations using the audit-d certification submitted b/ DIAL based on actuals. We have submitted the actual terminal area allocation as on 31.03.2012 based on actual area occupied and the same may kindly be considered by Authority for Return on RAB and Depreciation."

7.23. To FICCI's comments on area allocation, DIAL responded as below

"The new asset allocation ratio is based on new terminal area allocation as per the study conducted by Leigh Fisher as on 31.03.2014, which was submitted by DIAL to the Authority.

DIAL had submitted the ratio based on the CAD Drawings which may be Far from the reality. Subsequently, it has undertaken a new study with the same Consultant who had provided the terminal asset allocation ratio for the 1st control period and provided the actual data for arriving at the new terminal allocation ratio. This was further concurred by the statutory auditors. AERA is requested to make appropriate changes in the tariff calculations using the audited certification submitted by DIAL based on actuals."

7.24. To IATA's comments, DIAL responded as below

"The principles of allocation study have been verified by the independent consultant appointed by AERA ICWA MARF and found to be correct. As such IATA's suggestions hold no merit. The current suggestion of IATA is not backed by any evidence.

Evidence: However the new allocations submitted by DIAL is backed by evidences by way of Auditors certificate and allocation study"

e DIAL's own comments on Issues pertaining to Asset Allocation (Aeronautical / Non-Aeronautical)

7.25. DIAL's comments on the Authority's proposal to consider old allocation ratio are as below

"We request Authority to consider the new asset allocation ratio based on new terminal area allocation based on the study conducted by Leigh Fisher as on 31.03.2014, submitted by DIAL to the Authority.

DIAL had submitted the ratio based on the CAD Drawings which may be far from the reality. Subsequently, it has undertaken a new study with the same Consultant who had provided the terminal asset allocation ratio for the 1st control period and provided the actual data for arriving at the new terminal allocation ratio. This was further concurred by the statutory auditors. AERA is requested to make appropriate changes in the tariff calculations using the audited certification submitted by DIAL based on actuals."

7.26. DIAL has also responded to the Authority's position on actual terminal area allocation. DIAL's comments are as under,

"We have submitted the actual terminal area allocation as on 31.03.2012 based on actual area occupied and the same may kindly be considered by Authority for

Return on RAB and Depreciation. Actual Allocation as on 31st Mar 2012 is as follows:

TABLE 3 REVISED DIAL TERMINAL AREA ALLOCATION

Terminal	Total Area (in sq. m)	Allocation of Non-Aeronautical Area		Non-Aeronautical Area (%)	Aeronautical Area (%)
		Direct	Allocated		
T1A	11,647.02	42.00	16.85	0.5%	99.5%
T1C	11,575.35	735.47	13.00	6.5%	93.5%
T1D	40,923.98	6,445.04	239.79	16.3%	83.7%
T2	54,729.16	9.40	476.91	0.9%	99.1%
T3	556,192.85	51,391.57	26,757.44	14.2%	85.8%
Total	669,068.36	58,623.48	27,504.00	12.9%	87.1%

The above numbers are based on the Auditors certificate and the allocation exercise undertaken by Leigh fisher. Non consideration of above will lead to putting DIAL in financial jeopardy. Considering the new terminal allocation ratio as on 31.03.2014, the asset allocation ratio increases to 90.29% as per the statutory auditors."

7.27. DIAL's submission on normative approach on the topic is as under,

"As regards to normative approach, as already submitted earlier, this methodology was not envisaged in concession agreement and as such cannot be made applicable to DIAL".

7.28. DIAL has additionally re-submitted Leigh Fischer's report on allocation of assets and auditor certificates for terminal allocation.

f Authority's Examination of Stakeholder Comments on Asset Allocation (Aeronautical / Non-Aeronautical)

7.29. The Authority has carefully considered the comments from the stakeholders as well as DIAL's comments and response to these stakeholders' comments regarding Asset Allocation (Aeronautical / Non-Aeronautical) for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

7.30. The Authority notes that ACI, APAO, CII and FICCI have requested for adoption of the new allocation ratio submitted by DIAL. The Authority has also noted DIAL's submission that at the time of the first Control Period, DIAL had submitted the allocation ratio based on the CAD. DIAL has submitted that its recent submission on the allocation ratio is based on actual area handled over to concessionaires for various non-aero services as on 31.03.2014 as recommended in the new Leigh Fisher asset allocation report. DIAL has also submitted an auditor certificate for the updated allocation ratio based on actual handed over area. However, the Authority has not received a detailed worksheet for such change in non-aeronautical area from what was there in CAD drawings to what has now been handed over to the concessionaires. The Authority has observed that the area considered non-aeronautical now is less than what was submitted by DIAL initially. Determining area allocation and subsequently asset allocation based on only handed over area does not follow the original principle of allocation considered by Jacob's Report. The Authority sees the need to have a detailed validation of the submission through experienced professionals. As AAI is a major shareholder in DIAL and has significant experience in airport operations, the Authority has requested AAI to validate the Leigh Fischer Report dated November 2014 for the current allocation of assets into Aeronautical Assets and Non-Aeronautical Assets suggested therein. The Scope of Work for AAI is defined below:

7.30.1. Validation of the allocation of assets into aeronautical and non-aeronautical categories, suggested by Leigh Fisher, in its Report

7.30.2. Undertaking physical validation of the terminal area and its allocation

7.30.3. Comparison of the two Leigh Fischer (Jacobs) Reports, highlighting key differences, examining the change in allocation and assessment of justifications for these changes

7.31. Based on AAI's study report, the Authority would true up the asset allocation for the second Control Period during tariff determination of the 3rd Control Period. For the time being, the Authority has decided to continue with the allocation ratio of 89.25%:10.75% for the second Control Period.

7.32. IATA has commented that *"we believe that these costs should be split on an equal basis (50:50)"*. The Authority notes that IATA has not provided a basis for the justification of applying a ratio of 50:50 for asset allocation between aeronautical and non-aeronautical assets. The Authority has also noted FIA's suggestion of adopting an allocation of 70:30 based on the same being accepted elsewhere by international airports. The Authority believes that these suggestions are of normative nature, which will be considered by the Authority in finalization of its Normative Approach to Economic Regulation of Airports as presented in the Consultation Paper No 05/2014-15 dated 12.06.2014.

7.33. The Authority has also noted FIA's comment that "*It is submitted that the reports submitted by DIAL or any operator may be coloured by the approach proposed to be taken by DIAL Therefore, the Authority may consider to commission studies/ reports through independent consultants*".

7.34. With respect to FIA's comments regarding commission of independent studies, the Authority would like to mention that the airport is operated by DIAL independently and any data or information inputs for studies are provided for by DIAL. However, the Authority would like to highlight that the Authority appoints independent consultants to carry out the study, data inputs are validated, as necessary, through auditor certificates and other reliable documents. In case of any discrepancy or lack in clarity, further clarifications are sought on the issue at hand. Consequently, an analysis is made of the pertinent issues within the report before finalizing on the Authority's decision. Hence, the Authority believes that reports of independent consultants appointed by the Authority are fair and based on sound inputs and are not dependent on DIAL's representation alone.

7.35. In view of the above, the Authority continues with its approach on consideration of allocation of assets into aeronautical and non-aeronautical assets presented in the Consultation Paper No 16/2014-15 and has accordingly decided to apply allocation ratio of 89.25%:10.75% (aeronautical :non aeronautical assets) for the second Control Period.

Decision No. 5 Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order regarding the Allocation of Assets, the Authority has decided:

5.a. **To consider allocation of assets of 89.25% and 10.75% towards aeronautical and non-aeronautical assets respectively for the first Control Period and for the second Control Period**

5.b. **To true-up the allocation of asset into aeronautical and non-aeronautical component for the second Control Period as per the results of AAI's study on asset addition and its allocation for the second Control Period**

8. Opening Regulatory Asset Base (RAB) for Second Control Period

a. DIAL Submission on Opening Regulatory Asset Base (RAB)

8.1. DIAL has submitted that return on RAB for each year is calculated on the average of the opening and the closing RAB. Opening RAB is calculated based on the historical cost of assets created by the airport. In addition to above a value is determined on the assets acquired on privatization (Hypothetical Asset Base) in line with the SSA. Hypothetical Asset Base has been added based on the calculation explained earlier and the capital expenditure forecasted for the relevant year is added to the RAB.

8.2. The statutory auditors have classified total assets of the organisation between Aeronautical assets and Non-Aeronautical assets as follows:

"

Gross Block	*2013-14 (Rs. Crores)*
Aeronautical	*11,516*
Non Aeronautical	*1,388*
Total	*12,904*

"

8.3. DIAL submitted that opening RAB has been firmed up, by aggregating the aeronautical assets as on the last day of the 2013-14 as below:

"

RAB for the purpose of calculation of return on RAB	*As of Mar 2014 In Crores*	
Aeronautical Assets as certified by auditors		*11,516*
Less: DF funded assets	*(3,065)*	
Less: Aeronautical Assets disallowed	*(97)*	
Add: Forex Adjustment (Aeronautical Portion)	*479*	
Total Aeronautical Block eligible for return		*8,833*

"

8.4. Reconciliation of Assets used for RAB calculation of FY2013-14, as submitted by DIAL, is as follows:

"

Particulars	*Amount (in Rs. Crs)*	*Reference*
Tangible assets as on 31 Mar 2014	*10,491*	*Note 13 of financials*

Particulars	Amount (in Rs. Crs)	Reference
Intangible assets as on 31 Mar 2014	529	Note 14 of financials
DF Funded	3,065	Total of DF drawdown
DF Collection charges	(17)	Total DF Collection Charges
Total assets	**14,068**	
Aero Assets as per Auditor Certificate	11,516	
Non Aero Assets as per Auditor Certificate	1,388	
Forex Adjustment	537	
DF Interest Capitalized	188	(Capitalized in book and not considered for RAB)
Upfront fee	150	
Intangibles – VRS	289	
Total assets	**14,068**	

"

b. Authority's Examination of DIAL Submissions on Opening Regulatory Asset Base (RAB)

8.5. The Authority noted from DIAL's initial submission dated 10.11.2013 that DIAL had considered a closing RAB as on 31.03.2014 of Rs. 8,543.17 crore. The Authority also noted that DIAL had differed from the Authority's calculation of closing RAB in certain aspects.

8.5.1. Hypothetical RAB considered by DIAL was Rs. 1,119.00 crore at the end of FY2008-09 as against Rs. 467 crore decided by the Authority in its DIAL Tariff Order 03/2012-13.

8.5.2. Second, The Authority noted that DIAL had considered an adjustment of Rs. 536.82 crore as on 31.03.2014 on account of foreign exchange fluctuations. The Authority has noted from the financial statements of DIAL that the forex fluctuations for respective years are as follows:

Table 27: AS 11 adjustments in the books of DIAL as noted by the Authority

INR Crore	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
AS 11 adjustments (on account of forex fluctuations)	-	(11.65)	205.85	131.80	210.82
Total forex fluctuation for 1st Control Period = Rs 536.82 crore					

8.5.3. The Authority had noted from financial statements of DIAL that the actual capitalization of assets in FY 2011-12, FY 2012-13 and FY 2013-14 respectively are different from the values considered by the Authority in the said Order.

8.6. The Authority proposed to consider the HRAB at Rs. 467.00 crore at the end of FY 2008-09, pending outcome of the appeal by DIAL. As per the DIAL Tariff Order 03 / 2012-13, HRAB was proposed to depreciate at a rate, which is the average rate of depreciation of aeronautical assets every tariff year. The Authority proposed to consider closing HRAB at the end of FY 2013-14 as Rs. 365.52 crore.

8.7. In the matter of adjustments in RAB related to foreign exchange variations related to both debt and interest on debt, the Authority did not find any fresh argument in the matter from DIAL and proposed not to consider foreign exchange fluctuations in the determination of RAB.

8.8. The Authority considered the closing RAB as on 31.03.2014 at Rs. 7,168.65 crore, which included closing value of HRAB at Rs. 365.52 crore. Accordingly the opening RAB for second Control Period was proposed to be considered at Rs. 7,168.65 crore, which included opening value of HRAB at Rs. 365.52 crore.

8.9. The Authority proposed to have the reconciliation of the DIAL project scope and its final cost and appropriately consider the cost incurred, if any, including IDC, based on reconciliation study at the time of determination of tariff for the next control period. The Authority also proposed to obtain revised Board approval with justification for increase in cost and/or scope.

8.10. Regarding Opening RAB for second Control Period for DIAL, Based on the material before it and its analysis, the Authority proposed

8.10.1. To consider an Opening RAB of Rs. 7,168.65 crore, which included opening value of HRAB at Rs. 365.52 crore

8.10.2. To reconcile the scope considered under the allowable project cost of Rs. 12,502.86 crore and the costs incurred by DIAL for this scope as elaborated in Consultation Paper No 16/2014-15 dated 28.01.2015

8.10.3. To appropriately consider the outcome of the study at the time of determination of tariff for the next control period as presented in Consultation Paper No 16/2014-15 dated 28.01.2015

c. **Stakeholder Comments on Issues pertaining to Opening Regulatory Asset Base (RAB)**

8.11. On the Authority's proposal regarding ECB forex fluctuation, ACI submitted the following

"The loss on account of External Commercial Borrowing (ECB) is not considered a pass-through item. As the lower cost of debt (due to ECB) is beneficial to passengers and lead to lower charges, the related risk of foreign currency decline should therefore also be allowed. AERA should ensure consistent treatment of cost and the associated benefits of related items. In the event that foreign exchange fluctuation is not allowed on borrowing, the same principle should be applied to User Development Fee receipts and Duty free receipts whereby the resultant gains thereof should be taken out of the regulatory consideration. "

8.12. APAO submitted that the Authority should allow foreign exchange fluctuation as a pass through, reasoning that

"The Authority should allow the foreign exchange fluctuations as a pass through cost in its determination of tariff for aeronautical services on account of the following reasons:

i) By resorting to the cheaper source of finance i.e. External Commercial Borrowing, DIAL has passed on the benefit to the airlines and passengers as a result of lower cost of debt. But foreign currency depreciation, which is an external factor beyond the control of the company, has resulted in the increase in the actual cash outflow from the books of the company.

ii) The External commercial borrowing facility was availed by DIAL before the AERA came into existence. AERA may note that altering the capital structure is a very cumbersome exercise.

iii) APAO highlights that the capital asset created from the funds sourced via foreign currency loan is subject to depreciation year on year. On the other hand, foreign currency depreciation results in actual increase in the liabilities. ICAI provides the resolution to this under Chapter 46A of AS -11 which provide:

"In respect of accounting periods commencing on or after the 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 and at the option of any other enterprise (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset..."

This treatment was further validated by Ministry of Corporate Affairs by a notification in 2012.

APAO would like to highlight that DIAL"s intent to avail Foreign Currency Loan as to reduce the burden on the passenger. But as a result of external factors, it has resulted into actual loss to the company. As a matter of fair treatment, any associated gain or loss should be transferred to the passengers. Non-consideration of the same may result into a situation where existing and future private airports would not subscribe to cheaper source of finance and instead use Rupee Term Loan which is much more expensive source of finance.

v) APAO will also like to highlight that DIAL has not taken out costly exchange hedges as it has relied upon natural hedge derived from its own foreign exchange revenues. This is in line with international best practices and also helps to reduce the cost of hedging that would have otherwise been allowed to pass through to determine aero charges. However AERA has disallowed the Forex fluctuation related to foreign exchange borrowing but on the other hand the gains being made by DIAL due to foreign exchange fluctuation like that of higher UDF revenue, higher revenue of duty free due to Forex fluctuation are being considered as part of tariff determination. This puts DIAL in a double jeopardy and is totally unfair as the addl. cost associated with Forex fluctuation *are being burdened on DIAL whereas the natural hedge are being taken away. It is these kinds of irrational decisions that aggravate the viability of DIAL.*

APAO Recommendation:

Airport operators who have borrowed in form of foreign exchange linked loan, the Forex fluctuation should be allowed as part of RAB."

8.13. CII submitted that DIAL had availed of ECB which helped reduced its borrowing cost and hence helped keep tariffs low. Supporting cost pass through of forex fluctuation CII stated:

"DIAL had taken External Commercial Borrowing. This was done before the constitution of AERA. This was done to ensure that the cost for the passenger is lower. AERA is not allowing the Forex fluctuation on the Forex borrowing.

As a result of availing the ECB facility, DIAL has been able to reduce down the interest cost on borrowed funds. The associated benefit of lower borrowing cost gets disseminated ultimately to passengers. However in all ECB facilities there is an associated risk of Forex fluctuations of amount borrowed.

AERA is taking the benefit of lower cost of ECB but not allowing the Forex fluctuations associated with it. This contradiction in the treatment has resulted in the substantial fall in the RAB and reduced the return on RAB for DIAL. This is impacting viability of DIAL and sending wrong signal to investing community.

CII request: ECB borrowing is necessary to ensure that in future also airports borrow at lower cost to passengers. This is also needed to ensure viability of DIAL and lower charges to passengers."

8.14. FICCI submitted the following:

"AERA has proposed to disallow the forex fluctuation. It results in the disallowance of Forex losses from the Net Asset Block resulting in lower RAB and lower return on RAB under building block. This means actual amount of ECB being repaid is not allowed to be recovered. The regulator should provide level playing field to all the stakeholders. "

8.15. IATA agrees with the Authority's proposed approach and stated

"In principle, we agree with the adjustments that AERA has undertaken to calculate the RAB (i.e. forex, hypothetical RAB, etc).

However, as highlighted previously, we request AERA to reconsider its cost allocation percentages which has an effect on the RAB calculation"

d. DIAL's response to Stakeholder Comments on Opening Regulatory Asset Base (RAB)

8.16. DIAL's response to ACI with respect to treatment of forex fluctuation as part of RAB is as follows

"Authority has not allowed Forex fluctuation as part of RAB. The current stand of Authority for not including the Forex fluctuation a part of RAB is not justified. Foreign Currency borrowing is a part of the endeavour of DIAL to keep the charges low for passengers. The current stand of Authority means that airports will be forced to borrow at a higher Cost in rupee terms.

The sourcing of funds at a lower rate in foreign exchange is for the benefit to the passenger / other stakeholders by wav of a WACC. However, this means of funding also carries the inherent risk of foreign exchange fluctuations. Taking the benefit of a lower interest rate but not allowing the resultant Forex fluctuation goes against the principles of natural justice.

The fluctuation need to be incorporated as part of RAB because of following reasons:

1. *The Forex borrowing is at normal levels:*

   The level of borrowing is at level generally accepted to be normal in the industry.

2. *This borrowing was availed before the Authority's current stand was finalized*

The borrowing Structure cannot be amended now. However, this can at best be a guiding principle for future. In order to leverage an efficient financing structure and for reduction in interest cost, airport operators take foreign currency loans to part fund the project cost, the same is applicable for DIAL.

The Company has not retained the benefits of cheaper borrowing cost and is passed on to the passenger in the farm of lower WACC. If the Company had taken Domestic Loan instead Of the equivalent amount, the outflows cash towards interest costs would have been much more.

Also it should be noted that the loss at Forex fluctuation on interest payment and principal repayments is real in nature and not a notional loss. DIAL has taken the hit of the Forex fluctuations owing to interest and repayments servicing the ECB loan. This loss is not included in the computations of WACC

Therefore, is requested to allow the Loss on impact of Forex Fluctuations by Inclusion Of same in RAB. Apart from above on one hand authority is allowing loss due to foreign exchange fluctuation from ECB, on the contrary not allowing to keep the foreign exchange fluctuation benefit of UDF.

We will also like to highlight that we have not taken out costly exchange hedges as it has relied upon natural hedge derived from its own foreign exchange revenues. This is in line with international best practices and also helps to reduce the Cost of hedging that would have otherwise been allowed to pass through to determine aero charges. However AERA has disallowed the Forex fluctuation related to foreign exchange borrowing but on the other hand the gains being made by DIAL due to foreign exchange fluctuation like that Of higher UDF revenue, higher revenue of duty free due to Forex fluctuation are considered as part Of tariff determination, This puts DIAL in a double Jeopardy and is totally unfair as the additional cost associated with Forex fluctuation are being burdened on DIAL whereas the natural hedge is being taken away, These sorts of irrational decisions have aggravated the doubt over the viability of DIAL."

8.17. DIAL's response to APAO, CII, FICCI, IATA comments on forex fluctuation in RAB is similar to its response to ACI's comments

"The current stand of Authority of not including the Forex fluctuation a part of RAB is not justified. This is part of the endeavor of DIAL to keep the charges low for passengers. The current stand of Authority means that airports will be

forced to borrow at a higher cost in rupee terms. The sourcing of funds at a lower rate in foreign exchange is for the benefit to the passenger / other stakeholders by way of a lower WACC. However it is means of funding also carries the inherent risk of foreign exchange fluctuations. It is the benefit of a lower interest rate but not allowing the resultant Forex fluctuation goes against the principles of natural justice.

The fluctuation need to be incorporated as part of RAB because of fallowing reasons:

1. *The level of Forex is not excessive. The level of borrowing is at the level generally accepted to be normal in the industry.*
2. *The Target Revenue should cover the actual debt repayment in INR of Foreign currency denominated loans of DIAL*

In order to leverage an efficient financing structure and for reduction in interest cost, airport operators take foreign currency loans to part fund the project cost, same 's applicable for DIAL.

The Company has not retained the benefits of cheaper borrowing cost and is passed on to the passenger in the form of lower WACC. The Company had taken Domestic Loan instead of the ECB equivalent amount, the outflows of cash towards interest costs would have been much more.

It should be noted that the loss of Forex fluctuation on interest payments & principal repayments is real in nature and not notional loss. DIAL has taken a hit on the Forex fluctuations owing to interest and repayments servicing the ECB loan and loss is not included in the computations of WACC.

We will also like to highlight that DIAL has not taken out costly exchange hedges as it has relied upon natural hedge derived from its own foreign exchange revenues. This is in line with international best practices and also helps to reduce the cost of hedging that would have otherwise been allowed to pass through to determine aero charges. However AERA has disallowed the Forex fluctuation related to foreign exchange borrowing but on the other hand *the gains being made by DIAL due to foreign exchange fluctuation like that of higher UDF revenue, higher revenue of duty free due to Forex fluctuation are being considered as of tariff This puts DIAL in a double jeopardy and is totally unfair as the additional cost associated with Forex fluctuation are being burdened on DIAL whereas the natural hedge are being taken away. These irrational decisions will aggravate the doubt over the viability of DIAL. Therefore, it's requested to allow the Loss on Impact of Forex Fluctuations by inclusion of same in RAB"*

8.18. DIAL added to its response to CII as below

"We will also like to highlight that DIAL has not taken out costly exchange hedges as it has relied upon natural hedge derived from its own foreign exchange revenues. This is in line with international best practices and also helps to reduce the cost of hedging that would have otherwise been allowed to pass through to determine aero charges. However AERA has disallowed the Forex fluctuation related to foreign exchange borrowing but on the other hand the gains being made by DIAL due to foreign exchange fluctuation like that of higher UDF revenue, higher revenue of duty free due to Forex fluctuation are being considered as of tariff This puts DIAL in a double jeopardy and is totally unfair as the additional cost associated with Forex fluctuation are being burdened on DIAL whereas the natural hedge are being taken away. These irrational decisions will aggravate the doubt over the viability of DIAL."

e. DIAL's own comments on Issues pertaining to Opening Regulatory Asset Base (RAB)

8.19. DIAL's submission on issues related to HRAB is as under,

"Issues in determination in first control period:

We again reiterate that during the first control period tariff determination, Authority on one hand held that CUTE counter charges as part of the aeronautical charges, the revenue received from provision of these services has not been included while calculating the HRAB. The AERA's approach is self-contradictory, inconsistent.

The Authority's approach must be in sync with the principles laid down in the SSA. Schedule 1 of the SSA provides that:

Consistency: Pricing decisions in each regulatory review period will be undertaken according to a consistent approach in terms of underlying principles. Accordingly, the treatment of CUTE counter charges must be consistent – The AERA cannot treat these services as aeronautical for the purpose of regulation and simultaneously treat the revenue from them as non-aeronautical for the purpose of determining HRAB under the same process of tariff determination.

Additionally Authority has included the manpower cost of both AAI and DIAL staff in the operation and maintenance costs for the purpose of HRAB determination. DIAL had argued against this and had previously submitted expert opinions of KPMG and Prof. Martin Cave to support its view.

DIAL is of opinion that, for the purpose of calculation of HRAB, only efficient cost should be considered (in accordance with the efficiency principle under Schedule 1 the SSA) – considering the overlapping manpower costs while determining HRAB would not be in line with the efficiency principle as this was only a one time short-term scenario. Thus, DIAL submitted that DIAL staff should be excluded for the purpose of calculation of HRAB.

There was an overlap of AAI staff and DIAL staff during the 2008/ 09 financial year on account of the requirements under the OMDA, which prescribes the retention of 60% of the existing AAI staff for an initial period following concession. It is submitted that it is not appropriate to include the cost of both AAI and DIAL staff as part of the operating and maintenance expense in computing HRAB and only the AAI staff should be treated as part of the operating and maintenance cost that actually pertained to the provision of Aeronautical Service. The Authority has not done so and has included both categories in computing HRAB. DIAL had submitted before the Authority the expert opinions of KPMG and Prof. Martin Cave. The expert opinions/ evidences *should have been taken into consideration, but have been ignored by the Authority. KPMG in its report reached the following conclusion:*

Duplication of manpower is maximum in FY2009 because it is the last full financial year of operation support. Also, duplication of manpower cost is not a recurring cost. For the purpose of calculation of HRAB, only the sustainable manpower cost, i.e. the manpower cost related to AAI staff may be considered.

HRAB Valuation change due to change in classification of revenues:

It is submitted that a consistent approach needs to be adopted for working out hypothetical RAB based on classification of revenue into aero and non-aero. The authority is incorrectly treating Cargo screening charges, cute charges and Into Plane charges as AERO as we have submitted in other chapters of this submission. Without prejudice, if AERA treats these revenue heads as Aero revenue, it will need to appropriately rework the calculation of hypothetical RAB which will need to be enhanced effective from the first control period. AERA is requested to adopt a balanced and consistent approach."

8.20. DIAL's submission with respect to adjustment of forex exchange in RAB was in tune with its response to stakeholders as under

"The current stand of Authority of not including the Forex fluctuation a part of RAB is not justified. This is part of the endeavour of DIAL to keep the charges low for passengers. The current stand of Authority means that airports will be forced to borrow at a higher cost in rupee terms.

The sourcing of funds at a lower rate in foreign exchange is for the benefit to the passenger / other stakeholders by way of a lower WACC. However this means of funding also carries the inherent risk of foreign exchange fluctuations. Taking the benefit of a lower interest rate but not allowing the resultant Forex fluctuation goes against the principles of natural justice.

The fluctuation need to be incorporated as part of RAB because of following reasons:

1. The level of Forex borrowing is not excessive. The level of borrowing is at the level generally accepted to be normal in the industry.

2. The Target Revenue should cover the actual debt repayment in INR of Foreign currency denominated loans of DIAL.

In order to leverage an efficient financing structure and for reduction in interest cost, airport operators take foreign currency loans to part fund the project cost, the same is applicable for DIAL.

The Company has not retained the benefits of cheaper borrowing cost and is passed on to the passenger in the form of lower WACC. If the Company had taken

Domestic Loan instead of the ECB equivalent amount, the outflows of cash towards interest costs would have been much more.

Also, it should be noted that the loss of Forex fluctuation on interest payments & principal repayments is real in nature and not a notional loss. DIAL has taken the hit of the Forex fluctuations owing to interest and repayments servicing the ECB loan. This loss is not included in the computations of WACC. We will also like to highlight that DIAL has not taken out costly exchange hedges as it has relied upon natural hedge derived from its own foreign exchange revenues.

This is in line with international best practices and also helps to reduce the cost of hedging that would have otherwise been allowed to pass through to determine aero charges. However AERA has disallowed the Forex fluctuation related to foreign exchange borrowing but on the other hand the gains being made by DIAL due to foreign exchange fluctuation like that of higher UDF revenue, higher revenue of duty free due to Forex fluctuation are being considered as part of tariff determination. This puts DIAL in a double jeopardy and is totally unfair as the addl. cost associated with Forex fluctuation are being burdened on DIAL whereas the natural hedge are being taken away. These irrational decisions will aggravate the doubt over the viability of DIAL.

Therefore, it is requested to allow the Loss on impact of Forex Fluctuations by *inclusion of same in RAB.*

Apart from above on one hand authority is not allowing foreign exchange fluctuation from ECB, but taking away foreign exchange fluctuation benefit of UDF and duty free."

8.21. DIAL's commented on the matter of reconciliation of project cost with project scope by reproducing the project work listed in OMDA Schedule 7 and reproduced the Table 1 and 2 on project cost for the Delhi Airport and Means of Finance respectively, from the Order No. 30/2012-13 dated 28.12.2012. Extracts of its comments are reproduced below:

"The entire Development / Expansion work carried out and to be further carried out by DIAL at IGI Airport is based on the concession agreement and the scope defined therein.

DIAL had submitted to the Authority the project cost report as approved by its board of directors vide its letter No DIAL 2009-10 /MoCA- DF/2651 Dated April 1 2010. The Authority had thoroughly reviewed the entire Project Cost. At the reference of Authority itself Engineers India Limited and KPMG had submitted the detailed report on the technical and financial aspects of the project. The Authority considered these reports while accepting the project cost for IGI Airport to determine the RAB. "

"The current stand of Authority to review its own decision, which was taken after due consultation process is totally unwarranted and will add to regulator uncertainty. DIAL has submitted all required detail with respect to the additional capex of Rs. 267 crores. AERA should consider this additional capex and accept to include it in the RAB while calculating tariff for aeronautical services for the second control period."

f. Authority's Examination of Stakeholder Comments on Opening Regulatory Asset Base (RAB)

8.22. The Authority has carefully considered the comments from the stakeholders as well as DIAL's comments and response to these stakeholder's comments regarding

Opening Regulatory Asset Base (RAB) for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

8.23. Regarding the matter of reconciliation of project scope, the Authority has looked at DIAL's submissions on reconciliation of project cost with the asset value as per the books of DIAL. DIAL has stated that the JV assets were not part of the project cost of Rs. 12,857 Crore and were to be developed by other JV entities. Even on acceptance of their claim, the Authority finds that as per DIAL's own submissions on reconciliation, the asset value in the books of DIAL after being adjusted for AS-11 adjustments and DF exceeds the allowable project cost by an amount of about Rs. 546 crore (if 350.50 Crore Interest on DF is not considered as part of the original project cost or Rs. 896.11 Crore (if Rs. 350.50 crores are considered as part of the project cost). DIAL has submitted that interest on DF is not a part of the original project cost. As per DIAL submission, there is an excess of Rs. 546 crore from the original project cost, whereas Authority notes the project cost of Rs. 12857 Cr is inclusive of Rs. 1320 Cr. of pre-operative and IDC Cost and DF, as a means of finance were granted on that basis. DIAL has not provided the details of this amount of Rs. 546 crore and the same will be reconciled. The Authority also proposes to have a reconciliation study on the cost of JV assets and assess whether they are part of the allowable project cost.

8.24. The Authority notes that as regards regulatory asset base, stakeholders have primarily commented on the treatment on foreign exchange fluctuations. It is noted that APAO, ACI, CII and FICCI have requested the Authority to consider foreign exchange rate fluctuations in determination of aeronautical tariff through appropriate adjustments in RAB. Authority Refers to decision 12.C and 29.f of the DIAL Order for the 1st control period. Accordingly, the Authority decided not to consider any adjustments related to currency fluctuation on capital or interest payments or any other charges in respect of the ECB loan. The Authority also decided that WACC will not be trued-up.

8.25. The Authority has also noted the fact that DIAL has hedged the Forex loan for IRS, restructure of rupee term loan and replacement of ECB loan with Bonds at lesser financing cost. Hence, head room is available in WACC and the cost of saving in financing the project needs to be accounted, which according to assessment is much more than the Forex fluctuation. However in view raising the issue again. 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. Accordingly, the opening RAB computed by the Authority is Rs. 7,120.79 crore including HRAB.

Decision No. 6 **Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order regarding the Opening Regulatory Asset Base, the Authority has decided to:**

6.a. **To consider an Opening RAB of Rs. 7,120.79 crore (refer Table 37), which includes opening value of HRAB at Rs. 357.38 crore and the carry over RAB from RAB true up of Rs. 15.18 Cr.**

6.b. **To reconcile the scope considered under the allowable project cost of Rs. 12,502.86 crore and the costs incurred by DIAL for this scope as elaborated in Consultation Paper No 16/2014-15 dated 28.01.2015**

9. Hypothetical Asset Base

a. DIAL Submission on Hypothetical Asset Base (HRAB)

9.1. Hypothetical Asset Base is a part of Regulatory Asset Base, which has been considered as a regulatory building block for the purpose of determination of aeronautical tariff. The Hypothetical Regulatory Asset Base (HRAB) was set as Rs. 467 crore vide Decision No. 10 of the Authority's Order no. 3/2012-13 dated 20.04.2012 in respect of IGI Airport, Delhi as against Rs. 1,119 crore submitted by DIAL; at the time of determination of tariffs for the first Control Period.

9.2. DIAL submitted the following calculation for Hypothetical Asset Base, based on its interpretation of the principles of SSA and OMDA, for the current Control Period:

Particulars	2008-09 Figures in Rs. Crores
Aero Revenue [A]	434
Aero Expenses [B]	385
Less: Expenses not considered [C]	82
DIAL manpower cost	81
Runway 11/29 operations & maintenance cost	1
Eligible Expenses [D=B-C]	304
Aero EBIDTA [A-D]	130
WACC	11.60%
Hypothetical Asset Base	1,119

b. Authority's Examination of DIAL Submission on Hypothetical Asset Base (HRAB)

9.3. The Authority noted that DIAL submitted the same value of Rs. 1,119 crore in its submissions for the first Control Period. The Authority vide Paras 168 to 201 of Consultation Paper No. 32/2011-12 dated 03.01.2012 had examined the submissions of DIAL on the Hypothetical Regulatory Asset Base and vide Paras 12.21 to 12.35 of DIAL Tariff Order 03/2012-13 had given its decision on the same. The Authority, vide Decision No. 10 of DIAL Tariff Order 03/2012-13, had determined the value of Hypothetical Regulatory Asset Base (HRAB) as Rs. 467 crore as against Rs. 1,119 crore submitted by DIAL as calculated below:

Table 28: Hypothetical RAB determined by the Authority in its Delhi Tariff Order 03/2012-13

Hypothetical RAB as decided by the Authority	INR crore
Revenues at prevailing tariffs in the year 2008-09 [A]	433.51

Hypothetical RAB as decided by the Authority	INR crore
Landing Charges	243.51
Parking & Housing Charges	13.40
Passenger Service Fees	85.16
Baggage X- Ray Revenue	3.63
In-Line X-Ray Revenue	15.34
Fuel Throughput Revenue	72.47
Aeronautical Expenses [B]	385.23
Operation and Maintenance Cost	385.23
Corporate Tax pertaining to aeronautical services at the airport	0.00
Eligible Target Revenue C= (A-B)	48.28
Capitalisation Factor (@ WACC) [D]	10.33%
Hypothetical Asset Base =C /D	467.00

9.4. The Authority did not find any new argument submitted by DIAL on this issue in its submission for determination of aeronautical tariffs for the second Control Period and proposed to maintain their decision. However, the Authority acknowledged that its determination of HRAB would be subject to the final outcome of DIAL's appeals before AEARAT / High Court in respect of Delhi Tariff Order no. 03/2012-13.

9.5. Accordingly, HRAB considered towards determination of aeronautical tariff based on the closing HRAB for 2013-14 (also the Opening RAB for the 2nd control Period) was calculated as below:

Table 29: HRAB and Depreciation on HRAB till the end of the first Control Period in Consultation Paper No. 16/2014-15

Hypothetical RAB (HRAB)	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Opening HRAB	-	467.00	441.80	424.15	406.66	388.73
Additions to HRAB	467.00	-	-	-	-	-
Depreciation on HRAB	-	25.20	17.65	17.49	17.94	23.20
Closing HRAB (A+B-C)	467.00	441.80	424.15	406.66	388.73	365.52

*Depreciation on HRAB has been estimated on the average depreciation rate for the aeronautical assets in respective year, which have in turn been re-estimated by excluding aeronautical assets funded by Development Fee.

9.6. The Authority also computed the HRAB considered towards determination of aeronautical tariff for the second Control Period while noting the sharp jump in depreciation on HRAB in FY2014-15 from FY2013-14 on account of new rates of depreciation adopted by DIAL from FY2014-15 onwards, as below:

Table 30: HRAB and Depreciation on HRAB for Second Control Period in Consultation Paper No. 16/2014-15

	2014-15	2015-16	2016-17	2017-18	2018-19
Opening HRAB	365.52	336.92	310.21	283.78	257.53
Add: Additions to HRAB	0.00	0.00	0.00	0.00	0.00
Less: Depreciation on HRAB	28.61	26.71	26.44	26.25	25.96
Closing HRAB	336.92	310.21	283.78	257.53	231.57

9.7. Regarding Hypothetical RAB for second Control Period for DIAL, based on the material before it and its analysis, the Authority proposed

9.7.1. To continue with its determination of Hypothetical RAB at Rs. 467.00 crores as on 31.03.2009 as was considered in Delhi Tariff Order 03 / 2012-13

9.7.2. To adopt the year-wise average depreciation rate for aeronautical assets for the second Control Period as rate of depreciation for HRAB in the second Control Period

9.7.3. To accordingly consider an Opening Hypothetical RAB of Rs. 365.52 crore as on 01.04.2014

c. Stakeholder Comments on Issues pertaining to Hypothetical Asset Base (HRAB)

9.8. APAO is of the view that if Cargo Screening is treated as aeronautical, it's impact should also be seen on HRAB,

"APAO, in principle, is of the view that there should be no violation of concession agreements and the entire tariff fixation should be as per provisions of concession agreement.

i. Subject to above principle being adhered, APAO would like to highlight that AERA had considered Cargo Screening as Non Aero while calculating the Hypothetical RAB. If AERA decides to consider Cargo Screening revenues as aero then retrospective effect should be given by adding the cargo screening income in FY2008- 09 in the aeronautical income to be reckoned towards calculating Hypothetical RAB.

ii. Additionally, Ministry of Civil Aviation had confirmed in a communication to AERA that any revenues from cargo related business should be *classified under non aeronautical head. The new proposed Ground Handling Policy as issued on 28th Sep, 2007 vide AIC Sl. No. 7/2007 by DGCA defines ground handling to include:*

1.1. "Ground handling" means:

i. ramp handling which shall include the activities specified in Annexure A

ii. Traffic handling which shall include the activities as specified in Annexure B; and

iii. Any other activity specified by the Central Government to be a part of either ramp handling or traffic handling.

The passenger handling items are given in Annexure B of the aforesaid policy. It includes amongst others the X-Ray scan of cargo (para5.1)

It seems that treatment of cargo screening as aero by AERA is stemming from the notion that cargo screening is security service. AERA may note that as per the new GH policy X-Ray in any nature whether baggage/ cargo/ aircraft are classified as Ground Handling Services, which is considered non aeronautical in nature.

APAO recommendation: In view of the provisions of concession agreement and based on evidence produced above, the Cargo screening be considered as Non-Aeronautical for the tariff determination of DIAL."

9.9. FIA has commented on the Authority's consideration of HRAB as Rs. 467 crore and has stated that,

"The Authority proposes to consider the HRAB at Rs.467 crores at the end of FY 2008-09, pending outcome of the appeal by DIAL (Para 9.5 & 9.6 of the Consultation Paper), As per the Previous Order, HRAB is proposed to depreciate at a rate, which is the average rate of depreciation of aeronautical assets every tariff year. Accordingly, the Authority proposes to consider closing HRAB at the end of FY 2013-14 as Rs.366 crores. The SSA indicates the components of the HRAB but it does not give the method of capitalizing the resultant revenue stream, hence the computation of HRAB for 1St Control Period by the Authority

does not seem to be in concurrence with SSA. Per para 12.25 of the Previous Order, the Authority had requested the MoCA to indicate the objective and mechanism for computation of HRAB. However, the MoCA have not intimated the Authority in the matter. The table below shows the decrease in values of RAB and increase in depreciation over the two control periods due to adoption of life as per the Companies Act. It is evident from the below table that there is substantial reduction on the value of RAB due to increased rate of depreciation.

Hypothetical RAB	*FY10*	*FY11*	*FY12*	*FY13*	*FY14*
Opening HRAB (A)	*467*	*442*	*424*	*407*	*389*
Closing HRAB (B)	*442*	*424*	*407*	*369*	*366*
Average HRAB ((A)+(B))/2	*654*	*433*	*415*	*390*	*377*
Depredation	*25*	*18*	*17*	*18*	*23*
Rate of depreciation	*5.55%*	*4.08%*	*4.21%*	*4.51%*	*6.15%*
Average rate of depreciation	*4.90%*				

Hypothetical RAB	*FY18*	*FY18*	*FY17*	*FY18*	*FY19*
Opening HRAB (A)	*366*	*337*	*310*	*284*	*258*
Closing HRAB (B)	*337*	*310*	*284*	*258*	*232*
Average HRAB ((A)+(B))/2	*381*	*324*	*297*	*271*	*245*
Depreciation	*29*	*27*	*26*	*26*	*26*
Rate of depreciation	*8.15%*	*8.25%*	*8.90%*	*9.70%*	*10.62%*
Average rate of depreciation	*9.12%*				

It is submitted that sensitivity analysis to understand the impact of excluding HRAB on target revenue indicates that the exclusion of HRAB will reduce target revenue by 4%.

Sr. No.	*Particulars*	*FY15*	*FY16*	*FY17*	*FY18*	*FY19*		*Change*	*% Change*
A	*Average RAB*	*8,594*	*6,230*	*5,917*	*5,602*	*5,297*			
B	*Fair Rate of Return*	*9.99%*	*9.99%*	*9.99%*	*9.99%*	*9.99%*			
C	*Return on Average RAB (A*B)*	*858*	*622*	*591*	*559*	*529*	*2,960*	*-148*	*-5%*
D	*Operating Expenditure*	*753*	*798*	*606*	*867*	*939*	*4,163*	*-*	*-*
E	*Depreciation*	*508*	*482*	*467*	*493*	*498*	*2,488*	*-134*	*-5%*
F	*Corporate Tax*	*-*	*-*	*-*	*-*	*-*	*-*		*-*
G	*Cross Subsidization of 30% of non-aeronautical revenue*	*-324*	*-364*	*-387*	*-420*	*-487*	*-1,953*		*-*
H	*True up*	*-188*	*-*	*-*	*-*	*-*	*-189*	*-*	*-*

I	*Aggregate Revenue Requirement (C+D+E+F+G+H)*	*1,407*	*1,548*	*1,496*	*1,499*	*1,499*	*7,449*	*-282*	*-4%*

It is submitted that there will be an increase in depreciation and return on RAB of airport operator, if the HRAB is included in RAB which would consequently increase the target revenue. Hence, it is submitted that the Authority should not have considered HRAB as part of target revenue:

(a) As the principles laid out in the SSA are inconsistent with the Authority's regulatory philosophy;

(b) In the absence of any intimation from MoCA with respect to HRAB computation"

9.10. In the matter of determination of HRAB by the Authority, IATA stated that,

"We supported this approach during the determination of tariffs for the first control period and continue to support it as there is no new evidence to suggest a need to change our position."

Taking the average depreciation rate is an acceptable assumption. However, a better approach might be to assume a "fixed" asset life and depreciate the HRAB accordingly. This will improve the certainty of the depreciation values in the future and avoid true up calculations.

The calculation is in line with what the Authority had proposed previously. However, as stated under Proposal 7.a.ii. Above, the Authority may want to reconsider its approach towards depreciation in subsequent periods."

d. DIAL's response to Stakeholder Comments on Hypothetical Asset Base (HRAB)

9.11. DIAL's response to APAO comments is as under,

""We agree to the contention of APAO that Cargo Screening is Non Aeronautical in nature. To add to the above arguments, in response of pre bid query, AAI mentioned as to what all constitutes Aeronautical income and AAI provided the below clarification to DAL. The above goes on to show that on

income arising from the below activities was proposed to be treated as aeronautical income of DIAL:

1. *Landing*
2. *Parking*
3. *Housing*
4. *Facilitation component of PSF*

All other incomes including those arising from Cargo Handling Services were Non Aeronautical is also relevant to note the response of AAI a pre bid query

319	Query: What are the current charges (X-ray, warehousing, handling, demurrage etc.) for different categories of cargo? Please provide the percentage mix of different categories of cargo for the past 5 years. What is the reason for the high percentage of demurrage revenue in total cargo revenue?	Response: The x-ray charges levied by AAI up to 31-3-2005 was Rs. 1.50 per kg. Subject to a minimum of Rs. 100 per consignment. AAI Board has approved the rationalization of x-ray charges on account of 100% x-ray screening of export cargo @ 0.75 per kg. w.e.f. 01-04-2005. The existing charges for warehouse, handling demurrage etc. are provided in the Data Pack CD 3. The percentage mix of different categories of cargo in the last five years is also provided in the Data Pack CD 3. Because of high dwell time of import cargo importers pay more demurrage charges for the consignments which are cleared beyond the free period of 05 working days. As per Survey conducted during July 2004 at IGIA-Cargo, the average dwell time of import cargo works out to 7.7 days and of export cargo is 2.5 days. The reasons for high dwell time are due to Customs procedures and agents/ importers readiness to clear their cargo.

Response to the above query reveals that the prior to the award the concession of the Airport to DIAL, cargo screening activity was being undertaken by the AAI and was therefore not part of aeronautical income.

It is also pertinent to note the response of AAI to another pre-bid query on the entities which were engaged in providing ground handling services."

9.12. DIAL's response to comments from IATA is as below,

"We are of the view that the current valuation of RAB needs to be revised for the following:

1. *Hypothetical RAB (HRAB) matter is sub judice:*

   The valuation of Hypothetical RAB in first control period is sub judice and the opening RAB may need to be revised based on the outcome of *the AERAAT appeal. It's earnestly requested that we may need to be allowed to revise cur filing based on outcome of appeal.*

2. *HRAB Valuation need to change due to Change if classification of revenues are contemplated to be changed:*

   It's earnestly requested that the Hypothetical RAB may need a revaluation if some items are being considered as aeronautical. We are opposed to the reclassification of revenue in violation of concession agreement, but have to highlight that the approach of AERA to consider, though incorrectly, certain revenues as aeronautical without incorporating the consequential impact in HRAB is illogical and inconsistent."

e. DIAL's own comments on Issues pertaining Hypothetical Asset Base (HRAB)

9.13. DIAL's submission on value of HRAB considered by AERA is as under,

"To reiterate our earlier stand, during the first control period tariff determination, Authority on one hand held that CUTE counter charges as part of the aeronautical charges, the revenue received from provision of these services has not been included while calculating the HRAB. The AERA's approach is self-contradictory and inconsistent.

The AERA's approach must be in sync with the principles laid down in the SSA.

Schedule 1 of the SSA provides that:

Consistency: Pricing decisions in each regulatory review period will be undertaken according to a consistent approach in terms of underlying principles. Accordingly, the treatment of CUTE counter charges must be consistent – The AERA cannot treat these services as aeronautical for the purpose of regulation and simultaneously treat the revenue from them as non-aeronautical for the purpose of determining HRAB under the same process of tariff determination.

Additionally Authority has included the manpower cost of both AAI and DIAL staff in the operation and maintenance costs for the purpose of HRAB *determination. DIAL had argued against this and had previously submitted expert opinions of KPMG and Prof. Martin Cave to support its view.*

DIAL is of opinion that, for the purpose of calculation of HRAB, only efficient cost should be considered (in accordance with the efficiency principle under Schedule1 the SSA) – considering the overlapping manpower costs while determining HRAB would not be in line with the efficiency principle as this was only a one-time short term scenario. Thus, DIAL submitted that DIAL staff should be excluded for the purpose of calculation of HRAB.

There was an overlap of AAI staff and DIAL staff during the 2008/ 09 financial year on account of the requirements under the OMDA, which prescribes the retention of 60% of the existing AAI staff for an initial period following concession. It is submitted that it is not appropriate to include the cost of both AAI and DIAL staff as part of the operating and maintenance expense in computing HRAB and only the AAI staff should be treated as part of the operating and maintenance cost that actually pertained to the provision of Aeronautical Service. The Authority has not done so and has included both categories in computing HRAB.

DIAL had submitted before the Authority the expert opinions of KPMG and Prof. Martin Cave. The expert opinions/ evidences should have been taken into consideration, but have been ignored by the Authority. KPMG in its report reached the following conclusion:

Duplication of manpower is maximum in FY2009 because it is the last full financial year in the OSP. Also, duplication of manpower cost is not a recurring cost. For the purpose of calculation of HRAB, only the sustainable manpower cost, i.e. the manpower cost related to AAI staff may be considered.

Revaluation based on reclassification of revenue as AERO:

Additionally, a consistent approach may be adopted for treating of cargo screening, into plane, cute revenue. If these revenues are classified as Aero, *(which we are not agreeable to), the hypothetical revenue need to be revised upwards.*

f. Authority's Examination of Stakeholder Comments on Hypothetical Asset Base (HRAB)

9.14. The Authority has carefully considered the comments from the stakeholders as well as DIAL's comments and response to these stakeholder's comments regarding Hypothetical Asset Base (HRAB) for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

9.15. The Authority has noted APAO's comments on appropriate treatment of cargo screening in the calculation of Hypothetical RAB. As discussed in para 6.108 above, the Authority has decided to consider revenue from cargo screening and CUTE counter revenues as non-aeronautical in both the first and the second Control Period. Thus, there is no need for revision in the HRAB that was determined by the Authority in the first Control Period.

9.16. The Authority has noted FIA's comment that *"It is submitted that sensitivity analysis to understand the impact of excluding HRAB on target revenue indicates that the exclusion of HRAB will reduce target revenue by 4%"*. The Authority has presented a detailed analysis on consideration of HRAB in para 175 to 201 of the Consultation Paper No 32/2011-12. The Authority does not find any new argument in FIA's submission and continues to consider HRAB as decided in its Order no 03/2012-13 dated 20.04.2012.

9.17. The Authority has accordingly computed the HRAB considered towards determination of aeronautical tariff for the second Control Period as below.

Table 31: HRAB and Depreciation on HRAB for Second Control Period as considered by the Authority

Hypothetical RAB	2014-15	2015-16	2016-17	2017-18	2018-19
Opening HRAB	357.38	328.14	300.86	273.87	247.08
Add: Additions to HRAB	0.00	0.00	0.00	0.00	0.00
Less: Depreciation on HRAB	29.24	27.28	26.99	26.79	26.48
Closing HRAB	328.14	300.86	273.87	247.08	220.60

Decision No. 7 Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order, the Authority decides the following regarding the Hypothetical Asset Base

7.a. To continue with its determination of Hypothetical RAB at Rs. 467.00 crores as on 31.03.2009 as was considered in Delhi Tariff Order 03 / 2012-13

7.b. To adopt the year-wise average depreciation rate for aeronautical assets for the second Control Period as rate of depreciation for HRAB in the second Control Period

7.c. To accordingly consider an Opening Hypothetical RAB of Rs. 357.38 crore as on 01.04.2014

10. Additions to Regulatory Asset Base

a DIAL Submission on Additions to Regulatory Asset Base

10.1. DIAL submitted that the total capital expenditure (including inflation) in the form of Addition to *Regulatory Asset Base (Excluding Security Equipment)*, dated 11.11.2013 as given below:

"

Capitalization including inflation							
Year	*Amount Spent*	*Amount spent with inflation*	*Capitalization*	*Capitalization including inflation*	*Building/Pavement*	*P&M*	*Furniture*
2013-14	*136.77*	*136.77*	*68.38*	*68.38*	*54.70*	*10.26*	*3.42*
2014-15	*136.77*	*136.77*	*136.77*	*136.77*	*109.42*	*20.52*	*6.84*
2015-16	*136.77*	*147.30*	*136.77*	*164.03*	*131.22*	*24.61*	*8.20*
2016-17	*136.77*	*158.64*	*136.77*	*164.03*	*131.22*	*24.61*	*8.20*
2017-18	*182.35*	*227.79*	*159.56*	*191.36*	*153.09*	*28.71*	*9.57*
2018-19	*182.35*	*245.34*	*182.35*	*218.70*	*174.96*	*32.81*	*10.94*
2019-20			*91.18*	*109.35*	*87.48*	*16.40*	*5.47*
TOTAL	***911.78***	***1,052.62***	***911.78***	***1,052.62***	***842.09***	***157.90***	***52.63***

"

10.2. DIAL's submission regarding future capital expenditure in the form of Addition to *Regulatory Asset Base (Security Equipment)* was as below:

	FY15	FY16	FY17	FY18	FY19	BCAS Circular
Total	72.33	6.14	5.39	4.44	4.81	

10.3. DIAL had assumed that the following Capex will not be allowed for inclusion in PSF determination. In case the same is allowed in fixation of PSF Tariff then security Capex may not be considered for the purpose of tariff fixation. DIAL also requested for a full true up of the security related capital expenditure.

10.4. DIAL had also submitted capital expenditure on Solar Power as part of its updated submission dated 23.07.2014. As below:

FY	Expansion (MW)	Capital expenditure in (INR Crores)
FY15-16	5.6	42.6 (for 5.6 MW)
FY16-17	5	38 (for 5 MW)

10.5. DIAL also stated that, as per the MoCA order, AV.13024/03/2011-AS (Pt.I) dated 18th Feb 2014, regarding Security Capital expenditure incurred by DIAL from PSF account during 1st control period. DIAL may have to reimburse the capital expenditure incurred by airport operator out of PSF (SC) together with interest to an escrow account of PSF (SC). DIAL has contested the order, however as per the outcome of this, DIAL may entail revision of the current tariff filing, including true up related to previous control period.

b Authority's Examination of DIAL's Submission on Additions to Regulatory Asset Base

10.6. The Authority noted that DIAL has segregated the proposed additions to RAB in two parts, namely, Additions to RAB (excluding security equipment) and Additions to RAB (security equipment). The Authority further noted that DIAL had applied an inflation rate of 7.7% every year to compute inflation-adjusted values of capital expenditure to be incurred in each year of the second Control Period, as below:

Table 32: Summary of capital expenditure (inflation adjusted values in INR crore) proposed by DIAL for second Control Period

Year	Capex (excl. Security related) in INR crore	Solar Plant in INR crore	PSF (SC) in INR crore	Total in INR crore
2014-15	136.77		72.33	209.10
2015-16	147.30	42.60	6.14	196.04
2016-17	158.64	38.00	5.39	202.03
2017-18	227.80		4.44	232.24
2018-19	245.34		4.81	250.15
TOTAL	915.85	80.60	93.11	1089.56

10.7. The Authority recomputed the inflation-adjusted capital expenditure including security related assets as an indicative cost for the second Control Period based on the revised CPI inflation forecast of 6.6% per year by RBI, as elaborated below:

Table 33: Summary of estimated capital expenditure considered by the Authority as indicative cost for second Control Period

Year	Capex (excl. security related) in INR crore	Solar Plant in INR crore	PSF (SC) in INR crore	Total in INR crore
2014-15	136.77		72.33	209.10
2015-16	145.80	42.16	6.08	194.04
2016-17	155.42	37.23	5.28	197.93
2017-18	220.89		4.31	225.20

2018-19	235.47		4.62	240.09
TOTAL	894.35	79.39	92.62	1066.36

10.8. The Authority proposed to consider the estimated cost of capital works (refer Table 33) for addition towards RAB and for consideration towards determination of aeronautical tariff for 2nd Control Period.

10.9. As Noted by the Authority in para 17.118 below, IT-JV intends to incur Rs. 301.85 crores capital expenditure to create additional assets for provision of its services at the airport. The Authority decides to consider the capital expenditures incurred by the IT-JV in the next Control Period based on actual expenditures incurred by DIAL (and provision of auditor's certificates), subject to approval from Board of Directors of DIAL.

10.10. Regarding Additions to RAB during second Control Period, based on material before it and its analysis, the Authority proposed

10.10.1. To consider the additions to RAB as presented in Table 33 towards determination of aeronautical tariff for 2nd Control Period.

10.10.2. Based on the Interim Order from the Hon'ble High Court of Delhi, the Authority proposes to include a capital expenditure of Rs. 92.62 crore on account of assets for security-related infrastructure for consideration towards RAB in the second Control Period. The Authority proposes to review the same based on final outcome of the legal proceedings and the SOP / Guidelines issued by the Central Government in this regard.

10.10.3. To true-up the projected additions to RAB (refer Table 33) based on actual audited values of these additions over the second Control Period towards determination of aeronautical tariff for the third Control Period

c Stakeholder Comments on Issues pertaining to Additions to Regulatory Asset Base

10.11. FIA commented on the Authority's acceptance of DIAL projections, stating that

"DIAL's projections accepted without Technical Evaluation

82. It is submitted that the Authority is a sectorial regulator. The Authority should not come at the conclusion based on the submissions made by DIAL without conducting any independent analysis. Since, DIAL is controlling a public *asset, the comments of the stakeholders, like the passengers, should be taken into account, prior to accepting DIAL's submissions and projections. It is further submitted that pending the submissions of the stakeholders, the Authority should consider the scenario which is beneficial to the consumers and the stakeholders. In view of the same, it is submitted that the Authority ought not to have accepted the following based on DIAL's projections:*

(a) The Authority has accepted DIAL's projections with respect to future capital expenditure without conducting any technical evaluation.

(b) Lower traffic projections submitted by DIAL (provided in Table A of the Consultation Paper) has been accepted without conducting an independent study. (As explained in sub-heading 5)

(c) Non Aeronautical Revenues projections accepted as is, an independent technical valuation is required;

X.2 (a) Future capital expenditure projections accepted, without any evaluation

83. The Authority has stated in para 10.19 of the Consultation Paper as follows:

"the estimation of cost proposed by DIAL for the capital works to be undertaken during the 2^{nd} Control Period should have been based on standard methodology of estimation like CPWD scheduled rates for scheduled items and market rates estimation for non-scheduled items as per the methodology adopted in CPWD estimation and should have been subjected to stakeholder consultation as per the provisions under OMDA. ".

The Authority has reiterated the same approach in case of BIAL via Consultation

Paper No.05/2014-15, and per para 9.46 of Order No. 08/2014-15. However, the Authority has accepted DIAL's submission despite the known fact that neither standard estimation methodology for estimating the capital expenditure has been adopted and nor stakeholders have been consulted. Instead, the Authority opted to advise DIAL to follow principles of CPWD *methodology and stakeholder consultation before execution of aforementioned capital works. This depicts that very casual approach which has been adopted by the Authority in evaluating the future capital expenditure. Also, DIAL's submissions are accepted as it is without a detailed study on technical and economic grounds by an independent agency.*

84. Future capital expenditure of DIAL pertains to:

(a) Maintenance capex (Rs.894 crores);

(b) Solar plant capex (Rs.79 crores); and

(c) Security related capex (Rs-93 crores).

Maintenance capex primarily includes Airside works and Terminal work. As Per para 10.21 of the Consultation Paper, the Authority has accepted DIAL's submission regarding future capital expenditure. The additions as proposed by DIAL are adjusted with inflation by the Authority and accordingly, total future capital expenditure of Rs.1,066 crores has been considered Summary of capital expenditure proposed' by the Authority for second control Period Reference from Table 28 from CP 1612014-15

For the 2nd Control Period. It is submitted that the Authority should scrutinize incremental capex on technical and economic grounds before considering it as additions to RAB. Also, the additions proposed by DIAL should be benchmarked as per methodology adopted in CPWD estimation.

85. Future capital expenditure incudes IT related capex aggregating to Rs.100 crores, contract for which is awarded to JV Company which is incorporated by DIAL with Wipro to provide IT services at IGI Airport. Contrary to the Guidelines which makes stake holder consultation mandatory for a capex above Rs-50 crores, the Authority has allowed the DIAL to dispense with the regulatory requirement on the ground of break-up of costs of Rs-100 crores for 'IT capex' (Ref. Para 10.1 of the Consultation Paper) provided by DIAL. It seems that to escape stakeholder involvement, additions proposed by DIAL have been artificially maintained at value lesser than limits as specified in the Guidelines.

It is submitted that the Authority must ensure the compliance with Airport Guidelines rather than accepting DIAL's submission as is. The Authority should evaluate the actual requirement of IT assets and to ensure that the transaction between DIAL and JVC is being carried out on the basis of arm's length"

10.12. IATA has stated the following with respect to capital investments proposed by DIAL

"For efficiency and economics, it is reasonable to expect the airport to manage apron/taxiway/runway works as a package rather than treat each taxiway/apron area/runway portion as individual small projects. It is unclear why the airport had split the works into individual small parts. What that has brought about is these small individual projects costing lower than the capex threshold required for the airport to consult with users. IATA is of the view that capex on taxiways, apron, runways etc. are strategic decisions that impact the airlines and therefore consultation needs to be held with the airlines. In the case of the additional capex items represented in Table 28, AERA should require that these be subject to consultation with users before the investment is made and if that is not carried out, the capex should not be allowed to be added to RAB."

"The Authority should not just accept "actuals" on face value during its true-up exercise but should first ensure that such assets have been delivered in an efficient manner and that the forecast investments have been delivered."

10.13. MIAL has commented on the capital expenditure related to security, stating that

"Earlier Capital expenditure related to security of the airport were being incurred from PSI (SC) account and therefore not included as part of project cost MoCA order dated 18.02.2014 has required the airport operator to reverse / reimburse back the capex incurred towards security related requirements from FY 2006 to the respective PSI-SC) accounts, this order has been challenged before the Hon'ble High Court. In case, it is finally decided that such capex cannot be met out of PSF (SC), it shall have to be met through project cost which shall result in increased tariff. In case of such eventuality, the return to the airport operator for the capex incurred on security related requirements

should be determined separately since reimbursement of cost towards a sovereign function cannot be made subject to Annual Fees payable to AAI."

d DIAL's response to Stakeholder Comments on Additions to Regulatory Asset Base

10.14. DIAL's response to comments by IATA is as under,

"As per the project agreements, DIAL is required to undergo user consultation only if the capital cost of the development is in excess of Rs. 100 Crores

In the 2nd control period, DIAL has projected for routine /customary /maintenance development. Each single development is less than INR 100 crores and hence outside the purview of the user consultation. If the airport was to do user consultation for such and every minor development, it may not be feasible to run the airport in an efficient manner.

There is an inbuilt methodology of competitive bidding to ensure efficiency of the amount spent at airport. Inefficiently benefits none of the stakeholders."

10.15. DIAL's response to comments by MIAL is as under,

"We agree to the stand of MIAL on aforesaid subject. However we reserve our right to make submission on this subject once a decision from court is received"

e DIAL's own comments on Issues pertaining Additions to Regulatory Asset Base

10.16. DIAL has commented on the use of CPWD rates for estimation of capex, stating that

"CPWD rates cannot be made applicable to DIAL

As already submitted to Authority, such norms were not prescribed at time of privatization of DIAL and as such cannot be mandated now. A detailed response in this regard has already been submitted to authority in our normative approach vide our letter no. DIAL/2014-15/Regulatory/5897 dated 8th Dec, 2014 User Consultation required on single project of more than 100 crore. As already submitted to Authority, in terms of the concession agreement, there is no consultation required for the prosed capex of DIAL. Enclosed is the opinion taken from Amarchand Mangaldas on this subject.

f Authority's Examination of Stakeholder Comments on Additions to Regulatory Asset Base

10.17. The Authority has carefully considered the comments from the stakeholders as well as DIAL's comments and response to these stakeholder's comments regarding Additions to Regulatory Asset for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

10.18. The Authority has noted the comment from IATA that *"For efficiency and economics, it is reasonable to expect the airport to manage apron/taxiway/runway works as a package rather than treat each taxiway/apron area/runway portion as individual small projects. It is unclear why the airport had split the works into individual small parts."*

10.19. The Authority has noted IATA's concern about considering capital projects as a package rather than individual small projects. However, the Authority notes that DIAL is obligated to undertake stakeholder consultation on projected capital expenditure as per the requirements stipulated under OMDA, Clause 8.4.1.

10.20. The Authority feels that DIAL should prepare an estimate prepared on standard rates and exercise control over costs. Also, the Authority suggests that the Director representing AAI on the DIAL Board should be involved in planning and execution of any major capital expenditure/ airport development plans.

10.21. As regards MIAL's comments, the Authority has already highlighted its stand in its Consultation Paper No. 16 dated 28.01.2015 reproduced in para 3.14 to 3.16 above with respect to the PSF (SC) capital expenditure. The Authority would take into consideration, the order of the court in the matter and based on the final outcome of the legal proceedings and the SOP / Guidelines issued by the Central Government in this regard may permit capital expenditure incurred by DIAL in the ARR building blocks at a suitable time after taking into consideration the order of the court and the provision already made in the first and second Control Period.

10.22. In view of the above, the Authority continues to consider the additions to RAB, as proposed by it in its Consultation Paper No 16/2014-15 towards determination of aeronautical tariff for DIAL for the second Control Period. However, the Authority has noted that the projected additions to RAB were adjusted for inflation, which was considered at 6.6% in the Consultation Paper No 16/2014-15. Based on the latest forecast from RBI, the inflation value has been projected to be 5.1% and accordingly the following inflation-adjusted values of Additions to RAB has been considered by the Authority:

Table 34: Summary of estimated capital expenditure considered by the Authority as indicative cost for second Control Period

Year	Capex (excl. security related) in INR crore	Solar Plant in INR crore	PSF (SC) in INR crore	Total in INR crore
2014-15	136.77	0.00	72.33	209.10
2015-16	143.75	41.57	5.99	191.31
2016-17	151.08	36.19	5.13	192.40
2017-18	211.70	0.00	4.13	215.83
2018-19	222.50	0.00	4.36	226.86
TOTAL	865.79	77.76	91.94	1,035.49

Decision No. 8 Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order regarding the Additions to Regulatory Asset Base

8.a. The Authority decides to consider the additions to RAB as presented in Table 34 towards determination of aeronautical tariff for 2nd Control Period.

8.b. Based on the Interim Order from the Hon'ble High Court of Delhi, the Authority decides to include capital expenditure of Rs. 91.94 crore on account of assets for security-related infrastructure for consideration towards RAB in the second Control Period. The Authority decides to review the same based on final outcome of the legal proceedings of the appeal by DIAL in this regard and the SOP / Guidelines issued by the Central Government in this regard.

8.c. The Authority decides to true-up the projected additions to RAB (refer Table 34 and Table 37) based on actual audited values of these additions over the second Control Period towards determination of aeronautical tariff for the third Control Period

11. Regulatory Asset Base for Second Control Period

a Authority's examination of DIAL Submission on Regulatory Asset Base

11.1. The Authority noted DIAL's projection of regulatory asset base for the second Control Period from its revised Tariff Model dated 23.07.2014 to be as below:

Table 35: RAB computed by DIAL for the second Control Period as per Tariff Model (23.07.2014)

S.No	INR in crore	2014-15	2015-16	2016-17	2017-18	2018-19
A	Opening RAB	8,543.17	7,713.05	7,088.01	6,528.69	5,989.05
B	Additions to Aero Assets in the period	104.55	202.57	199.04	217.14	241.19
C	Depreciation for the period	934.67	827.61	758.35	756.78	671.66
	Closing RAB (A+B-C)	7,713.05	7,088.01	6,528.69	5,989.05	5,558.59

11.2. The Authority computed the RAB for the second Control Period based on opening RAB of Rs. 7.168.65 crore (including Hypothetical RAB of Rs. 365.52 crore) for FY2014-15 as per Table 12. Thus, the Authority proposes to consider RAB for the second Control Period as below:

Table 36: RAB and Return on RAB considered by Authority considered for the second Control Period in Consultation Paper No. 16/2014-15

INR crore	2014-15	2015-16	2016-17	2017-18	2018-19
Opening RAB(without HRAB)	6803.13	6384.75	6075.98	5757.60	5446.26
Investment / Additions	89.83	173.19	168.39	181.78	199.89
Deletion/Disallowance	0.00	0.00	0.00	0.00	0.00
Depreciation & Amortization	508.21	481.96	486.77	493.11	498.37
Assets funded out of DF	0.00	0.00	0.00	0.00	0.00
Closing RAB	6384.75	6075.98	5757.60	5446.26	5147.78
Opening HRAB	365.52	336.92	310.21	283.78	257.53
Additions to HRAB	0.00	0.00	0.00	0.00	0.00
Depreciation on HRAB	28.61	26.71	26.44	26.25	25.96
Closing HRAB	336.92	310.21	283.78	257.53	231.57
Opening Regulatory Asset Base	7168.65	6721.67	6386.19	6041.38	5703.79
Closing Regulatory Asset Base	6721.67	6386.19	6041.38	5703.79	5379.35
Average RAB	**6945.16**	**6553.93**	**6213.78**	**5872.59**	**5541.57**
WACC	9.99%	9.99%	9.99%	9.99%	9.99%
Return on RAB	**693.55**	**654.48**	**620.52**	**586.44**	**553.39**

11.3. Regarding Regulatory Asset Base to be considered for second Control Period, based on the material before it and its analysis, the Authority proposed

11.3.1. To consider the Regulatory Asset Base and Return on RAB as per Table 36 of the Consultation Paper No 16/2014-15 dated 28.01.2015 for the purpose of determination of aeronautical tariff for second Control Period.

11.3.2. To true-up the Regulatory Asset Base and Return on RAB for second Control Period at the time of determination of aeronautical tariff for third Control Period based on actual additions to RAB and actual depreciation during the second Control Period

b Stakeholder Comments on Issues pertaining to Regulatory Asset Base (RAB)

11.4. IATA commented as below:

"It is unclear how the Authority had arrived at the "investment/additions" figures provided in Table 32. It would be appreciated if the Authority could provide the reconciliation between these figures and the ones provided in Table 28."

"Any true-up would need to consider whether the capital investment was delivered efficiently, and not just taking the actuals on face value. We urge the Authority to make it explicit in its final determination that actuals will be used only if investments have been delivered efficiently."

c DIAL's response to Stakeholder Comments on Regulatory Asset Base (RAB)

11.5. DIAL's has not responded to the comments from IATA on the matter.

d DIAL's own comments on Issues pertaining Regulatory Asset Base (RAB)

11.6. DIAL's comments on the issue of RAB and associated aspects have been captured in previous chapters and there are no additional comments to be presented here.

e Authority's Examination of Stakeholder Comments on Regulatory Asset Base (RAB)

11.7. The Authority has carefully considered the comments from the stakeholders regarding Additions to Regulatory Asset for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

11.8. The Authority has noted IATA's comments in the matter. The Authority would like to clarify that Table 28 of the Consultation Paper No 16/2014-15 presents the capital expenditure projected by DIAL and considered by the Authority for respective years of the second Control Period and Table 32 of the Consultation Paper No. 16/2014-15 presents the Additions to RAB for respective years (which are the capitalizations for respective years). This is based on the capitalization schedule as submitted by DIAL to the Authority for the second Control Period.

11.9. In line with its analysis of various comments from stakeholders including DIAL presented above as well as in previous chapters, the Authority has considered the following value towards RAB for the second Control Period:

Table 37: RAB and Return on RAB considered by Authority to be considered for the second Control Period

INR crore	2014-15	2015-16	2016-17	2017-18	2018-19
Opening RAB	6748.22	6343.49	6032.53	5709.74	5391.48
Additions to RAB for the Year*	90.16	172.65	165.45	176.02	190.88
Additions to RAB carried over from RAB True up (Carry over RAB)	15.18	-	-	-	-
Depreciation & Amortization	510.07	483.61	488.24	494.28	499.08
Assets funded out of DF	0.00	0.00	0.00	0.00	0.00
Closing RAB	6343.49	6032.53	5709.74	5391.48	5083.28
Opening Hypothetical Asset Base	357.38	328.14	300.86	273.87	247.08
Additions to Hypo Asset Base	0.00	0.00	0.00	0.00	0.00
Depreciation on Hypo RAB	29.24	27.28	26.99	26.79	26.48
Closing Hypo Asset Base	328.14	300.86	273.87	247.08	220.60
Opening Regulatory Asset Base without Carry over RAB	7105.61	6671.63	6333.39	5983.61	5638.56
Closing Regulatory Asset Base	6671.63	6333.39	5983.61	5638.56	5303.88
Average RAB	6888.62	6502.51	6158.50	5811.08	5471.22
Opening Regulatory Asset Base with Carry over RAB	7120.79	6671.63	6333.39	5983.61	5638.56
Closing Regulatory Asset Base	6671.63	6333.39	5983.61	5638.56	5303.88
Average RAB	6896.21	6502.51	6158.50	5811.08	5471.22
WACC	9.97%	9.97%	9.97%	9.97%	9.97%

INR crore	2014-15	2015-16	2016-17	2017-18	2018-19
Return on RAB	687.27	648.04	613.75	579.13	545.26
*Includes capitalization of Rs. 15.18 crores not included in FY2013-14 and carried over to FY2014-15 as per para 6.99 above					

Decision No. 9 **Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order, the following regarding the Regulatory Asset Base for the Second Control Period**

9.a. **The Authority decides to consider the Regulatory Asset Base and Return on RAB as per Table 37 for the purpose of determination of aeronautical tariff for second Control Period.**

9.b. **To true-up the Regulatory Asset Base and Return on RAB for second Control Period at the time of determination of aeronautical tariff for third Control Period based on actual additions to RAB and actual depreciation during the second Control Period as per actual date of capitalization of the assets.**

9.c. **The Authority decides to adjust the balance amount of DF of Rs. 173.98 crore from the RAB of DIAL when the "New ATC block" is capitalized by DIAL in its books.**

12. Cost of Debt

a DIAL Submission on Cost of Debt

12.1. As per DIAL's submission on 23.07.2014 the outstanding debt as of 31st March 2014 included Rs. 2,979.56 crores of Rupee Term Loan (RTL) and Rs. 2,443.14 crores (USD 403.89 million) of External Commercial Borrowing (ECB). The weighted average cost of Rupee Term Loan and for the ECB was provided at 11.38% and 7.10% respectively.

12.2. DIAL had also submitted the weighted average cost of debt of the ECB for FY2014-15 to FY2018-19, at half yearly intervals. The weighted average interest ranges between 7.02% and 7.78% and these rates have been considered for the purpose of calculating WACC.

b Authority's Examination of DIAL Submissions on Cost of Debt

12.3. The Authority had carefully examined DIAL submission with respect to cost of debt.

12.4. The Authority had noted DIAL's revised submission on the value of outstanding RTL and ECB, prepayment of RTL, Increase in ECB to pay the pre-pay the RTL and on account of foreign, Repayment of RTL and ECB, and weighted average cost of debt of RTL and ECB respectively, in the first Control Period.

12.5. The Authority had sought auditor's certificates certifying each of the above submissions as well as sought clarification on mismatch of the ECB raised for funding pre-payment of the RTL. The Authority was in receipt of auditor's certificates on:

12.5.1. The above information for each of the years in the first Control Period

12.5.2. The debt repayment schedule for the RTL and ECB during the second Control Period

12.5.3. The interest rates on ECB loans from all banks from which DIAL has borrowed, for the period 1st April 2014 to 31st March 2021.

12.6. For the RTL, the Authority had noted that DIAL had forecast a 25 basis point per annum increase in the nominal interest rate during the second Control Period. After careful examination, the Authority concluded that as market views indicate that RBI can be expected to continue to cut interest rates during the second Control Period in order to boost economic growth in the country, DIAL's forecast is not justified.

However, the Authority proposed to consider providing a true-up of the cost of debt, with a ceiling of 50 basis points on the increment in the cost of debt over the second Control Period. That is if the weighted average cost of RTL debt over the period works out to be greater than the current level of 11.38%, it will be trued up at the time of the tariff determination for the third control period up to 11.88%.

12.7. The Authority computed the weight average of the cost of debt over the second Control Period as below:

Table 38: Cost of Debt as considered by the Authority for second Control Period in Consultation Paper No. 16/2014-15

Interest rates during the period, %	2014-15	2015-16	2016-17	2017-18	2018-19
External commercial borrowings	7.08%	7.39%	7.78%	7.77%	7.74%
Rupee term loan	11.38%	11.38%	11.38%	11.38%	11.38%
Weighted Average Cost of Debt*	9.78%	10.01%	10.30%	10.44%	10.55%
* based on respective outstanding debt					

12.8. Further, based on its decision in the Delhi Tariff Order No. 3/2012-13, the Authority had proposed not to consider foreign exchange fluctuation and therefore the reinstatement of ECB on this account to the tune of Rs. 210.82 crore in FY2013-14 was not considered.

12.9. In view of the above, the Authority had proposed to consider outstanding RTL and ECB balance, based on the auditor's certificates, repayment and interest payment schedules for the second Control Period as below:

Table 39: Outstanding Balance of ECB and Rupee Term Loans considered by the Authority for FY2013-14 to FY2018-19 in Consultation Paper No. 16/2014-15

INR crores	2013-14	2014-15	2015-6	2016-17	2017-18	2018-19
External commercial borrowing, INR crores						
Opening balance	1,552.00	1,964.70	1,753.76	1,538.84	1,301.93	1,051.01
Debt drawn for RTL Prepayment during the period	592.50	0.00	0.00	0.00	0.00	0.00
Increase in liabilities (Exchange reinstatement)	0.00	0.00	0.00	0.00	0.00	0.00
Debt repayment during the period	(179.79)	(210.94)	(214.92)	(236.91)	(250.91)	(242.95)
Closing balance	1,964.70	1,753.76	1,538.84	1,301.93	1,051.01	808.06
Rupee term loan, INR crores						
Opening balance	3,650.00	2,979.56	2,955.08	2,930.59	2,850.23	2,637.17
Debt prepayment during the period	(605.59)	-	-	-	-	-

INR crores	2013-14	2014-15	2015-6	2016-17	2017-18	2018-19
Debt drawdown during the period	0.00	0.00	0.00	0.00	0.00	0.00
Debt repayment during the period	(64.84)	(24.48)	(24.48)	(80.36)	(213.06)	(296.88)
Closing balance	2,979.56	2,955.08	2,930.59	2,850.23	2,637.17	2,340.30

c Stakeholder Comments on Issues pertaining to Cost of Debt

12.10. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders including IATA, VistaRa, APAO, CII, MIAL, Air India etc. in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No 16/2014-15 dated 28.01.2015. Comments with respect to cost of debt are presented below.

12.11. On the issue of consideration of true-up in cost of RTL in the third Control Period subject to 50bps ceiling, the IATA stated that it does not support this approach as it unjustly increases the interest rates on existing loans in the absence of sufficient market signals that would indicate rising interest rates in the near future. It further stated:

"..The recent rate cut (on 4 March 2015) by the Indian central bank of 25bp (which is already the second cut in 2015) had in fact demonstrated a downward trend in interest rates. In light of these developments and in the absence of any strong market signals for a future rate rise, IATA is of the opinion that no bp increase should be allowed in the nominal interest rate going forward on Rupee loans."

12.12. FIA stated the contradictory declining trend in the interest rates as well and commented against allowance of a ceiling/headroom in interest rates. It further opined that RBI projections for interest rate for next 5 years should be considered for the interest rate projections.

12.13. On this issue AOC too pointed out to the declining trend in interest rates however stating in favour of a true-up, that:

"DIAL has proposed an increase of 25 basis points (bp) per annum in the normal interest rate going forward on rupee loans. It is submitted that the indicators of economy indicate a down-fall in interest rates and to adhoc and the authority is not justified in viewing a hardening of the interest rates. The interest increase if any, to be proposed should be based on the historical data and any truing up both downward and upward should be done in the subsequent control periods."

12.14. Regarding the reinstatement of ECB loan on account of foreign exchange fluctuation, the CII commented that:

"As a result of availing the ECB facility, DIAL has been able to reduce down the interest cost on borrowed funds. The associated benefit of lower borrowing cost gets disseminated ultimately to passengers. However in all ECB facilities there is an associated risk of Forex fluctuations of amount borrowed.

AERA is taking the benefit of lower cost of ECB but not allowing the Forex fluctuations associated with it. This contradiction in the treatment has resulted in the substantial fall in the RAB and reduced the return on RAB for DIAL. This is impacting viability of DIAL and sending wrong signal to investing community. "

12.15. Additionally, CII requested that ECB borrowing is necessary to ensure that in future also airports borrow at lower cost to passenger and that this is also needed to ensure viability of DIAL and lower charges to passengers.

12.16. FICCI too highlighted similar concerns, stating that:

"AERA has proposed to disallow the forex fluctuation. It results in the disallowance of Forex losses from the Net Asset Block resulting in lower RAB and lower return on RAB under building block. This means actual amount of ECB being repaid is not allowed to be recovered. The regulator should provide level playing field to all the stakeholders."

12.17. ACI too responded on the matter of consideration of foreign exchange fluctuations in the ECB. In its view as the lower cost of debt (due to ECB) is beneficial to passengers and leads to lower charges, the related risk of foreign currency decline should therefore also be allowed. The ACI added that,

"AERA should ensure consistent treatment of cost and the associated benefits of related items. In the event that foreign exchange fluctuation is not allowed on borrowing, the same principle should be applied to User Development Fee receipts and Duty free receipts whereby the resultant gains thereof should be taken out of the regulatory consideration."

12.18. APAO provided a detailed view on the matter, citing several reasons for allowing foreign exchange fluctuations as a cost pass through. These are reproduced below, *"APAO submits that the Authority should allow the foreign exchange fluctuations as a pass through cost in its determination of tariff for aeronautical services on account of the following reasons: i) By resorting to the cheaper source of finance i.e. External Commercial Borrowing, DIAL has passed on the benefit to the airlines and passengers as a result of lower cost of debt. But foreign currency depreciation, which is an external factor beyond the control of the company, has resulted in the increase in the actual cash outflow from the books of the company. ii) The external commercial borrowing facility was availed by DIAL before the AERA came into existence. AERA may note that altering the capital structure is a very cumbersome exercise. iii) APAO highlights that the capital asset created from the funds sourced via foreign currency loan is subject to depreciation year on year. On the other hand, foreign currency depreciation results in actual increase in the liabilities. ICAI provides the resolution to this under Chapter 46A of AS -11 which provides:*

"In respect of accounting periods commencing on or after the 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 and at the option of any other enterprise (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from

the cost of the asset and shall be depreciated over the balance life of the asset..."

This treatment was further validated by Ministry of Corporate Affairs by a notification in 2012.

12.19. APAO further highlighted the risk non-consideration of forex fluctuation of ECB might pose:

"APAO would like to highlight that DIAL's intent to avail Foreign Currency Loan was to reduce the burden on the passenger. But as a result of external factors, it has resulted into actual loss to the company. As a matter of fair treatment, any associated gain or loss should be transferred to the passengers. Non-consideration of the same may result into a situation where existing and future private airports would not subscribe to cheaper source of finance and instead use Rupee Term Loan which is much more expensive source of finance. "

12.20. Further APAO has emphasised on the consideration of foreign exchange fluctuation with respect to expenses and revenues as below,

"APAO will also like to highlight that DIAL has not taken out costly exchange hedges as it has relied upon natural hedge derived from its own foreign exchange revenues. This is in line with international best practices and also helps to reduce the cost of hedging that would have otherwise been allowed to pass through to determine aero charges. However AERA has disallowed the Forex fluctuation related to foreign exchange borrowing but on the other hand the gains being made by DIAL due to foreign exchange fluctuation like that of higher UDF revenue, higher revenue of duty free due to Forex fluctuation are being considered as part of tariff determination. This puts DIAL in a double jeopardy and is totally unfair as the addl. cost associated with Forex fluctuation are being burdened on DIAL whereas the natural hedge are being taken away. It is these kinds of irrational decisions that aggravate the viability of DIAL. "

12.21. FIA commented the matter as well suggesting consideration of interest risk associated with the ECB as below, *"As ECB is based on foreign currency, ECB loans are more prone to interest rate risk, which is currently based upon rates (Margin + IRS) as per ECB facility agreement (per para 12.3) provided by DIAL. It is submitted that the Authority may consider implementing interest rate ceiling in case of ECB considering the current economic scenarios. Further, the Authority may consider interest rates on ECB loans to other infrastructure companies like telecom and power companies to analyze the cost of debt with respect to ECB."*

d DIAL's response to Stakeholder Comments on Issues pertaining to Cost of Debt

12.22. Subsequent to the receipt of comments from the Stakeholders on the Consultation Paper No 16/2014-15 dated 28.01.2015, the Authority forwarded these comments to DIAL seeking its response to these comments. DIAL has provided responses to the Stakeholders' comments, which are presented below:

12.23. In response to IATA's and AOC's comments with respect to cost of RTL debt DIAL stated as under,

"Erosion in net worth and resultant increase in borrowing cost

The current tariff will erode net worth of company and it will become difficult to raise debt for DIAL. This is likely to result in large increase in borrowing cost. This aspect need to be considered by authority. Its' earnestly requested to

1 allow a 25 BR increase YPY as filed

2 Remove the upper cap in debt cost as the borrowings are mainly from nationalized banks and market forces will dictate the terms."

12.24. In response to CII's comments with respect to cost of debt DIAL stated as under,

"We agree to the aforesaid request of CII. Authority has not allowed Forex fluctuation as part of RAB. The current stand of Authority for not including the Forex fluctuation a part of RAB is not justified. Foreign Currency borrowing is a part of the endeavour of DIAL to keep the charges low for passengers. The current stand of Authority means that airports will be forced to borrow at a higher cost in rupee terms.

The sourcing of funds at a lower rate in foreign exchange is for the benefit to the passenger/ other stakeholders by way of a lower WACC. However, this means of funding also carries the inherent risk of foreign exchange fluctuations. Taking the benefit of a lower interest rate but not allowing the resultant Forex fluctuation goes against the principles of natural justice.

The fluctuation need to be incorporated as part of RAB because of following reasons:

1 The level of Forex borrowing is at normal levels:

The level of borrowing is at level generally accepted to be normal in the industry.

2 This borrowing was availed before the Authority's current stand was finalized. :

The borrowing structure cannot be amended now. However, this can at best be a guiding principle for future.

In order to leverage an efficient financing structure and for reduction in interest cost, airport operators take foreign currency loans to part fund the project cost, the same is applicable for DIAL.

The Company has not retained the benefits of cheaper borrowing cost and is passed on to the passenger in the form of lower WACC. If the Company had taken Domestic Loan instead of the ECB equivalent amount, the outflows of cash towards interest costs would have been much more

Also, it should be noted that the loss of Forex fluctuation on interest payments & principal repayments is real in nature and not a notional loss. DIAL has taken the hit of the Forex fluctuations owing to interest and repayments servicing the ECB loan. This loss is not included in the computations of WACC.

Therefore, it is requested to allow the Loss on impact of Forex Fluctuations by inclusion of same in RAB

Apart from above on one hand authority is not allowing loss due to foreign exchange fluctuation from ECB, on the contrary not allowing DIAL to keep the foreign exchange fluctuation benefit of UDF.

We will also like to highlight that we have not taken out costly exchange hedges as it has relied upon natural hedge derived from its own foreign exchange revenues. This is in line with international best practices and also helps to reduce the cost of hedging that would have otherwise been allowed to pass through to determine aero charges. However AERA has disallowed the Forex fluctuation related to foreign exchange borrowing but on the other hand the gains being made by DIAL due to foreign exchange fluctuation like that of higher UDF revenue, higher revenue of duty free due to Forex fluctuation are being considered as part of tariff determination. This puts DIAL in a double jeopardy and is totally unfair as the additional cost associated with Forex fluctuation are being burdened on DIAL whereas the natural hedge is being taken away. These sorts of irrational decisions have aggravated the doubt over the viability of DIAL."

12.25. In response to ACI's comments with respect to cost of debt DIAL stated as under,

"Authority has not allowed Forex Fluctuation as part of RAB. The current stand of Authority for not including the Forex fluctuation a part of RAB is not justified. Foreign Currency borrowing is a part of the endeavor of DIAL to keep the charges low for passengers. The current stand of Authority means that airports will be forced to borrow at a higher cost in rupee terms."

12.26. In response to APAO's comments with respect to cost of debt DIAL stated as under,

"The current stand of Authority of riot including the Forex fluctuation a part of RAB is not justified. This is part of the endeavor of DIAL to keep the charges low for passengers. The current stand of Authority means that airports will be forced to borrow at a higher cost in rupee terms.

The sourcing of funds at a lower rate in foreign exchange is (or the benefit to the passenger / other stakeholders by way of a lower WACC. However this *means of funding also carries the inherent risk of foreign exchange fluctuations. Taking the benefit of a lower interest rate but not allowing the resultant Forex fluctuation goes against the principles of natural justice.*

The fluctuation need to be incorporated as part of RAB because of following reasons:

1. The level of Forex borrowing is not excessive. The level of harrowing js at the level generally accepted to be normal in the industry.

2. The Target Revenue should cover the actual debt repayment in INR of Foreign currency denominated loans of DIAL.

In order to leverage an efficient financing structure and for reduction in interest cost, airport operators take foreign currency loans ro part fund the project cost, the same is applicable far DIAL.

The Company has not retained the benefits of cheaper borrowing cost and is passed on to the passenger in the form of lower WACC. If the Company had taken domestic loan instead of the ECB equivalent amount, the outflows of cash towards interest costs would have been much more.

Also, it should be noted that the loss of Forex fluctuation on interest payments & principal repayments is real in nature arid rot a notional toss. DIAL has taken the hit of the Forex fluctuations owing to interest and repayments servicing the ECB loan. This loss is not included in the computations of WACC.

We will also like to highlight that DIAL has not taken out costly exchange hedges as it has relied upon natural hedge derived from its own foreign exchange revenues. This is in line with international best practices and also helps to reduce the cost of hedging that would have otherwise been allowed to pass through to determine aero charges. However AERA has disallowed the Forex fluctuation related to foreign exchange borrowing but on the other hand the gains being made by DIAL, due to foreign exchange fluctuation like that of higher UDF revenue, higher revenue of duty free due to Forex fluctuation are being considered as part of tariff determination. This puts DIAL in a double *jeopardy and is totally unfair as the addl. cost associated with Forex fluctuation are being burdened on DIAL whereas the natural hedge are being taken away. These irrational decisions will aggravate the doubt over the viability of DIAL.*

Therefore, it is requested to allow the Loss on impact of Forex Fluctuations by inclusion of same in RAB"

12.27. In response to FICCI's comments with respect to cost of debt DIAL stated as under,

"The current stand of Authority of not including the Forex fluctuation as part of RAB is not justified. This is part of the endeavor of DIAL to keep the charges low for passengers. The current stand of Authority means that airports will be forced to borrow at a higher cost in rupee terms. The sourcing of funds at a lower rate in foreign exchange is for the benefit to the passenger/ other stakeholders by way of a lower WACC. However this means of funding also carries the inherent risk of foreign exchange fluctuations. Taking the benefit of a lower interest rate but not allowing the resultant Forex fluctuation goes against the principles of natural justice.

The fluctuation need to be incorporated as part of RAB because of following reasons:

1. The level of Forex borrowing is not excessive. The level of borrowing is at the level generally accepted to be normal in the industry.

2. The Target Revenue should cover the actual debt repayment in INR of Foreign currency denominated loans of DIAL.

In order to leverage an efficient financing structure and for reduction in interest cost, airport operators take foreign currency loans to part fund the project cost, the same is applicable for DIAL. The Company has not retained the benefits of cheaper borrowing cost and is passed on to the passenger in the form of lower WACC. If the Company had taken Domestic Loan instead of the ECB equivalent amount, the outflows of cash towards interest costs would have been much more.

Also, it should be noted that the loss of Forex fluctuation on interest payments principal repayments is real in nature and not a notional loss. DIAL has taken the hit of the Forex fluctuations owing to interest and repayments servicing the ECB loan. This loss is not included in the computations of WACC.

We will also like to highlight that DIAL has not taken out costly exchange hedges as it has relied upon natural hedge derived from its own foreign exchange revenues. This is in line with international best practices and also helps to reduce the cost of hedging that would have otherwise been allowed to pass through to determine aero charges. However AERA has disallowed the Forex fluctuation related to foreign exchange borrowing but on the other hand the gains being made by DIAL due to foreign exchange fluctuation like that of higher UDF revenue, higher revenue of duty free due to Forex fluctuation are being considered as part of tariff determination. This puts DIAL in a double jeopardy and is totally unfair as the addl. cost associated with Forex fluctuation are being burdened on DIAL whereas the natural hedge are being taken away. These irrational decisions will aggravate the doubt over the viability of DIAL.

Therefore, it is requested to allow the Loss on Impact of Forex Fluctuations by inclusion of same in RAB."

12.28. DIAL's response to IATA regarding inclusion of foreign exchange fluctuations in the debt is as under and it has also provided same explanation as that to other stakeholders highlighted above.

"Forex Fluctuation need to be allowed as part of RAB It is earnestly requested that the fluctuation need to be incorporated as part of RAB because of the following reasons:

a) The level of forex borrowing is not excessive. The level of borrowing is at the level generally accepted to be normal in the industry.

b) The Target Revenue should cover the actual debt repayment in INR of Foreign currency denominated loans of DIAL. In order to leverage an efficient financing structure and for reduction in interest cost, airport operators take *foreign currency loans to part fund the project cost, the same s applicable for DIAL."*

e DIAL's own comments on Issues pertaining to Cost of Debt

12.29. With respect to the cap on interest rate of RTL, DIAL has submitted that,

> *"Erosion in net worth and resultant increase in borrowing cost. The current tariff will erode net worth of company and it will become difficult to raise debt for DIAL. This is likely to result in large increase in borrowing cost. This aspect need to be considered by authority. Its earnestly requested to*
>
> *1 allow a 25 BP increase YPY as filed*
>
> *2 Remove the upper cap in debt cost as the borrowings are mainly from nationalized banks and market forces will dictate the terms."*

12.30. On the matter of the consideration of foreign exchange fluctuations on account of the ECB loan, DIAL commented that it should be allowed. An extract of its comments has been reproduced below,

> *"...the borrowing in foreign exchange was to ensure lower cost of borrowing to enable lower charges at airport. The entire benefit of lower cost is passed on to passengers. DIAL relies on natural hedge from Forex revenue rather than taking out costly Forex hedges. By disallowing Forex fluctuation and folding in Forex revenue, AERA is treating the issue unfairly and putting DIAL to double jeopardy. This decision to borrow in foreign exchange was taken prior to constitution of AERA. As such the above adjustment should not be done."*

f Authority's Examination of Stakeholder Comments on Issues pertaining to Cost of Debt

12.31. The Authority has carefully considered the comments from CII, ACI, APAO, IATA, FICCI and FIA as well as DIAL's comments and response to these stakeholder's comments regarding cost of debt for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

12.32. Regarding comments on the interest rate forecast for the RTL, the Authority has noted that the consensus opinion among the stakeholders is that the monetary policy has a loosening stance at present. Although the Authority acknowledges that RBI has been decreasing policy interest rates in the past several months, the Authority has provided a headroom to the extent of an additional 50 bps in the cost of debt, to the airport operator in case there is a reversal in the trend over the five year span of the 2nd Control Period. The Authority clarifies that such an increase in the interest rates has not been incorporated in the tariff for the second Control Period. At present, the interest rates have been considered as per actual interest rate or debt schedule provided by DIAL that has been certified by its auditors. In case the interest rate rises, a true-up will be provided to the extent of 50 bps at the time of tariff determination for the third Control Period upon receipt of auditor's certificates and other documentary evidence submitted by DIAL.

12.33. The Authority had sought the hedging policy from DIAL. The Authority is in receipt of the following responses from DIAL in this regard,

"Details regarding DIAL's hedging policy with respect to:

Interest rate fluctuations for each year over the first control period

DIAL's Response: interest rate fluctuations for each year over the first control period

The general market practice on interest to be charged on External Commercial Borrowing (ECB Loan) is aggregation of Six Months LIBOR (London Interbank rate) and Margin agreed with concerned ECB Lender. Once disbursed, the loans are fixed to de-risk the borrower from interest volatility. As a practice the ECB loan documents put a condition for taking out IRS.

DIAL has entered into IRS agreement in order to hedge the rate of LIBOR on the ECB Loan. DIAL has taken out IRS for various USD loans to swap the LIBOR to fixed rate based on which the cost of debt has been incorporated in WACC calculations. This protects DIAL from interest rate fluctuation. Interest Rate Swap (IRS) was also a condition of lenders. Under this arrangement, service *providers (normally bankers) takes over the liability / risk of fluctuation in LIBOR, by way of hedging, over a period of time against fixed amount of LIBOR to be paid over said duration.*

Currency fluctuations on interest and principal amounts for each year over the first control period

DIAL relies upon natural hedge derived from its own foreign exchange revenues. This is in line with international best practices and also helps to reduce the cost of hedging that would have otherwise been allowed to pass through to determine aero charges and put additional burden on passengers and airlines.

However, Authority has disallowed the Forex fluctuation related to foreign exchange borrowing but the accrual to DIAL due to foreign exchange fluctuation i.e. higher UDF revenue, higher revenue of duty free due to Forex fluctuation are being considered as part of tariff determination. This puts DIAL in a double jeopardy as the additional cost associated with Forex fluctuation are being burdened on DIAL whereas the natural hedge is being taken away.

DIAL has to pay interest and principal payment on ECB Loans on half yearly basis whereas revenues from concessionaires and airlines in USD/USD equivalent INR are being received on continuous basis. To avoid currency fluctuations during intervening period between receipt of USD revenues and due date for payment against ECB Loans, DIAL enters into hedging agreements in the form of Currency Forward transactions whereby DIAL buys Currency Forwards coinciding with due date of ECB Loan payments simultaneously with sale transaction of USD revenue receipts. "

12.34. DIAL has submitted the details as per the table below:

"

	FY2009-10		*FY2010-11*		*FY2011-12*		*FY2012-13*		*FY2013-14*	
ECB Loan	*350 mn*	*100.11 mn*	*350 mn*	*100.11 mn*	*350 mn*	*100.11 mn*	*350 mn*	*100.11 mn*	*350 mn*	*100.11 mn*
Principal repayment on ECB loan	-	-	-	-	-	-	*48.18*	-	*187.58*	*42.65*

*Principal repayment on ECB loan without Forex adjustment**	-	-	-	-	-	-	39.80	-	139.28	40.53
Interest paid on ECB loan (including Interest Rate Swap payment)	7.79	-	126.42	-	135.63	-	151.61	-	150.08	14.41
*Interest paid on ECB loan (including Interest Rate Swap Payment) without Forex adjustment**	7.88	-	124.82	-	125.49	-	124.85	-	112.04	13.69
** - i.e. at the original dollar borrowing rate of 45.48 for 350 mn ECB Loan and 59.18 for 100.11 mn ECB loan*										
Impact on cash flow	(0.09)	-	1.60	-	10.14	-	35.14	-	86.34	2.84
Total	135.97									

"

12.35. Regarding FIA's comment on capping ECB interest rate, the Authority would like to point out that as DIAL has already entered into interest rate swaps on its foreign loans, the interest rate is effectively fixed. Thus, such a cap is not required.

12.36. Thus, in view of the above discussion, the Authority decides to consider the cost of debt as below,

Table 40: Cost of Debt for ECB and Rupee Term Loans considered by the Authority for FY2013-14 to FY2018-19

Interest rates during the period, %	2014-15	2015-16	2016-17	2017-18	2018-19
External commercial borrowings	7.08%	7.39%	7.78%	7.77%	7.74%
Rupee term loan	11.38%	11.38%	11.38%	11.38%	11.38%
Weighted Average Cost of Debt*	9.78%	10.01%	10.25%	10.37%	10.53%
* based on respective outstanding debt					

12.37. Further, the Authority decides to consider the outstanding debt as below,

Table 41: Outstanding Balance of ECB and Rupee Term Loans considered by the Authority for FY2013-14 to FY2018-19

Debt Outstanding	2014-15	2015-16	2016-17	2017-18	2018-19
External Commercial Borrowings, Rs. Crores					
Opening balance	1,964.70	1,753.76	1,538.84	1,301.93	1,051.01
Debt drawn for RTL Prepayment during the period	0.00	0.00	0.00	0.00	0.00

Increase in liabilities (Exchange reinstatement)	0.00	0.00	0.00	0.00	0.00
Debt repayment during the period	(210.94)	(214.92)	(236.91)	(250.91)	(242.95)
Closing balance	1,753.76	1,538.84	1,301.93	1,051.01	808.06
Rupee Term Loan, Rs. Crores					
Opening balance	2,979.56	2,955.08	2,930.59	2,850.23	2,637.17
Debt prepayment during the period	-	-	-	-	-
Debt drawdown during the period for Capex	0.00	0.00	0.00	82.38	309.24
Debt repayment during the period	(24.48)	(24.48)	(80.36)	(213.06)	(296.88)
Closing balance	3,004.05	2,979.56	3,010.95	3,145.68	3,243.29

Decision No. 10 The Authority decides to adopt the following approach for consideration of cost of debt towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:

10.a. **To not consider the reinstatement of ECB loan on account of foreign exchange fluctuation (refer para 8.24 above) and hence to consider Rs. 1,964.70 crore as the opening balance of ECB loan as on 01.04.2014**

10.b. **To consider the cost of debt for Rupee Term loan over the second Control Period at 11.38%**

10.c. **To adopt the weighted average cost of debt as per Table 40 for determination of weighted average cost of capital for the second Control Period.**

10.d. **To true-up the cost of debt for Rupee Term Loan for the second Control Period based on evidential submissions along with suitable auditor certificates by DIAL at the time of determination of aeronautical tariff for the third Control Period subject to a ceiling of overall increase of 50 basis points**

13. Cost of Equity

a. DIAL Submission on Cost of Equity and Refundable Interest Free Security Deposit (RSD)

13.1. In its submissions, DIAL submitted that the total equity infused by shareholders is Rs. 2450 Crores by way of Equity. It further submitted that RSD provided by DIAL to the project should be considered Quasi Equity and should be provided the equity rate of return as it was not mandated to use the RSD, which are of the nature of non-transfer assets, towards financing the airport capital expenditures. Also that, these amounts are culled out from a bottom-line impacting revenue stream that would be available to shareholders. The amount is not repayable during the term of concession – same as in case of equity. Utilization of the money is at the discretion of the shareholders and had no limitations. Money could have been invested in any other venture and/or developing Non Transfer Assets/Non Aeronautical Assets by DIAL and has opportunity cost.

13.2. Regarding the cost of equity DIAL submitted that based on the LeighFisher study mandated by it for the purpose of determination of cost of equity, it considers the cost of equity to be 24%.

b. Authority's Examination of DIAL Submissions on Cost of Equity and RSD

13.3. The Authority had carefully examined the DIAL submission on the Cost of Equity. The Authority has noted that DIAL's submission of cost of equity at 24% based on recommendations of Leigh Fisher, is same as the submission it made at the time of the determination of aeronautical tariffs for the first Control Period.

13.4. At the time of the determination of aeronautical tariffs for the first Control Period, the Authority had examined the issue in detail in its Consultation Paper No.32/2011-12 dated 03.01.2012, which was commented upon by stakeholders – Cathay Pacific, British Airways, IATA, AOC, APAI, VOICE, APAO, ACI, Fraport, APAI, ASSOCHAM, FICCI, CII, and DIAL. A report by M/s. SBI Capital Markets Ltd. (SBI CAPS) on the fair return on equity for the Indian Airport sector forwarded by MoCA and a study by National Institute of Public Finance and Policy (NIPFP) on the fair rate of return especially for projects under PPP mode, namely, Mumbai, Delhi, Bangalore and Hyderabad mandated by the Authority – both dealing with the matter in detail, were considered. Accordingly, the Authority had decided to adopt a 16% return on equity for the first Control Period.

13.5. The Authority was of the opinion that less than 3 years have lapsed since the results of the study carried out by NIPFP were examined by the Authority and the relevant factors and conditions on which the report was based have not changed since then.

13.6. In absence of any fresh arguments from DIAL, the Authority proposed not to reconsider the cost of equity at this stage and to consider 16% as cost of equity for computation of WACC.

13.7. However, the Authority was also in recognition of the fact that relevant factors including risk parameters would evolve over a period of time and may necessitate a fresh study on applicable cost of equity for IGI Airport, Delhi. The Authority proposed to undertake such study at an appropriate time.

Treatment of RSD

13.8. Furthermore, as regards the treatment of RSD as Quasi Equity, the Authority carefully examined DIAL's submission and noted that that the arguments presented by DIAL on RSD as part of the current submissions are same as the arguments it had submitted at the time of determination of aeronautical tariff for the first Control Period, presented in detail in its Consultation Paper No.32/2011-12 dated 03.01.2012 as well as its Delhi Tariff Order 03/2012-13. Examining all these aspects and considering that there were no costs involved in raising RSD, the Authority had decided to treat RSD as a means of finance at zero cost vide its Decision No. 13 of the Delhi Tariff Order 03/2012-13.

13.9. Following detailed examination of the issue of land monetization and the treatment of RSD presented in para 14 below, and in absence of any fresh argument from DIAL as part of current submissions, the Authority proposed to continue to treat RSD already raised by DIAL (at Rs 1,471.51 crore) as a means of finance at zero cost.

13.10. The Authority further proposed to review and appropriately consider the additional RSD, if any, and applicable costs thereof, if any, to be raised by DIAL during the second Control Period after receipt of views from MOCA / AAI (Refer para 14.20 below).

c. Stakeholder Comments on Issues pertaining to Cost of Equity

13.11. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders including IATA, VistaRa, APAO, CII, MIAL, Air India etc. in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No 16/2014-15 dated 28.01.2015. Comments with respect to cost of equity are presented below.

13.12. On the issue of Cost of Equity, IATA stated that,

> *"The Authority had in the past requested several studies in order to determine a value for the cost of equity, which gave ranges of between 11% and 14.06%. We believe that the value used should fall within the range provided by the studies and 16% is therefore too high."*

13.13. IATA also stated that it supports the commissioning of fresh studies to determine the cost of equity adding that it would be in favor of AERA commissioning two separate studies in order to consider a balanced approach and for validation.

13.14. In line with IATA's comments, the Airlines Operator Committee commented that:

> *"The Authority has proposed a cost of equity at 16% per annum. This is too high considering that the interest rates are on downward trend and further, the equity is an infrastructure project and such a high return cannot be expected from infrastructure project. The studies in the past in order to determine a value for the cost of equity ranges between 11% and 14.06% and proposing a higher cost of equity is highly unjustified. Further in should be kept in mind that DAIL has taken overseas funds also which come at a much lower cost. "*

13.15. APAI too stated that the return on equity at 16% and is way above the average in the corporate sector and is hence not justified. APAO added that it must be around 12% considering the fact that DIAL is earning revenue from various sources.

13.16. On the contrary, APAO is of the view that 16% cost of equity is too low. It's submission was as below,

"APAO would like to point out that Cost of equity proposed at 16% by AERA, is too low in the context of emerging country airports operating in conditions where retail inflation is currently 7.31% (having previously been higher) and the current 10 year interest rate on Government debt is 8.5%.

A number of consultants have estimated significantly higher costs of capital. This is not surprising given Indian inflation rates and the risks associated with investing in Indian infrastructure. Cost of equity of 16% as determined by CERC, leads to effective cost of equity much more than 16%, reflecting the fact that the notional equity is not depreciated while it is depreciated in case of airports.

Cost of Equity as estimated by Consultants are way higher than cost of equity of 16% as proposed by AERA.

We believe that the cost of equity proposed by AERA at 16% is too low and would make airport businesses non-viable. Low rate of return shall act as a deterrent and discourage the flow of investments towards privatisation of airports.

Central Regulatory Electricity Commission (CERC), adopts a methodology based on return on equity approach with a pass through of interest cost - where as result, the building blocks do not include a return on RAB component. Cost of equity for Airport sector of 16% is perceived to be equal to the Power sector, where cost of equity is applied on equity that is not depreciated while it is depreciated in case of airports. In case of airports, cost of equity is a component for arriving at Weighted Average Cost of Capital (WACC) which is *applied on Regulatory Asset Base (RAB) which gets reduced year on year with depreciation."*

13.17. FIA submitted a similar view, stating that,

> *"It is submitted that the Authority has based the above return on equity on the basis of the NIPFP Report dated 19.04.2012. In the said report the cost of equity was pegged at 11% to 14%, The Authority has considered the said report by NIPFP and has allowed return on equity as 16%. It is submitted that the report was issued on 19.04.2012 which is approximately 33 months from 28.01.2015. Therefore, there is likelihood that the figures may undergo a change. Further, the business climate affecting DIAL may have undergone a change since 19.04.2012. In view of the same, the Authority should not have continued with the return on equity at 16%. Further, the Authority has stated that the Authority will commission a study to determine the return on equity of the airport at an appropriate time. It is submitted that the return on equity is dependent upon numerous factors which may undergo change with time. Further, as noted by the Authority issue of RSD may be considered while allowing the return on equity in view of the same, the Authority should stipulate a fix time line to initiate' and complete the study regarding the return on equity."*

13.18. FICCI commented on the adequate rate of return on equity, stating that,

> *"One of the most critical aspects determining success of any ambitious PPP project would be an adequate rate of return on the capital deployed by private players, and which is commensurate to the risk taken. Given the risks and uncertainties, lenders are cautious when issuing long-term debt to capital intensive and long-gestation infrastructure projects like airport. In particular, airports are often perceived as more risky than several other infrastructure projects. Aviation sector is cyclical in nature and there are significant geo-political risks in the airport sector. We feel that there should be a provision for "adequate" rate of return on investments made by private investors."*

13.19. With respect to treatment of RSD, APAO commented that the security deposits used to finance aeronautical infrastructure, should be provided a return equivalent to equity, or in the worst case, equivalent to a rate between debt and equity. It explained further that,

"a. Opportunity cost associated with security deposits

There is an opportunity cost associated with Security Deposits (SD) as the SD utilized to fund the capex is expected to have risk inherent to that associated with equity. SD has an opportunity cost and should be treated on par with equity.

SBI Caps in its report to the Government for cost of SD has mentioned as under: ".......On the quasi-equity for the airport sector, the study has concluded that the rate of return would depend on the type and feature of the instrument being used for such form of finance. The report further states that in quasi-equity, the risk / return profile lies above that of debt and below that of equity......"

Long-term SDs are similar to loans and/or equity (as applicable) and therefore any asset developed with such funds must be included in the RAB as per applicable Till Mechanism.

b. Lenders treatment of SD as quasi-equity

Lenders have treated SD as quasi-equity, while determining Debt-Equity (DE) ratio for pricing the debt.

c. Precedent from other infrastructure sectors

There are examples from other infrastructure sectors as well, where regulator provides return on the capital employed by the Concessionaire and does not consider the means or source of funding while calculating tariff.

Petroleum sector:

i) Petroleum and Natural Gas Regulatory Board allows a return on "interest-free security deposits" available with the concessionaire.

ii) The rate of return available on capital employed is 14%. This return along with 70: 30 DE effectively makes it almost 25% RoE.

iii) Moreover, it provides a uniform return on all kinds of capital employed, including deposits.

Deposits are not reduced from the capital employed for determination of tariff.

Ports sector:

i) Similarly Tariff Authority for Major Ports (TAMP), the regulator for major ports, offers a uniform rate of return on all kind of capital employed including Net Working Capital, which would include amounts collected through deposits.

ii) Uniform return of 16% is provided on the entire capital employed. "

13.20. However, IATA supported the Authority's proposal to RSD as a means of finance at zero cost as it had been received by DIAL without any cost stating that what is received without any cost by DIAL cannot be charged to users.

13.21. Furthermore on the matter of cost of RSD, FIA commented that,

"In accordance with the land utilization assumptions presumed by SBI Caps, DIAL should have been monetizing 123 acres of land till 2020. However, DIAL has monetized only 45 acres of land. Hence, the balance 78 acres (market value of Rs.7,800 crores) are yet to be monetized during 2na Control Period. However, no plan for monetization of land has been included in the DIAL submissions and accordingly has not been factored by the Authority in determination of tariff of the 2ndControl Period.

66. It appears that planning for commercial exploitation/monetization of land has been deliberately delayed by DIAL to charge higher tariffs, as in absence of such plan following parameters cannot be determined suitably:

(a) WACC determination -As the real estate activities are not firmed up, interest free real estate deposits has not been factored which would have impacted determination of WACC; and

(b) Impact on revenue - Revenue from monetization of land would have reduced the target revenue for aeronautical activities

It is submitted that the Authority should stipulate the time limit within which DIAL is required to submit the detailed business plan for commercial exploitation and monetisation of balance earmarked land so that it can be appropriately factored in determining aeronautical tariffs for the control period, it is submitted that commercial exploitation through the monetization of land ought to have been in the 1St Control Period itself,

Therefore, amount so determined with respect to the monetization of land should be indexed."

d. DIAL's response to Stakeholder Comments on Issues pertaining to Cost of Equity and treatment of RSD

13.22. Subsequent to the receipt of comments from the Stakeholders on the Consultation Paper No 16/2014-15 dated 28.01.2015, the Authority forwarded these comments to DIAL seeking its response to these comments. DIAL has provided responses to the Stakeholders' comments with respect to cost of equity.

13.23. In response to APAI's, IATA's and FICCI's comments on the cost of equity, DIAL commented as below,

"The fundamental principle guiding tariff regulation is to ensure a reasonable return on equity for the private operator. The return should be determined after taking into account the complete and entire cost incurred by DIAL towards maintenance and development of the airport. The rate of return should be fair and adequate, ensure economic viability of the airport and incentivize growth in the sector. The issue of adequate rate of return on equity is currently pending consideration before the AERAAT in Appeal No. 10/2012. The proposal of the Authority for 16% return on equity is too low in the contest of emerging country airports operating in conditions where retail inflation is currently 7.31% (having previous been higher) and the current 10 year interest rate on Government debt is 8.5%.

Agency	*Conducted For*	*COE Recommended*

Jacobs	*DIAL*	*25.1% (considered @24%)*
KPMG	*APAO*	*20% -25%*
SBI Caps	*MOCA/AAI*	*18.5% - 20.5%*
CRISIL	*MIAL*	*18.16%-20.44%*
KPMG	*BIAL*	*23.5%-27.9%*

"The cost of equity proposed by AERA at 16% is too low and would result in the airport operations becoming economically unviable. The low rate of return will also be a deterrent and discourage flow of investments towards privatisation of airports.

There have been various studies conducted by independent Consultant to determine the fair rate of return for the sector. The Cost of Equity estimates computed by various leading consulting firms are given below:

In the airport sector, the cost of equity as estimated by Consultants is far higher than cost of equity of 16% as proposed by AERA. Consultants have estimated significantly higher costs of capital considering the current inflation rate prevailing in India and the risks associated with investing in Indian infrastructure. As per the expert report of Mrs. Leigh Fisher, DIAL must be given a return of equity of 24%. This report has been relied on by DIAL in Appeal No.10/2012, which is pending consideration before AERAAT. Moreover, as per MOCA's directive (relying on SBI caps report), a rate of return of 13.5% to 20.5% has been recommended in the airports sector. At the present, DIAL is suffering from a negative rate of return, which affects the viability of the airport. "

13.24. In response to AOC, the DIAL provided a very detailed analysis. While citing the same response as that to IATA's comments, DIAL added that,

"The proposal to fix the rate of return at less than 11% is not feasible as the cost of debt is at 11.5 to 12%. Even the proposal of the Authority for 16% return on equity is too low in the context of emerging country airports operating in

conditions where retail inflation is currently 7.31% (having previously been higher) and the current 10 year interest rate on Government debt is 8.5%.

The Authority has used the study undertaken by NIPFP for its approach on Cost of Equity based on which it has proposed a cost of equity of 16%. The computation of cost of equity proposed to be adopted by the Authority, based on the study of NIPFP suffers from various lacunae and infirmities."

13.25. DIAL provided further explanation, around the issue of estimating the cost of equity, and reproducing its submission at the time of determination of tariffs for the first Control Period, included in the para 26.14 to para 26.24 of the Delhi Tariff Order No. 3/2011-12.

13.26. Finally regarding IATA's position on commissioning fresh studies by AERA to determine the cost of equity, DIAL commended as below,

"There was a study carried out by MOCA and the same may be considered by Authority. As clearly evident at the current return on Equity airports are not viable.

There are numerous studies already conducted on cost of equity which can be relied by Authority. Rather than a new study Authority must look at the flaws in the study of NIPFP."

13.27. DIAL also provided a table on the COE estimates by the NIPFP, KPMG, SBI Caps and Leigh Fisher reports in the range of 19.5%-25.1%, mentioned in the Delhi Tariff Order No. 3/2011-12.

13.28. In response to APAO's, CII's and IATA's comments on treatment of RSD, DIAL commented that the matter is sub-judice and pending the decision of the Appellate Tribunal. DIAL provided further comments, reiterated in para 14.35 below to para14.38 below. In addition, DIAL commented that,

"Background of Refundable Security Deposits (RSD):

Under OMDA DIAL has been given the right of commercial development of the 5% of the total land parcel. DIAL has, in the first phase of development licensed 45.08 acres of land. DIAL adopted a rigorous, transparent and aggressively *marketing process for monetization of the land (hospitality district). Despite the constraints of the 26/11 terrorist attack and the global financial meltdown at the time of monetization DIAL got an amount of refundable deposits of Rs 1471.51 on Phase 1 of lease of CPD.*

The amounts collected are outside the regulatory till. Contractually it was not mandated for DIAL to use this fund for financing the project. The amounts collected are from Non Transfer Assets. These non-transfer assets are not to be used for cross subsidising the AERO charges However DIAL on its own used these amounts for financing its project cost.

As these funds have been utilized for financing the project a fair return on these funds i.e. opportunity cost need to be provided. These funds are quasi-equity by nature given their super long tenor and being culled out from a bottom-line impacting revenue stream. The rationale of them being treated as Quasi Equity is as following:

a. These amounts are culled out from a bottom-line impacting revenue stream which could be available to stakeholder.

b. The amount is not repayable during the term of concession - same as in case of equity.

c. Utilization of the money is at the discretion of the shareholders and had no limitations.

d. Money could have been invested in any other venture and/or developing Non Transfer

Assets/Non Aeronautical Assets by DIAL and has opportunity cost.

e. The amount has been used to finance the RAB and as such it reeds Lo be serviced.

f. Lenders have also treated this amount as equity in their assessment

g. The amount was generated through what are termed as Non-transfer Assets. DIAL is permitted to monetize land of about 5% of total land of which, in the first instance, it monetized 45 acres and obtained the security deposits.

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

a. cost of debt could have been higher resulting in higher leverage and more risk for banks

b. higher pass through cost in terms of higher interest cost

Hence RSD funds may be treated as Quasi Equity and a return equivalent to equity need to be allowed.

Conclusion of the SBI Caps report

On the Quasi equity for the airport sector, the study has concluded that the rate of return would depend on the type and features of the instrument being used for such form of finance. The report further states that in case of Quasi equity the risk/ return profile lies above that of debt and below that of equity.

On the return to be allowed on Equity, study recommended a range of 18.5%. to 20.5%. The aforesaid report was forwarded by MOCA to AERA with the following instructions:

"The report of the Financial Advisor may kindly be considered in taking decision in this regard. This has the approval of the Hon'ble Minister of Civil Aviation."

As such authority may kindly consider the above in as tariff determination."

e. DIAL's own comments on Issues pertaining to Cost of Equity and treatment of RSD

13.29. With respect to the Issue of Cost of Equity and RSD, DIAL submitted that it has already contested the issue of cost of equity and RSD with AERAAT and it as this matter is sub-judice, it is not making any additional submission on these issues.

13.30. However it drew a comparison with the returns in the power sector, providing a table on respect cash flow statement. It stated as below, *"The effective rate of return given to DIAL works out to only 4% as against the 16% being allowed by authority. Moreover, the cost of equity of 16% as proposed by the AERA for determination of aeronautical tariffs is not commensurate with the risks involved and underestimates the risks of operating the Airports in India under PPP model. Calculations show that effective return on equity of other infrastructure sectors such as power generation and distribution contracts (~16%) is much higher than that for airports (~ 4%). "*

13.31. Further, DIAL commented on the matter of consideration of Upfront Fee as part of equity as below,

"The matter, whether the equity contribution of promoters towards the upfront fee has to be included for the purpose of WACC calculation, is sub-judice before AERAAT under an appeal filed by DIAL. Until AERAAT decides on our appeal AERA should not remove upfront fee from the paid-up equity capital of DIAL.

The concession agreement has laid down that the upfront fee of Rs 150 crore will not be part of costs for provision of Aeronautical Services.

However there is nothing in concession agreement which lays down that the upfront fee, will not be part of equity contribution.

DIAL has been asking for return on equity contribution only. It has not asked for inclusion of upfront fee as a part of costs of aeronautical services. Nowhere the concession agreement prevents the return on this amount.

Rather, principle (2) of schedule 1 to SSA specifically requires AERA to ensure that while setting of price cap regard shall have to be given to achieve a reasonable return on investment."

13.32. Regarding the RSD, DIAL has stated as below,

"1. Refundable Security Deposits is in the nature of a capital receipt, which involves a cost factor. RSDs received by DIAL are invested into the Project and therefore the treatment of RSDs as zero cost financing is incorrect and will affect economic viability as there are costs and risks associated with RSDs.

2. The Authority's decision to consider RSDs as a means of finance at zero cost is the subject matter of challenge in Appeal No.10/2012, which is pending before the AERAAT. Hence, the issue is to be adjudicated by the Tribunal before a decision is taken for the second Control Period."

f. Authority's Examination of Stakeholder Comments on Issues pertaining to Cost of Equity and treatment of RSD

13.33. The Authority has carefully considered the comments from IATA, APAI, APAO, AOC, FICCI and FIA as well as DIAL's comments and response to these stakeholder's comments regarding cost of equity for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

13.34. The Authority has noted that stakeholders' comments on the cost of equity vary significantly, in that some believe that the cost of equity should be higher than 16% and others that it should be lower. At the time of tariff determination for the first Control Period, the had mandated the National Institute of Public Finance and Policy (NIPFP) to conduct a study to estimate the fair rate of return especially for projects under PPP mode, namely, Mumbai, Delhi, Bangalore and Hyderabad. Considering the NIPFP report dated 19.04.2012 and other relevant factors pertaining to the riskiness of the airport, the Authority had decided to adopt a 16% return on equity for the first Control Period. The Authority believes that the relevant factors considered by it for arriving at 16% return on equity as reasonable have not undergone a change in the ensuing period.

13.35. During its submission for tariff determination for the second Control Period, DIAL has not provided any fresh arguments in favour of a 24% cost of equity. The Authority is not persuaded to revisit its decision on the cost of equity and hence decides to continue with its proposal as stated in the Consultation Paper No. 16/2014-15 dated 28.01.2015, to maintain the return on equity for DIAL at 16% and use the same for the purpose of estimation of WACC. However, the Authority notes that relevant factors including risk parameters would evolve over a period of time and may necessitate a fresh study on applicable cost of equity for IGI Airport, Delhi. The Authority has decided to undertake such study at an appropriate time.

13.36. The Authority has also noted comments from APAO, IATA and FIA, on the detailed examination of all these arguments presented in Chapter 15 of its Delhi Tariff Order 03/2012-13. The Authority has requested AAI and MoCA for their view on the treatment of RSD and the cost of RSD, detailed in para 14.41 below. One of the views in the Authority on this issue is that commercially raised resources should be entitled to a rate of return. However, for the time being, the Authority has decided that there were no costs involved in raising RSD and hence the Authority has decided to continue to treat RSD as a means of finance at zero cost.

Decision No. 11 The Authority decides to adopt the following approach for consideration of cost of equity towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:

11.a. **To adopt return on equity (post tax cost of equity) as 16% for the purpose of calculation of WACC.**

11.b. **To consider RSD already raised by DIAL (at Rs. 1,471.51 crore) as a means of finance at zero cost.**

11.c. **To review and appropriately consider the additional RSD, if any, and applicable cost thereof, if any, to be raised by DIAL during the second Control Period after receipt of views from MOCA / AAI (Refer para 14.41 below)**

11.d. **To commission a fresh study to determine cost of equity applicable in respect of IGI Airport, Delhi at an appropriate time**

14. Land Monetization and its Treatment towards Target Revenue

14.1. During the exercise of determination of aeronautical tariff for the first Control Period, DIAL had submitted that the revenues from non-transfer assets should not be used for cross subsidising the aeronautical charges. The Authority, based on the submissions from DIAL at that stage, had noted that DIAL had generated receipts from monetisation of 45 acres of land and such monetisation resulted into Rs.1471.51 crore of Refundable Security Deposits (RSD) with DIAL at zero cost. The Authority had noted the submissions from DIAL that these monies pertaining to the security deposits are in the nature of capital receipts and cannot be treated as revenue. The Authority was also informed that in addition to capital receipts (which the Authority had considered as a means of finance towards capital project cost for the purpose of determination of DF which is a means of finance of the last resort), DIAL is also in receipt of annual rental of around Rs. 1.8 crore to Rs. 2 crore per acre from the sub-leases of this land. The Authority had not taken into account this revenue (totalling around Rs. 90 crore per annum) towards calculation of aeronautical tariff.

14.2. Based on examination of stakeholder comments and DIAL submissions, the Authority, vide Decision no 25.a. of its Delhi Airport Tariff Order 03 / 2012-13, decided to exclude the gross revenue from Non-Transfer Assets towards cross-subsidization of aeronautical cost while determining the target revenue.

14.3. The Authority, under the current exercise, has had reference to the financial statements of DIAL for FY 2012-13 and FY 2013-14, which record the Deposits from Commercial Property Developers as Rs. 1,471.51 crore as on respective dates of 31.03.2013 and 31.03.2014. The Authority had considered RSD as a means of finance for funding of the project cost of Rs. 12,502.86 crore and thus for the purpose of determination of DF. The Authority had noted that the land parcel of 45 acres has been monetized by DIAL.

14.4. The Authority had also noted from the auditor certificates as well as submissions of DIAL that following Revenue were realized by DIAL from Commercial Property Development:

Table 42: Revenue from Commercial Property Development (CPD) realized by DIAL during the first Control Period

INR crore	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue from CPD	46.38	79.05	83.46	88.12	93.04

14.5. The Authority had further noted the projections made by DIAL for revenue from Commercial Property Development over the second Control Period, which were determined based on the CPD Agreements entered into by DIAL for the 45 acres of land monetised by it till date:

Table 43: Revenue from Commercial Property Development (CPD) projected by DIAL for the second Control Period

INR crore	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue from CPD	98.24	103.73	109.53	115.66	122.08

14.6. Based on its reading of various Agreements (Lease Deed and OMDA), the Authority had noted as follows:

14.6.1. From Article 2.1.1 of the Lease Deed dated 25.04.2006 between Airport Authority of India and DIAL that the 'demised premises' is given to DIAL for duration of the term for the "sole purpose of Project", where the Project is defined as *"the design, development, construction, finance, management, operation and maintenance of the Airport, as provided for under the OMDA"*.

14.6.2. Moreover, as per Article 5.1 of the Lease Deed, the Lease Deed shall terminate automatically with the expiry or early termination of the OMDA.

14.6.3. As per Article 5.2.1 (i), *"on expiry of the term or early termination of the Lease Deed, the Lessee shall surrender to the Lessor the "Demised Premises" together with all assets buildings, fixtures, runways, all or any singular rights, liberties, privileges, easements and appurtenances whatsoever to the Demised Premises..."*.

14.6.4. As per Article 5.2.1 (ii) *"the Lessee shall, in accordance with the OMDA, transfer to the lessor, all the Transfer Assets together with all or any other* *singular rights liberties, privileges, easements and appurtenances whatsoever to the said Transfer Assets...".*

14.6.5. As per Article 5.2.1(iii), *"the lessor shall have the right but not the obligation to purchase, 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."*

14.6.6. Article 5.2.1 (iii) however provides that *"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."*

14.6.7. Moreover as per Article 5.2.1 (iii), *"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."*

14.7. The Authority also noted the definitions of Non-Aeronautical assets and Non-transfer assets in OMDA as below:

14.7.1. Non-Transfer Assets shall means:

"All assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part II of Schedule 6 as located at the Airport (irrespective of whether they are owned by the JVC or any third entity) provided the same are not Non-Aeronautical Assets."

14.7.2. 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); and

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

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

14.8. The Authority noted from the provisions under OMDA that the non-transfer assets, which may be owned either by JVC or a third entity, are those assets which are built on the land earmarked for commercial development, for which Article 2.2.4 of OMDA states as under,

"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."

14.9. From the provisions under OMDA (reproduced under Lease Deed), the Authority noted that on expiry of the term or early termination of this Lease Deed / OMDA and in the event of AAI electing not to purchase from the DIAL any and/or all Non-Transfer Assets, then the Parties shall enter into a revised lease deed ("Revised Lease Deed") in relation to the Non-Transfer Assets and the underlying land together with all assets, buildings, fixtures, all or any singular rights, liberties, privileges etc. It may be noted that the issue of transfer of underlying land has been dealt with under the OMDA only in cases when the lessor (AAI) chooses not to purchase from lessee the lease assets. Revised Lease Deed needs to be signed for use of underlying land as well as the appertaining assets. This means that complete land which includes 5% of total land earmarked land for Non-Transfer Assets is to be surrendered so that a fresh lease can be entered into between the parties. As stated above it provides for a situation when AAI elects not to purchase non-transfer assets that clearly exclude underlying land. It also states that in the event the parties not agreeing to the terms and conditions of the Lease Agreement, the underlying land will revert back to AAI, and the JVC will have only the right of removing the relevant Non-Transfer Assets. From the careful examination of the above provisions, it is very clear that underlying land, over which the commercial development takes place, is not a non-transfer asset.

14.10. The Authority also noted that the land belongs to the Sovereign/AAI. Private airport operators have also been repeatedly stressing this point that they are, after all, not the owners of the land which will go back to the owner, namely, AAI. Further land, as a natural resource, was acquired by AAI or its previous incarnations, namely the International Airport Authority of India or the Civil Aviation Department of the Government of India, through the use of legislative power and instrument of the Land Acquisition Act (or given to it by the Government) for the public purpose of constructing an airport. With PPP, this public purpose is now sought to be achieved through the JVC. This is consistent with the requirement that parting with a resource by the government to a private party has to have some underlying public purpose and can be done only in public interest. This mechanism of JVC cannot alter the true colour of the underlying public purpose. It can never be construed that the land is gifted away to the JVC. The government would also concur with the view that that the commercial exploitation of land should yield monies for the airport and not to the promoters of JVC. If this is the correct logical position, land in itself cannot be construed as a non-transfer asset. Hence the Non-transfer Assets are such structures and buildings that are constructed on these lands and not the land per se.

14.11. This interpretation of Non-Transfer Assets is somewhat analogous to the concept of *land usufruct* where the lessee is permitted (by the lessor) to enjoy only the usufruct while the land belongs to the Crown or the Sovereign. Leased land (that is a natural resource) continues to remain with the AAI and only revenues from the structures built thereon (analogous to the concept of usufruct) can be considered to be enjoyed by the lessee, i.e. DIAL or MIAL (usufructuary).

14.12. The Authority noted from Article 2.1.1 of the Lease Deed dated 25.04.2006 between Airport Authority of India and DIAL that the 'demised premises' is given to DIAL for duration of the term for the "sole" purpose of Project. This sole purpose, which is public in nature, is sought to be achieved by the land leased to JVC. As noted above, land was acquired by AAI either through the use of legislative power or given to it by the Government for the public purpose. There is some underlying intrinsic value to land, which is based on the twin parameters of Floor Space Index (FSI) and Permitted User. When Lease Deed says that the 'demised premises' is given for the "sole" purpose of the project, an interpretation would be that this intrinsic value of the underlying land is to be utilized for the purpose of the project, i.e. to make it possible to *"design, development, construction, finance, management, operation and maintenance of the Airport"*. The Authority noted that this value can be extracted by different mechanisms and modalities, yet adoption of a particular modality should not alter the underlying intrinsic value of the land in question and seen from this perspective, there is equivalence of all the different modes of land monetisation and these can be said to be equivalent.

14.13. As regards the intrinsic value of the underlying land, the Authority noted that there can be different modes of land monetisation, for example, (1) capital receipts as security deposits (with or without interest); (2) A combination of capital receipts (security deposits) and revenue receipts (lease rentals) and (3) minimal security deposits and also minimal lease rentals but a revenue share agreements between the airport operator and the sub-lessees or developers (like hotels etc.).

14.14. The Authority further added that, requirement of capital over successive phases of airport expansion would require land monetization to be in sync with capital requirements. The best match between the two would then be Mode-1 (Capital receipts through Security Deposits). It may, however, turn out that the sub-lessee developer may not be able to give upfront large amounts security deposits and would want to spread some part thereof through lease rentals (Mode-2). It may then have to be prescribed by the primary lessor (AAI/MoCA) that lease rentals obtained by DIAL on account of land monetization would also be applied towards the airport project. After the revenue share of AAI is paid (so that AAI's revenues are not affected), land monetization in Mode-3 would indicate that no capital (either in the form of capital receipts or lease rentals) would be available to the airport operator to be applied towards the project when the airport operator has entered into a revenue share arrangement with the sub-lessee, namely the developers of hotels, etc. In Mode-3, therefore, the link between the lease of land for the "sole" purpose of airport development and receipts obtained from land monetization gets uncoupled.

14.15. Furthermore, revenue share from DIAL to AAI is not applied to the capital receipts but only on the lease rentals that DIAL gets from the developers, it being a revenue receipt. By changing the proportion of security deposits and lease rentals in land monetisation, the airport operator may impact that portion which goes entirely to the capital (viz. the security deposits) and maximise the lease rentals (revenue receipts). However, if the land is leased by AAI to the airport operator for the "sole" purpose of airport project, both the capital receipts and the revenue receipts from land would have to be applied to the airport project. (Alternatively, it will need to be stipulated by AAI/GOI that the land monetisation will be only in the form of capital receipts).

14.16. The Authority had a reference to Schedule 1 of SSA for the principles of tariff fixation in respect of IGI Airport, Delhi. The building blocks to be considered for determination of Target Revenue, as presented in para 3.6 above. The Authority notes that the building blocks include a cross-subsidisation of 30% of the gross revenue generated by the JVC from the Revenue Share Assets, the costs in relation to which shall not be included while calculating Aeronautical Charges. The definition of Revenue Share Assets does neither explicitly mention the Non-Transfer Assets nor the underlying land. The Authority also notes that formulation / mechanism for consideration of land monetisation towards determination of aeronautical tariff is not explicitly detailed in the SSA. On account of the absence of such formulation / detailed mechanism, the Authority is unable to deduce as to how it can give effect to the primary objective stated under the Lease Deed, i.e. use of the demised premises for the sole purpose of the project. Accordingly the Authority is unable to accord any treatment to the revenue generated by monetisation of land by DIAL for the purpose of determination of aeronautical tariff except for the consideration of refundable security deposits raised by DIAL of Rs. 1,471.51 crore as a means of finance at zero cost for the purpose of the determination of DF and calculation of WACC.

14.17. The Authority had examined the issue of treatment of RSD for the purpose of determination of aeronautical tariff in detail in its Consultation Paper No. 32 / 2012-13 as well as Delhi Tariff Order No. 03 / 2012-13. The Authority had noted that the RSD raised by DIAL is interest free (zero cost). The Authority did not find any fresh argument from DIAL on this issue as part of the current submissions and hence, the Authority was not persuaded to agree with DIAL's statement that the RSD amount collected are outside the Regulatory till as the amounts enumerate from non-transferable Asset (RSD).

14.18. As regards the lease rental generated by DIAL from the Commercial Property Development (from the exploitation of 45 acres of land earmarked for Non-Transfer Assets), the Authority, for the present, has not considered these amounts towards the determination of aeronautical tariff on account of the lack of explicit mention of the formulation / mechanism for such consideration in SSA / OMDA / Lease Deed.

The Authority noted that this amount for the first Control Period (Refer para14.4 above) totals to Rs. 390.05 crore. Based on the projections made by DIAL for revenue from Commercial Property Development for the second Control Period, the amount (Refer para 14.5 above) totals to Rs. 549.24 crore.

14.19. Considering the fact that Lease Deed and SSA have been signed by AAI and Ministry of Civil Aviation, the Authority was of the view that AAI / Ministry of Civil Aviation are best placed to indicate to the Authority the quantum of revenue (100% or otherwise) from the land earmarked for commercial development to be considered towards cross-subsidisation so that the same is accounted for in the determination of aeronautical tariff. The Authority was also of the view that any exploitation of the remaining earmarked commercial land (from the limit of 5% prescribed under OMDA) without any capital investment need and / or without any link to defray 100% revenue for aero tariff needs to be addressed by AAI / MOCA. Moreover in case RSD is raised by DIAL but is not utilized for the capital investment, mechanism to account for such money as well as the interest thereon is also to be addressed by AAI / MOCA. The Authority proposes to seek the views / inputs from MoCA / AAI towards treatment of revenue realized by DIAL from monetisation of land under the exercise of determination of aeronautical tariff. Upon receipt of views / inputs from MoCA / AAI, it would accord appropriate treatment to such Revenue including future commercial exploitation.

14.20. To summarize, the Authority stated as under:

14.20.1. Leased land is given to DIAL for the "sole" purpose of airport project and hence there should be no "leakage" from the proceeds of monetisation for purposes other than the airport project. Land monetisation should yield capital for successive phases of expansion of the airport. Hence the mode of land monetisation should ideally be only in the form of capital receipts (security deposits) and in sync with the capital requirements of successive phases of airport expansion. In case the same is not followed, the Authority would seek views from AAI / MoCA on mechanism for treatment of such monies realized by DIAL:

14.20.2. Provisions under OMDA seem to indicate that land per se is not to be regarded as part of the non-transfer asset. Hence the revenues attributable to monetisation of land per se should not be reckoned as revenues from non-transfer assets. However, in Mode 3 (Paras 14.14 and 14.15), there may be no proceeds from land for using for the airport project and such mode may decouple the lease of land from its sole purpose and hence would not be in public interest.

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 monetisation by DIAL in future and the formulation for treatment of revenue generated from monetisation 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.

a. Stakeholder Comments on Issues pertaining to Land Monetization / Treatment of RSD

14.21. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders including IATA, VistaRa, APAO, CII, MIAL, Air India etc. In response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No 16/2014-15 dated 28.01.2015. Comments with respect to land monetization and treatment of RSD are presented below.

14.22. MIAL is of the opinion that revenue from land monetization is not to be used for cross subsidizing the target revenue and there is no obligation on the airport operator for using the funds mobilised from land monetization for airport business.

Further it opines that the RSD should not be a zero cost means of financing. Its comments are presented below,

"The Authority has deviated from the Concession Agreements entered into by the Airport operator in respect of the treatment of RSD / land moetization. It has stated the following:

"At the outset, MIAL would like to state that development, expansion and operations at IGI Airport, Delhi are governed by certain agreements (collectively referred to as "Project Agreements"), inter-alia, which were executed between DIAL, MoCA and AAI:

Operation. Management and Development Agreement dated 04.04.2006 (hereinafter referred to as "OMDA") between DIAL and the AAI;

The State Support Agreement (hereinafter referred to as "SSA") dated 26.04.2006 between the President of India, acting through the Ministry of Civil Aviation (hereinafter referred to as 'MoCA'), and DIAL:

The bidding process for the award of IGI Airport, Delhi was carried out on the basis of certain assumptions and parameters, which formed the basis of bidding. Further the SSA and the OMDA sets out certain specific norms and parameters for the operation of the Delhi airport, including determination of aeronautical tariff, revenue sharing with the AAI, the identification of aeronautical, non-aeronautical and essential services etc. At para 3.1.1 of the SSA it is specifically provided that the Govt. of India "shall make reasonable endeavors to procure that the Economic Regulatory Authority shall regulate and set /re-set Aeronautical Charges, in accordance with the brood principles set out in Schedule 1 appended hereto'(to the SSA).

Further, Section 13 (i)(a)(vi) of AERA Act, 2009 (AERA Act) requires the Authority to determine the tariff for aeronautical services taking into consideration the concession offered by the Central Government. The AERA in recognition of such provision has considered various provisions of the SSA read along with OMDA for the purpose of tariff determination for the 1st Control

Period i.e. FY 10 to FY 14. It is, therefore, respectfully submitted that a deviation from the SSA and OMDA will be against the principles emanating from the concession agreements and also the statutory provisions under the AERA Act.

The Authority has requested AAI and MoCA to provide their considered view on mechanism for land monetization by DIAL in future and the formulation for treatment of revenue generated by DIAL from monetization of land earmarked for commercial development.

In this connection we would like to state that the position in this respect is very clear and revenue from such monetization is not to be used for cross subsidizing the target revenue and there is no obligation on the airport operator for using the funds mobilised from land monetization for airport business. If such funds are used for airport business, at least a return equivalent to return on debt should be allowed, if not the return on equity. As per SSA, only 30% of the gross revenue generated by the JVC from the Revenue Share Assets would be considered for cross-subsidization. Revenue Share Assets is defined in SSA while Non Aeronautical Assets are defined under OMDA.

Since the Real Estate Development does not get qualified under the definition of Revenue Share Assets, any revenue / proceeds from Real Estate Development is completely outside the purview of cross subsidization in accordance with the provisions of SSA and therefore no way any such revenue / proceeds can be utilised for cross subsidizing aeronautical charges. In view of absolutely clear provisions under the SSA and OMDA, we are of the view that, there was no need to refer this matter to MoCA and AAI. It will not be out of place to mention here that the Authority had already analysed this issue thoroughly while determining tariff for first Control Period and had taken a decision accordingly and therefore reviewing / revisiting its own decision is undesirable and uncalled for.

14.23. We would also like to state that the Authority on one hand expects the operator to use funds raised through Refundable Security Deposit, in airport business but on the other hand, does not want the operator to have market linked return on such funds. The Authority also needs to factor in the requirement of funds that would arise when the security deposit is to be refunded as per the agreed terms. For making available funds for refund of security deposit, such usage of funds should form part of RAB and reasonable return on equity and depreciation should be provided thereon."On the issue of land monetization, IATA further stated revenues arising from land monetization should be included for tariff determination to benefit airport users stating that,

> *"It has been argued that concessional land given to private players must result in benefits to the end consumers in India. Not including revenues derived from monetization of state land provided free to the private player could be construed as unduly profiting the private player at the expense of the end-consumers. We await the timely guidance of AAI and MoCA to have revenues from monetization of state land by DIAL included in this tariff determination."*

14.24. APAI commented on the matter that,

> *"We observe the revenue from land monetization has not been considered at all and it is a very vital and important factor for consideration. The authority has proposed that land monetization would not be included in the tariff determination. It is submitted that monetization of state land must benefit the public at large and is a right for everybody and as such, the revenue realized/projected against same for both control periods should be considered at the time of tariff determination and before the Authority concludes, an early and appropriate guideline from AAI and MoCA should be considered."*

14.25. CII commented on the matter that,

> *"AERA had deliberated and settled the land issue in first control period but now they again propose to revisit the same. This will lead to regulatory uncertainty in minds of investors as also will be a clear violation of concession. Commercial exploitation of land in the manner provided under OMDA has been a part & parcel of the RFP for privatization of IGI Airport.*

It is important to note that any incorrect attempt to expand the definition of the "Revenue Share Assets" to include the revenue arising from the "Non Transfer Assets" such as commercial property would impinge the very basis of the concession. CII request: As such Non transfer assets including the deposit and revenue from land are outside regulatory ambit."

14.26. FIA commented on the matter of land monetization as below,

"It is submitted that the Authority has extensively discussed the issue of monetization of land. However, there are certain key terms which should be evaluated and decided upon as a preliminary step to ascertain the issue monetization of land. It is submitted that Authority may kindly elaborate and clarify the meanings of the following terms by citing examples from the Airport and the Airport Site itself:-

(a) Non - Transfer Assets;

(b) Non -Aeronautical Services; and

(c) Transfer Assets.

Since, the issue of monetization of land and the treatment of the same in the determination of aeronautical revenues has remained a contentious issue, it is relevant that the Authority clarifies the above terms as a preliminary step to decide the above issue. "

14.27. FIA further commented that,

"It is submitted that the lease rentals received on monetization of the land have not been applied towards the computation of aeronautical tariff, In the event the lease rentals from monetization of land are allowed same will reduce the burden on the consumers. Therefore, the interest of the consumers and the stakeholders requires that the lease rentals from the monetization of the land be appropriated towards the determination of aeronautical tariff."

14.28. FIA also added that,

"On the basis of provisions of lease deed and Authority's viewpoint it is submitted that the revenues from CPD should be considered in determination

of aeronautical tariff rather than excluding it pending the views of MoCA and AAI."

14.29. FIA further added that,

"FIA has not received the copy of the CPD Agreements ("CPDA") executed between DIAL and the third parties. It is submitted that the burden of proof is on DIAL to establish that there is no link between the proceeds of land monetization and the determination of aeronautical tariff. The Hon'ble Supreme Court in the judgment of Rangammal v. Kuppuswami and Anr. ((2011)12SCC220) has held that the burden of proof is on the party who is claiming any right from the court."

Relevant excerpts of the judgment are reproduced by FIA in its comments.

"Based on the above judgment by the Hon'ble Supreme Court, it is submitted that DIAL has claimed that proceeds from the monetization of land cannot be appropriated towards the determination of aeronautical tariff. Therefore, DIAL is required to provide the documents with respect to the same. Since, DIAL has not provided the documents to the stakeholders, DIAL has failed to discharge DIAL's burden of proof as held in the above judgment. It is submitted that the Hon'ble Supreme Court has noted that until the burden of proof is discharged the other party cannot be called upon to prove his case. Therefore, the stakeholders like FIA cannot be called upon to prove their case on the issue of treatment of land monetization. Being the sectoral regulator, the Authority is bound to analyse this aspect in the interest of the airlines and the consumers. In view of the same, the amounts of Rs,390.05 crores from commercial property development in the 1st Control period, and Rs,549.24 crores in the 2"d Control Period, ought to have been considered towards the determination of aeronautical tariff."

14.30. Regarding scenarios for land monetization and nature of asset, FIA commented that,

"The Authority has stated that Mode 3 is the only instance recognized by the Authority which delinks the proceeds of land monetization from the determination of aeronautical tariff. It is submitted that even under Mode 3 which is revenue sharing arrangement, the revenues from land monetization

should be considered in the determination of aeronautical tariff. It is further submitted that a revenue share arrangement would include the factors like:

(a) The contribution of DIAL in the said property development. It needs to be ascertained whether the said contribution is related to the services or mere sub - lease of land as a contribution; and Expenses incurred by DIAL in providing DIAL's contribution to the said property developments, in the event DIAL is not incurring expenses, it is evident that the contribution is limited to land only. Therefore, the revenue share merely factors the contribution of land.

Assuming, without admitting, that DIAL is providing services and not merely providing the land in the said commercial venture, then the nature of services may be compared with the Schedule – VI of OMDA, and evaluated whether DIAL is providing any services the revenue of which should be apportioned towards the determination of aeronautical tariff.

Based on the above, it is submitted that even when there is a revenue sharing arrangement and DIAL is providing certain services, the revenue share will take into account:

(a) Land; and

(b) Services provided by DIAL to the extent the services relate to the Schedule VI of OMDA and the AERA Act.

Therefore, as rightly noted by the Authority land in question is not a non - transfer asset the revenue arising from the contribution of land should be considered towards the determination of aeronautical tariff, in every scenario/ mode discussed by the Authority.

In the absence of CPDAs, and based on the admission of DIAL that DIAL has recognized the revenue from the CPD, it is submitted that land is the only resource which has been contributed by DIAL. Land has been provided by the government. Further, participation in such business venture only arises from the fact that DIAL has been allowed to do so under the terms of OMDA and the Lease Deed. Therefore, any receipts arising from the land (not being a non -

transfer asset), which has been granted by a sovereign, cannot be allowed to be appropriated by a private person. In view of the same in all the instances, the Authority ought to have considered the proceeds of land monetization towards the determination of aeronautical tariff.

It is submitted that DIAL is operating the airport which is a public asset. Further, assets like airport are inherently monopolistic. Therefore, the concern of the stakeholders should be of primacy when compared to the concern of the entity controlling such asset. It is submitted that in certain instances where the Authority cannot decide the approach, as an interim measure the Authority ought to consider that the interest of stakeholders is paramount. Similar views have been expressed by the Hon'ble Supreme Court in the matter

of In Re: Special Reference No. 1 of 2012 (2012) 10 SCC 1." An extract of the same has been reproduced in the FIA submission.

14.31. Citing the matter expressed in the Supreme Court FIA added that,

"Relevant extract of the judgment of the Hon'ble Supreme Court in In Re: Special Reference No. 1 of 2012 is annexed hereto and marked as Attachment--8.eased on the above, it is submitted that land is a natural resource. Land has been given at a price of Rs-100 per acre, under the terms of Lease Deed, which is a highly depreciated value. The reciprocal consideration is that land monetized has to be appropriated towards the determination of aeronautical tariff, Therefore, notwithstanding the reservation expressed by the Authority under Mode 3, the revenue arising from land monetization should be used to compensate the consumer, Further, even when the Authority is awaiting the comments from AAI and MoCA, the above judgment of the Hon'ble Supreme Court is binding on the Authority. The Authority is required to ensure DIAL's reciprocal consideration to reduce the burden on the consumers as per the decision of the Hon'ble Supreme Court in In Re: Special Reference Judgment."

14.32. On the matter of seeking AAI and MOCA's view with respect to land monetization, APAO commented that, *"However, the position in this respect is very clear from SSA and revenue from such monetization is not to be used for cross subsidizing the target revenue and there is no provision for using the funds mobilised from land monetization in airport business. If such funds are used for airport business, a return equivalent to at least return on debt should be allowed, if not the return on equity.*

As per SSA, only 30% of the gross revenue generated by the JVC from the Revenue Share Assets would be considered for cross-subsidization. Revenue share assets means Non Aeronautical assets which are further, defined in OMDA as all assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part I of Schedule 6 and all assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part II of Schedule 6 hereof as located at the Airport, to the extent such assets (a) are located within or form part of any terminal building; (b) are conjoined to any other Aeronautical Assets, asset included in paragraph (i) above and such assets are incapable of independent access and independent existence; or (c) are predominantly servicing/ catering any terminal complex/cargo complex. Therefore it means that Revenue proceeds from any Non Transfer asset is outside the purview of regulation by AERA.

The Authority on one hand expects the operator to use such funds in airport business but on the other hand, does not want to give the operator market linked return on such funds. The Authority also needs to factor in the requirement of funds that would arise when the security deposit is to be refunded as per the agreed terms. It is important to note that the Authority has already discussed and deliberated on this issue in detail while finalizing tariff order for first control period and had taken decisions in accordance with the provisions of SSA and therefore the Authority should not review its own decision"

b. DIAL's response to Stakeholder Comments on Issues pertaining to Land Monetization

14.33. On APAO's comments regarding revenue from Land Monetization, DIAL has supported its contentions while elaborating its view on the matter, highlighted in para 14.35 below to 14.39 below.

14.34. DIAL agreed with MIAL's comments, elaborating its views presented in para 14.35 below to para 14.38 below.

In response to APAI's comments, DIAL has provided the same rationale for non-inclusion of revenues from land monetization for cross subsidization of aeronautical charges as covered in para 14.35 below to para 14.38 below and mentioned that,

"APAI has sought for inclusion of revenues from land monetisation. This will be against the Concession Agreements and the terms of OMDA. The Authority must determine tariffs under Section 13 taking into consideration the concessions offered."

c. DIAL's own comments on Issues pertaining to Land Monetization

14.35. On the issues pertaining to Land Monetization, DIAL has presented that,

"14.21.2. Provisions under OMDA seem to indicate that land per se is not to be regarded as part of the non-transfer asset. Hence the revenues attributable to monetisation of land per se should not be reckoned as revenues from non-transfer assets. However, in Mode 3 (Paras 14.14 and 14.15 above), there may be no proceeds from land for using for the airport project and such mode may decouple the lease of land from its sole purpose and hence would not be in public interest.

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

14.36. Regarding treatment of revenue accruing from land, DIAL stated as under,

"Under the OMDA there is a distinction between "Transfer Assets", which means aeronautical and non-aeronautical assets and "Non-Transfer Assets". These are defined as under:-

"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.

"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); and

2. all assets required or necessary for the performance of Non-Aeronautical Services at the Airport as listed in Part II of Schedule 6 hereof as located at the Airport (irrespective of whether they are owned by the JVC or any third Entity), to the extent such assets (a) are located within or form part of any terminal building; (b) are conjoined to any other Aeronautical Assets, asset included in paragraph (i) above and such assets are incapable of independent access and independent existence; or (c) are predominantly servicing/ catering any terminal complex/cargo complex and shall specifically include all additional land (other than the Demised Premises), property and structures thereon acquired or leased during the Term, in relation to such Non-Aeronautical Assets.

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

"Airport" means the Indira Gandhi International Airport, as located on the

Airport Site; and

"Airport Site" shall mean the underlying land forming part of the Demised Premises (as defined in the Lease Deed) agreed to be demised by AAI in pursuance of this Agreement under the Lease Deed and all land (including Excluded Premises) acquired or leased by the JVC during the Term in pursuance of this Agreement under the Lease Deed or otherwise."

14.37. DIAL has stated further that,

"The contract recognizes different classes:-

(i) Transfer assets:- All aeronautical and non-aeronautical assets;

(ii) Non-Transfer assets:- Assets which are required for the performance of non-aeronautical services listed in Part II of Schedule 6 of the OMDA and which are not non-aeronautical assets, as located at the 'Airport' Site.

(iii) 'Airport' and 'Airport Site'.

3. There is purpose, logic and rationale in making this distinction, as revenues from non-aeronautical assets is taken into consideration for cross subsidization of aeronautical charges, whereas revenues from land and building(s) developed thereon in accordance with Article 2.2.4 of OMDA are not to be taken into consideration for cross subsidization.

Contractual Mechanism

4. As per the principles for determining aeronautical charges set out in Schedule 1 of the SSA, the Authority can only take into account revenues from non aeronautical assets for the purpose of cross subsidization.

5. This is clear from the definition of 'S', which is equal to 30% of the gross revenue generated by DIAL from the Revenue Sharing Assets. Revenue Share Assets mean non-aeronautical assets and assets required for the provision of aeronautical related services arising at the Airport and not considered in revenues from non-aeronautical assets(for e.g. Public admission fee, etc.)

6. Non-Transfer Assets are not included as 'Revenue Share Assets'. In the absence of any provision permitting cross-subsidization from revenues earned from Non-Transfer Assets, such revenues cannot be taken into consideration.

7. Generally global airports have commercial developments in the immediate vicinity of the airport which is referred to as aerotropolis development. These enable a holistic approach to development of airport and the ecosystem around the airport. This assists in not just the growth of the airport but also provides a thrust to the economy around the airport and enhances the economic impact of the airport. Thus providing for developing of 5% of the land of airport as commercial property had a broad public objective. Apart from this the basis for protecting revenues earned from Non-Transfer Assets from being considered for cross-subsidization of charges is to provide a revenue stream to the airport operator to enable bidders to quote higher revenue share to AAI. Any attempt to change this intent, post bidding, and because the revenue earned from the land earmarked for Non-Transfer Assets to be utilized to cross-subsidize the aeronautical tariff, in contravention of the bid terms, would put the airport operator in serious financial distress.

Thus, it is meant to act as a balance to enable the operator to meet its obligations under OMDA. Seen in this context, revenues earned from Non-Transfer Assets must not be considered for cross-subsidization as doing so would defeat the purposes of the OMDA and put the airport operator into financial distress."

14.38. DIAL has commented further on these matters with respect to OMDA, SSA, and AERA Act etc. It concludes as below,

"On this background, the interpretation (in paragraph 14.13) that the Demised Premises is given to DIAL only for the sole purpose of development, operation and maintenance of the Airport will defeat the mandate/rights under the OMDA as Article 2.2.4 of OMDA itself permits, commercial usage of 5% of the demised land and Article 8.5.7 of OMDA enables DIAL to sub-lease and license

any part of the Airport Site to third parties. Such interpretation is contrary to the AERA Act, the Policy of the Government and the concession agreements."

d. Authority's Examination of Stakeholder Comments on Issues pertaining to Land Monetization / RSD

14.39. The Authority has carefully considered the comments from IATA, APAI, APAO, AOC, FICCI and FIA as well as DIAL's comments and response to these stakeholder's comments regarding land monetization for the second Control Period in respect of the IGI Airport, Delhi.

14.40. The Authority's considered view is detailed under para 14.20 above based on the provisions of SSA, Land Lease Agreement and OMDA (project agreements).

14.41. The Authority has noted MIAL's comment that SSA and OMDA are clear on the issue of land monetization. However, the Authority would like to get the opinion of other contracting parties for the Concession Agreement for the IGI Airport, Delhi , i.e. AAI / MoCA. The Authority is also of the view that AAI / MoCA are the agencies of the sovereign to have leased the land to DIAL and are best placed to prescribe the mechanism for land monetisation by DIAL as well as the formulation for treatment of revenue generated from monetisation of land towards determination of aeronautical tariff in respect of IGI Airport, Delhi. The Authority is not willing to reconsider this view and has requested AAI / MoCA for their considered view in this regard. At present, the Authority has not received any view from AAI/MoCA, and will continue with its proposal in respect of land monetization, from the Consultation Paper No. 16/2014-15 dated 28.01.2015. Upon the receipt of AAI/MoCA's views, appropriate treatment shall be carried out.

Decision No. 12 The Authority decides to adopt the following approach for consideration of land monetization towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:

12.a. To treat the revenues from monetization of land based on the mechanism prescribed by AAI/MOCA on land monetization in case of DIAL (refer para 14.20)

12.b. To not consider at present, the revenues realized by DIAL from Commercial Property Development (CPD) during the first Control Period to the tune of Rs. 390.05 crore, as well as the projected revenue from CPD in the second Control Period to the tune of Rs. 549.24 crore; towards determination of aeronautical tariff in respect of IGI Airport, Delhi, pending the receipt of views of AAI/ MoCA.

15. Weighted Average Cost of Capital (WACC)

a DIAL Submission on Weighted Average Cost of Capital (WACC)

15.1. DIAL, in its submission dated 11.11.2013, stated as under on the issue of calculation of WACC:

"The SSA prescribed a nominal post-tax WACC methodology for determining the Return on RAB. A post-tax vanilla approach that is equivalent to above approach has been used to determine the WACC. The formula used is as below:

WACC = Kd X G + Ke X (1-G)

Where

Kd: Weighted average Pre-tax cost of debt used for funding the RAB

Ke: Post-tax cost of equity using the Capital Asset Pricing Model 'CAPM' Approach.

G: Gearing of Debt to total Equity/Quasi-equity utilised for RAB.

Security deposit as quasi equity: As explained earlier, DIAL has utilized the security deposits from lease of Non-Transfer Assets to part finance the capital expenditure programme for Phase 1. This has been done despite any mandate/requirement below any of the project agreements to utilize the deposit towards funding the aeronautical assets.

The aforesaid deposits are for the concession period co-terminating with the concession of DIAL and as such have been treated as quasi-equity. The reasons of this being treated as quasi-equity are as below:

- *These amounts are culled out from a bottom-line impacting revenue stream.*
- *The amount is not repayable during the term of concession – same as in case of equity.*
- *The utilization of the money is at the discretion of the shareholders and had no limitations.*

- *The money could have been invested in any other venture and/or developing Non Transfer Assets/Non Aeronautical Assets by DIAL and has opportunity cost of equity.*
- *The amount has been used to finance the RAB and as such it needs to be serviced.*
- *Lenders have also treated this amount as equity to compute debt-equity ratio for lending purposes.*

Therefore, security deposit from CPD is treated as quasi-equity and the cost of equity applied to this to compute WACC.

Based on the weighted average cost of debt for the Rupee Term Loan and the External Commercial Borrowing facility, a combined weighted average can be calculated in rupee-denominated terms, which will provide the overall cost of debt for DIAL's cost of capital calculation. The calculation is set out in the table below.

In Crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Equity funding					
Share capital	*2,450.00*	*2,450.00*	*2,450.00*	*2,450.00*	*2,450.00*
Internal accruals (Cumulative)*	*345.87*	*499.31*	*663.34*	*895.58*	*1145.73*
Refundable lease deposits	*1,471.51*	*1,471.51*	*1,471.51*	*1,471.51*	*1,471.51*
Total	*4,267.38*	*4,420.82*	*4,584.85*	*4,817.09*	*5,067.24*
Return on equity	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*
Debt funding					
*ECB debt***	*2264.68*	*1971.84*	*1654.41*	*1319.57*	*995.72*
Cost of ECB %	*7.49%*	*7.41%*	*7.80%*	*7.79%*	*7.77%*
Rupee debt	*2,936.92*	*2,912.44*	*2,832.08*	*2,619.02*	*2,322.14*
Cost of Rupee debt	*12.04%*	*12.29%*	*12.54%*	*12.79%*	*13.04%*
Total debt funding	*5201.60*	*4884.28*	*4486.48*	*3938.59*	*3317.86*
Total Capital employed	*9468.98*	*9305.10*	*9071.34*	*8755.68*	*8385.11*

WACC	17.56%				

"It is assumed that DIAL will be able to generate surplus cash from its operating activities (based on the current X factor proposed by us) However, based on the final X factor approved by Authority if surplus is not available then additional debt will need to factored in the means of finance and WACC computation. Currently it has been assumed that the future capitalization will be done from internal accrual as surplus is available. "

15.2. Based on availability of audited values for FY 2013-14, DIAL has revised its calculation of WACC in its submission dated 23.07.2014. The revised submission is presented as below:

"Based on the weighted average cost of debt for the Rupee Term Loan and the External Commercial Borrowing facility, a combined weighted average can be calculated in rupee-denominated terms, which will provide the overall cost of debt for DIAL's cost of capital calculation. The calculation is set out in the table below.

In Crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
		Equity funding			
Share capital	2,450	2,450	2,450	2,450	2,450
*Internal accruals *(Cumulative)*	333	529	731	964	1214
Refundable lease deposits	1,472	1,472	1,472	1,472	1,472
Total	4,255	4,451	4,653	4,885	5,135
Return on equity	24.0%	24.0%	24.0%	24.0%	24.0%
		Debt funding			
*ECB debt***	2,166	1,884	1,578	1,256	944
Cost of ECB %	7.48%	7.39%	7.78%	7.77%	7.74%
Rupee debt	2,955	2,931	2,850	2,637	2,340
Cost of Rupee debt	11.63%	11.88%	12.13%	12.38%	12.63%
Total debt funding	5,121	4,815	4,428	3,893	3,284
WACC	17.54%				

"let is assumed that DIAL will be able to generate surplus cash from its operating activities (based on the current X factor proposed by us) However, based on the final X factor approved by Authority if surplus is not available then

additional debt will need to factored in the means of finance and WACC computation. Currently it has been assumed that the future capitalization will be done from internal accrual as surplus is available."

b Authority's Examination of DIAL Submissions on Weighted Average Cost of Capital (WACC)

15.3. The Authority had carefully examined DIAL's submission regarding WACC and in light of the discussion on cost of debt in para 12 above and cost of equity in para 13 above, the Authority presented its examination on WACC.

15.4. Regarding the quantum of equity to be considered, the Authority in its Delhi Tariff Order 03 / 2012-13 had decided not to consider Rs. 150 crores paid by DIAL as an Upfront Fee to AAI for the purpose of calculation of WACC. The Authority had noted from the Tariff Model that DIAL has considered the paid-up equity at Rs. 2,450 crore, which includes Rs. 150 crore of Upfront Fee for the purpose of WACC Calculation. The Authority is not persuaded to reconsider its earlier decision and hence proposes to consider paid-up equity at Rs 2,300 crore after removing the Upfront Fee of Rs 150 crore.

15.5. The Authority had also noted from the tariff model that DIAL has considered the capital additions being made over the second Control period to have been funded from its internal accruals for respective years. DIAL had stated its assumption in its submissions that DIAL will be able to generate surplus cash from its operating activities (based on the current X factor proposed by DIAL). However, based on the final X factor approved by the Authority if surplus is not available then additional debt will need to be factored in the means of finance and WACC computation.

15.6. The Authority noted that DIAL has used the term internal accrual to refer to the internal resource generation. The Authority has not found definition of the term "internal accruals". However, it understands that this term is used interchangeably with "internal resource generation" (IRG). The IRG comprises (a) Profit After Tax (PAT) (b) depreciation and (c) deferred liabilities, if any.

15.7. The Authority was of the view that the Profit After Tax, which is decided by the firm to be appropriated in the Reserves and Surplus of the firm (and thereafter forms part of the Net Worth, which is the sum of paid-up equity and accumulated retained earnings), belongs to equity investors and would be eligible for equity return. Depreciation is non-cash expenditure and it reflects the reduction in the value of assets (reflected in the difference between the Gross Block and the Net Block) and cannot be considered as eligible for equity return.

15.8. Thus the Authority considered that only the Reserves and Surplus should be considered as eligible for equity return. To this Reserves and Surplus, the Authority would add the Profit after Tax as estimated by it to be realized by DIAL over the second Control Period. Such closing Reserves and Surplus will be considered for addition in paid-up equity for respective years for consideration towards the net value of equity and as eligible for an equity return. However, if and when the Reserves and Surplus is negative and results in a value less than the paid-up equity, causing a situation of negative Net Worth for the airport operator; the Authority would consider the value of paid-up equity as the net equity.

15.9. The Authority had noted from the Financial Statement of DIAL for FY 2013-14 that opening balance of Reserves and Surplus for DIAL for FY 2013-14 comes to a negative of Rs. 969.86 crore. Profit after Tax for DIAL, based on its calculation of X factor, reduces the negative balance of Reserves and Surplus or in other words it partly recoups the losses in the previous years to that extent. So far as the accumulated Reserves and Surplus for DIAL is negative, question of having funded the additions to the assets from PAT (though positive for the particular year) does not arise. In such case, the Authority proposed to consider closing equity as per the present level of paid-up equity.

15.10. In the context of IGI Airport, Delhi, the Authority noted that the revenue generated by DIAL from monetisation of land also contributes to its Reserves and Surplus. Pending receipt of clarification/inputs from MOCA/AAI on treatment of revenue from monetization of land, the Authority had not considered such revenue towards computation of aeronautical tariffs. In line with the same, the Authority proposed not to consider the contribution of the revenue from monetization of land towards Reserves and Surplus for DIAL at the beginning of the second Control Period. However the Authority did not have the required information to segregate such contribution and considered the Reserves and Surplus, as reflected in the books of DIAL.

15.11. The Authority computed the Reserves and Surpluses for the duration of the second Control Period based on its proposed determination of X factor and proposed to consider this towards determination of equity for the purpose of calculation of WACC. This computation in respect of DIAL is presented in the Table below:

Table 44: Authority's computation of Equity to be considered towards WACC in respect of DIAL in the second Control Period in Consultation Paper No. 16/2014-15

In Crore	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Paid-up Equity					
Opening Paid-Up Equity	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00
Additions to Paid-Up Equity	-	-	-	-	-
Closing Paid Up Equity	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00
Reserves and Surplus to be considered towards equity					
Reserves and Surplus brought forward	(969.86)	(909.21)	(1,601.88)	(2,178.14)	(2,682.78)
Profit for the Year appropriated to Reserves and Surplus	60.65	(692.67)	(576.26)	(504.64)	(379.08)
Reserves and Surplus carried forward	(909.21)	(1,601.88)	(2,178.14)	(2,682.78)	(3,061.86)
Reserves and Surplus to be considered towards equity	-	-	-	-	-
Equity considered for calculation of WACC	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00

15.12. Accordingly the cost of equity of 16% was considered on equity balance of Rs. 2,300 crore every year in the second Control Period. The Authority had determined the cost of debt for DIAL as given in the Table 38 above for the second Control Period. The Authority has determined the total capital employed and WACC for the second Control Period to be as below,

Table 45: Total Capital Employed and WACC as considered by the Authority for second Control Period in Consultation Paper No. 16/2014-15

In Crore	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Equity funding					
Share capital	2300.00	2300.00	2300.00	2300.00	2300.00
Reserves and Surplus	0.00	0.00	0.00	0.00	0.00

(Cumulative)					
Total	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00
Return on equity	16.00%	16.00%	16.00%	16.00%	16.00%
Debt funding					
ECB debt	1753.76	1538.84	1301.93	1051.01	808.06
Cost of ECB %	7.08%	7.39%	7.78%	7.77%	7.74%
Rupee debt	2955.08	2930.59	2850.23	2637.17	2340.30
Additional Rupee Debt for proposed capex during Second Control Period	0.00	0.00	197.93	165.07	47.70
Cost of Rupee debt	11.38%	11.38%	11.38%	11.38%	11.38%
Total debt Outstanding	4708.84	4469.43	4350.09	4051.19	3545.86
RSD	1471.51	1471.51	1471.51	1471.51	1471.51
Return on RSD	0.00%	0.00%	0.00%	0.00%	0.00%
Total Capital employed	8,480.35	8,240.94	8,121.60	7,822.70	7,317.37
WACC	10.00%	9.99%	9.99%	9.98%	9.97%
Average WACC	9.99%				

15.13. As regards truing up of WACC, the Authority had proposed not to provide a true up with the following exceptions:

15.13.1. New debt subject to the ceiling on cost of debt for Rupee Term Loan of actuals as of 01.04.2014 plus 50 basis points

15.13.2. New RSD (in addition to Rs. 1,471.51 crore already considered by the Authority as a means of finance while determining DF)

15.13.3. Fresh paid-up equity (in addition to Rs. 2,300.00 crore already considered by the Authority (after removing upfront fee of Rs. 150 crore from the paid-up equity of Rs 2,450 crore) as a means of finance while determining DF)

15.13.4. Funds from Reserves and Surplus on actuals, if positive, during the second Control Period

c Stakeholder Comments on Issues pertaining to WACC

15.14. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders including IATA, VistaRa, APAO, CII, MIAL, Air India etc. in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No 16/2014-15 dated 28.01.2015. Comments with respect to WACC are presented below.

15.15. On the matter of WACC, MIAL commented as below,

"Computation of WACC - Reserves and Surplus deployed for the Project are reduced by the losses generated in the future years. Authority's proposal: While computation of WACC. Authority has proposed that to arrive at the quantum of Reserves and Surplus (R&S) any losses incurred from the operations will be netted off subject to the level that paid up equity will not get reduced.

A project is funded through a combination of various means of finance such as Equity Share Capital, R&S. debt, deposits. etc. Authority has agreed to protect the paid up equity and not to reduce from it the negative R&S , as the same together with retained profits is deployed by shareholders for funding of the project. It may be noted that R&S comprises of funds belonging to shareholders equity investors and once deployed by them into the project, such funding should be protected in the same way as equity share capital is protected. Any subsequent losses though eat into the Reserves and Surplus as per books of accounts, do not in fact reduce the investment already made by the shareholders. Authority's stand to reduce the R&S due to subsequent losses is incorrect. Such reduction of R&S reduces the return on equity. "

15.16. On the matter of inclusion of working capital interest, MIAL commented as below,

"Working capital interest should be allowed by AERA since the same is required to fund the day to day operations of the airport and is required in normal course of business. Working capital interest is also allowed by other regulators such as in Power sector. Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2014 mentions as under:

"21. Capacity Charges: The Capacity charges shall be derived on the basis of annual fixed cost. The annual fixed cost (AFC) of a generating station or a transmission system including communication system shall consist of the following components:

(a) Return on equity;

(b) Interest on loan capital;

(c) Depreciation;

(d) Interest on working capital; and

(e) Operation and maintenance expenses

28. Interest on Working Capital: (4) Interest on working capital shall be payable on normative basis notwithstanding that the generating company or the transmission licensee has not taken loan for working capital from any outside agency. Similarly return on working capital should also be provided to airport sector."

15.17. Similarly APAO also commented that working capital interest should be considered,

> *"Working capital interest should be allowed by AERA since the same is required to fund the day to day operations of the airport and is required in normal course of business. Working capital interest is also allowed by other regulators such as in Power sector."*

15.18. On the matter of WACC, IATA commented that it supports the proposals and the methodological approach used for calculating the WACC with the exception of applying a lower cost of debt as discussed in the cost of debt section.

15.19. APAO also commented on WACC, while emphasising on ensuring viability of the airport, it recommended that,

> *"It is thus important that the overarching regulatory approach should be to ensure economic viability of DIAL. While there are areas that Ministry of Civil Aviation can look into to ensure economic viability of airport, the responsibility cannot be passed on to MoCA while at the same time the Authority takes positions which aggravate economic unviability. It is earnestly requested that all the decisions of Authority are thoroughly reviewed to ensure economic viability of airports."*

15.20. FIA commented as below on the cost of debt to be considered for WACC,

> *"It is pertinent to note that cost of debt is the effective rate that a company pays on its current debt post adjustment for tax savings. Schedule 1 of the SSA defines WACC as follows:*

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

However, based on aforementioned decision taken by the Authority and review of Consultation Paper, it appears that cost of debt is not adjusted for any tax savings. Post adjustment of such tax savings (assuming tax rate at 30%) in cost of debt, WACC will reduce from 9.99% to 8.4%. It is submitted that authority should factor such tax saving for computing WACC of DIAL. It is submitted that the sensitivity analysis detailed in the table below indicates that reduction in WACC from 9.99% to 8.38% will reduce discounted target revenue by 11%."

d DIAL's response to Stakeholder Comments on Issues pertaining to WACC

15.21. DIAL agreed to MIAL's stand on the subject matter of computation of WACC, considering Reserves and Surplus deployed for the Project are reduced by the losses generated in the future years, and on allowing return on working capital. DIAL commented that,

"We agree to the stand of MIAL on aforesaid subject and request Authority to allow a return on working capital. In case any additional capitalization is done by DIAL front internal accruals, then the amount invested should also get return equal to equity and Authority must Protect this amount in same way as paid up equity is being protected. For example if DIAL capitalizes 100 crore from its internal resources during control period then the protection should be allowed on the same in same manner as protection is given to paid up Equity.

As regards the working capital we shall like to clarify that this amount also is essential in running the airport and a return on the same also need to be allowed."

15.22. DIAL also agreed with APAO's comment on including the working capital interest.

15.23. In response to IATA's comments DIAL stated as under,

"We strongly oppose to the current proposal of WACC of 9.99%.

The matters of cost of equity and RSD are sub judice and pending the decision of the Appellate Tribunal.

The equity contribution of promoters i.e. INR 150 crores is sub judice before AERAAT under an appeal filed by DIAL and pending for the order."

e DIAL's own comments on Issues pertaining to WACC

15.24. DIAL has commented that,

"Viability: AERA has admitted that the airport's entire net worth will we eroded. This is in violation of AERA act: Section 13 (1) (a) lays down (amongst others) the following function of AERA:

"to determine the tariff for the Aeronautical service taking into consideration: (iv) economic viable operation of airport. As such AERA is requested to abide by the mandate under AERA act by ensuring the economic viability of airport. This violates the Concession Agreement:

Under the concession agreements DIAL, it has been assured that there will be support from MoCA to ensure economic viability.

The SSA (Page 3) has laid as under: —In consideration of the JVC having entered into OMDA and to enhance the smooth functioning and viability of the JVC, in addition to the obligations of the AAI under the OMDA, the GOI is agreeable to provide some support to the JVC. — As seen above, the viability of the airport was assured without any condition. Apart from the provisions of the concession agreements, AERA Act itself mandates AERA to ensure viability of the airport. As such AERA needs to ensure viability of airport by:

1 Providing proper return on investment

2 Providing full return on entire capital employed irrespective of source of funding

3 Allowing reasonable opex and non-aero forecasts 4 Not taking stand on issues which erode the viability of the airport.

AERA has to adopt balanced regulation and approach that ensure the airport can operate as a viable business entity.

Entire net worth eroded:

With the current proposals, DIAL will incur huge losses and entire net worth will be eroded in the current control period. This is not conducive for developing a robust airport sector capable of meeting the growth aspirations of the aviation market.

Service Standards to be impacted:

The upkeep of service standards as envisaged in the concession agreement entails substantial costs for DIAL. With no funds availability, adherence to service standards will become a serious challenge.

Future Growth to be hampered:

Negative net worth will deter the future expansion plans of DIAL. Lenders will be very skeptical to lend any further. DIAL's surplus to AAI has been indirectly been instrumental in growth of aviation in India. This growth will also stand hampered because of above."

f Authority's Examination of Stakeholder Comments on Issues pertaining to WACC

15.25. The Authority has carefully considered the comments from IATA, APAO, MIAL and FIA as well as DIAL's comments and response to these stakeholder's comments regarding WACC for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

15.26. The Authority has noted MIAL's comments regarding consideration of losses made by DIAL / negative reserves and surpluses of DIAL in the share capital thereby reducing the return on equity. The Authority has computed the Reserves & Surplus, based on the past reserves and profit made by DIAL through its operations. So far as the accumulated Reserves and Surplus for DIAL is negative, question of having funded the additions to the assets from PAT (though positive for the particular year) does not arise. In such case, the Authority has decided not to reduce the closing equity from the present level of paid-up equity. The Authority has decided to protect the paid-up equity rather than the Net Worth when positive surpluses were available with the airport operator. This is because the reserves and surplus are a fluctuating component and the Authority is not assured of whether the surplus is actually employed back into the project. Thus, to ensure consistency, the Authority has capped the equity level to the level of paid-up equity in case of negative reserves and surplus.

15.27. The Authority has also noted MIAL, APAO and DIAL's comments related to consideration of interest on working capital as part of computation of WACC. The Authority notes that at the time of the first and second Control Period, DIAL did not submit any information on working capital loan or the interest paid on it. Therefore no such interest was considered in the initial exercise. Going forward, the Authority decides to consider the interest on working capital, provided that such loan is a short term loan undertaken strictly for financing working capital. DIAL may also substantiate its claim and submit auditor's certificates certifying the quantum of working capital loan and the applicable interest on the same, based on which the interest will be considered as required as part of O&M cost and not part of WACC.

15.28. The Authority has noted FIA's comment that *"it appears that cost of debt is not adjusted for any tax savings... It is submitted that authority should factor such tax saving for computing WACC of DIAL."* The Authority would like to clarify that it has followed Schedule 1 of SSA, which requires post-tax WACC to be applied towards determination of aeronautical tariff. As per the formulation of building blocks for determination of Target Revenue, corporate taxes are added separately as a building block. As the actual corporate taxes paid by the airport operator are separately compensated in the formulation of building blocks, it is correct to consider pre-tax cost of debt in the computation of WACC.

15.29. The Authority has decided to compute the WACC, considering the following:

15.29.1. The cost of equity at 16% per annum, as per Decision 11.a above

15.29.2. The RSD already raised by DIAL (Rs. 1,471.51 crores) at zero cost, as per Decision 11.b above.

15.29.3. To consider the cost of debt for Rupee Term loan over the second Control Period at 11.38%

15.29.4. To consider the total quantum of debt as per Table 41 above, not including the reinstatement of ECB loan on account of foreign exchange fluctuation.

15.29.5. To consider interest on working capital, based on evidence on the nature, quantum and cost of loan as part of O&M expense (refer para 17.121 below).

15.29.6. To adopt the weighted average cost of debt as per Table 40 for determination of weighted average cost of capital for the second Control Period.

15.30. The Authority has also decided to partially true-up the WACC only to the extent of elements mentioned below:

15.30.1. New debt subject to the ceiling on cost of debt for Rupee Term Loan of actuals as of 01.04.2014 plus 50 basis points

15.30.2. New RSD (in addition to Rs. 1,471.51 crore already considered by the Authority as a means of finance while determining DF)

15.30.3. Fresh paid-up equity (in addition to Rs. 2,300.00 crore already considered by the Authority (after removing upfront fee of Rs. 150 crore from the paid-up equity of Rs 2,450 crore) as a means of finance while determining DF)

15.30.4. Funds from Reserves and Surplus on actuals, if positive, during the second Control Period

15.30.5. The Authority had decided to consider truing-up loss/gain on account of foreign exchange fluctuation for the second Control Period subject to complete true up of WACC for the second Control Period (refer para 8.24 above)

15.31. In view of the above and decisions taken by the Authority in Chapter 12, 13 and 14 above, the WACC for the second Control Period has been computed at 9.98 % as detailed below,

Table 46: Total Capital Employed and WACC as considered by the Authority for second Control Period

In Crore	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Equity					
Share capital	2300.00	2300.00	2300.00	2300.00	2300.00
Internal accruals	0.00	0.00	0.00	0.00	0.00

(Cumulative)					
Total	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00
Return on equity	16.00%	16.00%	16.00%	16.00%	16.00%
Debt funding					
ECB debt	1753.76	1538.84	1301.93	1051.01	808.06
Cost of ECB %	7.08%	7.39%	7.78%	7.77%	7.74%
Rupee debt	2955.08	2930.59	2850.23	2637.17	2340.30
Additional Rupee Debt for proposed capex	0.00	0.00	0.00	82.38	309.24
Cost of Rupee debt	11.38%	11.38%	11.38%	11.38%	11.38%
Total Debt Outstanding	4708.84	4469.43	4152.16	3770.57	3457.60
RSD	1471.51	1471.51	1471.51	1471.51	1471.51
Return on RSD	0.00%	0.00%	0.00%	0.00%	0.00%
Total Capital employed	8,480.35	8,240.94	7,923.67	7,542.08	7,229.10
WACC	9.98%	9.97%	9.97%	9.96%	9.95%
Average WACC	9.97%				

Decision No. 13 The Authority decides to adopt the following approach for consideration of WACC towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:

13.a. To consider WACC of 9.97% for the second Control Period as detailed in Table 46.

13.b. To consider interest on working capital based on evidence on the nature, quantum and cost of loan (refer para 17.121)

13.c. To not consider the impact of foreign exchange fluctuations determination for the first control period as discussed in para 8.24

13.d. To consider true up of the impact of foreign exchange fluctuations for the second control period subject to the complete true up of WACC

13.e. Not to true-up WACC for the second Control Period at the time of determination of aeronautical tariffs for the third Control Period except for the elements mentioned below:

i. New debt subject to the ceiling on cost of debt for Rupee Term Loan of actuals as of 01.04.2014 plus 50 basis points

ii. New RSD (in addition to Rs. 1,471.51 crore already considered by the Authority as a means of finance while determining DF)

iii. Fresh paid-up equity (in addition to Rs. 2,300.00 crore already considered by the Authority (after removing upfront fee of Rs. 150 crore from the paid-up equity of Rs. 2,450 crore) as a means of finance while determining DF)

iv. Funds from Reserves and Surplus on actuals, if positive, during the second Control Period

16. Depreciation

a DIAL Submission on Depreciation

16.1. DIAL's revised submission dated 23.04.2014 regarding depreciation is as below:

> *"New Companies Act (Companies Act 2013) has been now notified. Therefore, the depreciation forecast made for the Control Period II is based on the provisions specified in the Schedule II of the Companies Act, 2013. The effective date of its implementation is from 01/04/2014.*
>
> *As per the Act, any Regulatory Authority may determine depreciation rates for sector specific assets. Further, the Authority in its recent Consultation Paper (Cons. Paper No.5/2014-15) has indicated that after consultation they would issue the relevant depreciation rate for specific assets like Runway, Taxiway and Apron. In the meanwhile, we propose to consider useful life of asset as indicated in Part C of Schedule II of Companies Act, 2013. However, as and when the new rates are notified by the Authority we would consider the same for accounting purpose and the difference in the allowed and actual charged could be true up at the end of the control period.*
>
> *Based on the Auditor's report following is the likely depreciation of Tangible Assets existing as on 31st March 2014 for the next control period. The Depreciation on the additions is separately calculated in model:*

Asset Block	2014-15	2015-16	2016-17	2017-18	2018-19
Buildings and Roads	314.88	236.29	160.66	159.68	159.13
Runways & Taxiways	344.19	344.19	344.19	336.45	242.83
Plant and Machinery	231.27	231.23	231.15	231.10	230.99
Computing Equipment	17.65	2.72	1.13	0.93	0.68
Office Equipment	24.67	0.63	0.35	0.19	0.05
Furniture & Fittings	21.26	21.20	21.00	20.75	19.02
Vehicles	4.78	3.70	2.49	1.98	1.11
Total	958.69	839.97	760.97	751.09	653.81

Asset Block	2014-15	2015-16	2016-17	2017-18	2018-19
Intangible	8.55	8.55	8.55	8.55	8.55

"

b Authority's Examination of DIAL Submissions on Depreciation

16.2. The Authority had carefully examined DIAL submissions regarding depreciation in the second Control Period noted that DIAL had projected depreciation for the second Control Period as per the provisions under the Companies Act 2013. The Authority was also in receipt of the Auditor's certificate on the projected depreciation. The Authority proposed to consider the depreciation rates as per the revised Companies Act, on the premises that the SSA in essence provides for adopting the recent most Companies Act not the 1956 Act specifically.

16.3. The Authority was in receipt of the Board resolution on adopting depreciation rates as per the new Companies Act 2013 in its books from FY 2014-15 onward and proposed to consider the depreciation values as per the auditor's certificate with the exception of the rate considered for the assets of runway, taxiway and apron. For this category of assets, no specific useful life span has been mentioned in the Companies Act 2013. The Authority proposed to adopt a rate of 3.33% used by DIAL in the first Control Period based on useful life of 30 years.

16.4. Thus the rates of depreciation considered by the Authority in respect of DIAL were as follows:

Table 47: Rates of Depreciation considered by Authority in respect of DIAL for the second Control Period in Consultation Paper No. 16/2014-15

Asset classes	Rates of Depreciation (SLM)	Rates of Depreciation (WDV)
Building	3.3%	10.0%
Runway, Taxiway & Apron	3.3%	10.0%
Plant & Machinery	6.7%	15.0%
Computer (Software show as intangible in financial)	16.7%	60.0%
Furniture & Fixtures	10.0%	10.0%
Office Equipment	20.0%	15.0%
Vehicles	12.5%	15.0%
Land	0.0%	0.0%
Intangibles	1.7%	10.0%

16.5. The Authority noted the revised split submitted by DIAL between new additions and existing assets is as given below:

Table 48: Depreciation for existing and new assets submitted by DIAL for the second control period in Consultation Paper No. 16/2014-15

Asset Class	2014-15	2015-16	2016-17	2017-18	2018-19
Building	197.58	197.42	196.93	195.80	194.46
Runway, Taxiway & Apron	93.64	93.64	93.64	93.64	93.64
Plant & Machinery	231.27	231.23	231.15	231.10	230.99
Computer (Software show as intangible in financial)	17.65	2.72	1.13	0.93	0.68
Furniture & Fixtures	21.26	21.20	21.00	20.75	19.02
Office Equipment's	24.67	0.63	0.35	0.19	0.05
Vehicles	4.78	3.70	2.49	1.98	1.11
Depreciation on Assets proposed to be added by DIAL during the second Control Period					
Building	-	4.12	8.14	12.31	16.90
Plant & Machinery	-	4.96	9.80	14.82	20.34
Furniture & Fixtures	-	0.77	1.53	2.31	3.17

16.6. The Authority noted that while calculating the depreciation to be considered for determination of ARR from the depreciation recorded in the books of DIAL, following adjustments need to be made:

16.6.1. Depreciation on assets disallowed as per the Authority's Order No 28 / 2011-12 dated 08.11.2011 in the matter of levy of Development Fee by DIAL at IGI Airport, New Delhi, needs to be removed

16.6.2. Depreciation on foreign exchange fluctuations capitalized by DIAL needs to be removed

16.6.3. Depreciation on Assets funded out of DF needs to be removed

16.6.4. Depreciation on intangible assets (such as interest on account of DF securitization, VRS payments to AAI, Upfront Fee etc.) either disallowed or expensed out by the Authority vide its Delhi Tariff Order 03 / 2012-13, needs to be removed.

16.6.5. The depreciation derived after the above adjustments needs to be allocated into aeronautical and non-aeronautical components.

16.7. The Authority understood from discussions with DIAL that DF is reduced from the gross block in the books of DIAL in a manner that the gross block gets adjusted by such amount in the same year and hence the depreciation charged in the books of DIAL for that year also gets correspondingly adjusted. The Authority noted that since DIAL adjusts its gross block by the amount of DF, depreciation being charged in the subsequent years is also correspondingly adjusted. Thus the Authority noted that except if the Authority decides to consider a different amount of DF adjustment to be made in a year than that considered by DIAL for that year, the depreciation charged by DIAL in its books need not be adjusted for DF separately. The Authority has sought this understanding to be confirmed by DIAL. DIAL, vide its submission dated 19.09.2014 in response to the Authority's clarification, has stated as under:

"...we would like to clarify that the Auditor Certificate for Depreciation and Amortization during 1st Control Period submitted to the Authority is as per the Audited Financials and these do not include assets capitalized out of DF Funds."

16.8. As regards the adjustment on account of disallowed assets, foreign exchange fluctuation and certain elements of intangible assets, the Authority made reference to the books of DIAL for such amounts. The Authority noted that the assets disallowed by it during the DF determination for DIAL continue to be recorded as assets in the books of DIAL and depreciation corresponding to such amount needs to be adjusted for each year. As these assets are not separately recorded in the books of DIAL, the Authority proposed to consider average rate of depreciation for DIAL for a year to be considered for application on the amount of disallowed assets and subsequent adjustment from the depreciation charged by DIAL in that year.

16.9. Having adjusted the depreciation on above accounts, the ratio for allocation of this depreciation into aeronautical and non-aeronautical components was applied considering the allocation ratio derived after netting off the DF assets i.e. at 85.92%, (aeronautical) for all classes of assets for the purpose of allocation of depreciation into aeronautical and non-aeronautical components.

16.10. As regards depreciation on HRAB, the Authority as per decision 10.b of Delhi Tariff Order 03/2012-13 proposed to depreciate the Hypothetical RAB at the overall depreciation rate for aeronautical assets over each year of the second control period.

16.11. Further continuing with its earlier decision to true-up depreciation, the Authority proposed to true up the difference between the depreciation calculated based on actual date of commissioning/ disposal of assets and the amount of depreciation calculated considering that such asset has been commissioned/ disposed of half way through the Tariff Year by adjusting at the end of the Control Period the Future Value of such difference.

16.12. Accordingly, the Authority proposed to consider the total depreciation for second Control Period as below,

Table 49: Depreciation computed by Authority to be considered for the second Control Period in Consultation Paper No. 16/2014-15

Depreciation (INR Crore)	2014-15	2015-16	2016-17	2017-18	2018-19
RAB	508.21	481.96	486.77	493.11	498.37
HRAB	28.61	26.71	26.44	26.25	25.96
Total	536.82	508.67	513.21	519.36	524.33

16.13. The Authority also proposed to commission a study to determine appropriate rates of depreciation to be adopted for the regulatory purpose in line with the provision of the Companies Act 2013

16.14. In addition the Authority proposed to true up the difference between the projected depreciation (calculated presently considering that such asset has been commissioned/ disposed-of half way through the Tariff Year) and actual depreciation for the Tariff year by adjusting such difference at the end of the Control Period.

c Stakeholder Comments on Issues pertaining to Depreciation

16.15. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders including IATA, VistaRa, APAO, CII, MIAL, Air India etc. in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No 16/2014-15 dated 28.01.2015. Comments with respect to depreciation are presented below.

16.16. With regards to consideration of depreciation rates as per the useful life of assets defined in the Companies Act 2013, except runway, apron and taxiway which are to be considered at 30 years; IATA is in agreement with Authority's approach. However, it adds that,

"However, we believe that there should be a true up exercise once the authority concludes its consultation on depreciation rates."

16.17. IATA added that,

"We agree with the adjustments made by the Authority (foreign exchange fluctuations, DF, intangible assets)."

16.18. On the matter of consideration of allocation ratio for depreciation into aeronautical and non-aeronautical components after adjusting the depreciation, IATA stated that it considers that the Authority should review its asset allocation assumptions. Further, IATA supports Authority's decision to commission a study to determine the appropriate rates of depreciation regulatory purpose in line with the provision of the Companies Act 2013.

16.19. IATA also commented that before actual depreciation is considered, AERA needs to analyse whether the assets have been delivered in an efficient manner, in the context of truing up depreciation in the next Control Period.

16.20. FIA provided the following comments,

"The Authority has not decided upon the depreciation applicable to the assets of DIAL. Depreciation will have a bearing on the aeronautical tariff. The Authority ought to have considered the issue of depreciation in the light of the provisions of the Companies Act, 2013 ("the Companies Act"). It is submitted that Part B Schedule II of the Companies Act stipulates that the useful life of an asset which may be arrived at by a regulatory authority shall be considered for the purposes of depreciation.

However, the Authority is yet to notify the applicable rate of depreciation for the aviation sector. Proviso to the Section 129(1) of the Companies Act requires the financial statements to be prepared in accordance with the accounting standards.

Therefore, pending the Authority arriving at the applicable rate of depreciation for the aviation sector, the Authority should consider arriving at the depreciation rates, as per the provisions of the Companies Act, read with the relevant accounting standards."

16.21. The FIA has further pointed out that,

"In certain instances detailed below the Authority has not provided the reasons for arriving at a figure or stipulating a value with respect to a building block:

(1) Table 10: The Authority has taken 4.97% as the rate of depreciation on aeronautical assets for the year 2013 -14. However, the Authority has not detailed the procedure for arriving at the rate of 4.97% depreciation.

(2) Paragraph 26.2: The Authority notes that DIAL will require additional Rs. 410 Crores to meet a part of DIAL's capital expenditure. However, the Authority has not clarified the reasons for arriving at the figure of Rs. 410 Crores. The Authority may kindly clarify the reasons for arriving at the abovementioned figures."

16.22. On the approach to consider useful life of assets, FIA added that,

"Depreciation computed over a shorter period of 12 years whereas the Concession Period is of 30 years The Authority has proposed to adopt depreciation rates as per useful life of assets specified in the Companies Act except in case of runway, taxiway and apron. The provisions of the Companies Act do not stipulate the useful life of the assets specific to the aviation industry. Further, pursuant to the enactment of the Companies Act, there has been a sharp decline in the useful life of assets when compared to the Companies Act, 1956, Tables 10 and 32 of the Consultation Paper have been referred below in this regard, which clearly depict that adoption of the Companies Act has reduced average useful life from 21 years in 1st Control Period to 12 years in 2nd Control Period. Consequently, average depreciation rate increased from 4.78% (aggregating 1st to Rs. 1,502 crores) in Control Period to 8.41%

(aggregating to Rs.2,602 crores) in the 2nd Control Period thereby significantly increasing the tariff burden."

16.23. FIA has analysed the impact on target revenue upon considering alternate useful life of the asset carrying out calculations for the first and second Control Periods, concluding that,

> *"As discussed above, the useful life of the airport asset is 60 years. Consequently, the depreciation rate may be accordingly modified in view of the useful life of the airport asset being 60 years. It is further submitted that useful life of aeronautical asset being 60 years is also supported by the provisions of the Companies Act (elaborated in paragraph 29 below).*
>
> *Therefore, pending the study to arrive at the depreciation rates for the aeronautical assets the Authority ought to negate the submissions of DIAL. Further, the Authority should have considered 60 years as the useful life of the airport assets. It is submitted that the Authority should appropriately consider economic substance and life of a long term infrastructure asset for tariff determination."*

16.24. On the matter of commissioning a study to determine the appropriate depreciation rates for the Airport, the FIA stated that,

> *"While FIA welcomes the study, it is submitted that the enactment of the Companies Act took a substantial period of time. In view of the same, the Authority could have initiated the study and arrived at the required depreciation rates. Further, the Companies Act received the assent of the President of India on 29.08.2013 i.e. around 17 months prior to 28.01.2015. This intervening period of 18 months was sufficient enough to commission a study on depreciation and to arrive at the depreciable rates for various assets pertaining to DIAL."*

16.25. FIA further commented that,

> *"The Authority has proposed to consider useful life of assets as adopted by DIAL except in case of Runway, Taxiway and Apron. The Authority has accepted*

estimated useful life of Buildings as 30 years, on the basis that the same is in accordance with the Companies Act. However, as per Part "C" of Schedule II of the Companies Act useful life of buildings (other than factory buildings) having Reinforced Concrete Cement ("RCC")frame structure is 60 years. Buildings (other than factory buildings) other than RCC frame structure are to be depreciated over a period of 30 years. There is no mention in DIAL's submission regarding the structure of buildings, although it is highly unlikely that terminal buildings are not built with RCC technology. It is submitted that the Authority should consider obtaining the details of building structure and allow depreciation accordingly."

16.26. FIA points out that the depreciation rates are not as per the Companies Act. This is stated as below,

"The Authority has relied on DIAL's submissions with respect to depreciation. It is pertinent to note that DIAL has mechanically considered the rates mentioned in the Companies Act. It is submitted that as per proviso to Section 129(1) of the Companies Act, companies are required to abide by the accounting standards. Therefore, the provisions of the Companies Act should be read with the relevant accounting standards. It is submitted that pending the commissioning of the study to arrive at the depreciation rates for various aeronautical assets, the Authority ought to have considered the provisions of the Companies Act and the relevant accounting standards to arrive at the depreciation rates for the assets controlled by DIAL."

16.27. Furthermore, FIA has drawn reference to the judgement by the Hon'ble Supreme Court in respect of JK Industries Ltd. v. UOI ((2007) 13 SCC 673) has held that accounting standards are binding on the companies in India, commenting that,

"Based on the above, it is submitted that the assets which do not have independent existence may be considered to be a part of the airport assets of DIAL. Therefore, useful life of 60 years may be allowed for such assets. In view of the above, aprons, runways and tramways do not have a separate identity. Therefore, aprons, runways and tramways may be considered as part of the

assets of DIAL having a useful life of 60 years. As per the provisions of AS - 6, useful life of all the other assets which do not have independent existence may also be considered as 60 years."

16.28. FIA has also commented on the extent of depreciation allowance stating that,

"Paragraph 5.3.3 of the Guidelines stipulates that depreciation may be allowed up to a maximum of 90% of the original. cost of the asset on straight line basis. The Authority has proposed to consider useful life of assets as adopted by DIAL for computing the depreciation. Depreciation has been computed upto 100% of the value of the asset based on the assumption that no compensation will be received towards the value of the net block of assets upon transfer of the airport upon completion of term. Hence, approach followed by the Authority is in contravention of the Airport Guidelines Para 5.3.3 which allows depreciation to be calculated to the extent of 90% of the assets."

16.29. FIA has provided a sensitivity analysis in respect of the above, comparing the allocation of 90% of the original cost vis-a-vis 100% of the original cost and has concluded that there is decrease of Rs.146 crores in the target revenue (in the former case).

d DIAL's response to Stakeholder Comments on Issues pertaining to Depreciation

16.30. Regarding IATA's statement on treatment of forex loss and DF with respect to depreciation computation DIAL stated that it strongly objects the treatment (proposed by the Authority, which IATA supports) on the background of:

"Forex Loss

DIAL chose to borrow funds by way of ECB due to the cheaper borrowing cost. It has passed on the entire benefit arising on such saving to the end user and as such associated risk also needs to be passed on to the end user. If DIAL had chosen to borrow way of a rupee loan, there would have been an additional cash outflow in the form of higher interest payments. Moreover the foreign exchange loss is not notional, but an actual loss. The borrowing was finalized prior to AERA's proposition of disallowing the Forex Loss adjustment in the

Consultation Paper. Hence, there is no way that this borrowing can be reversed by the Airport Operator."

Development Fee

The DF amount should to be reduced from RAB only when the asset has been put into use. However under the proposed mechanism of adjustment, the asset is being reduced from RAB even before the same is capitalized in books. This is against the order no. 3/2012-13 for the 1st control period."

e DIAL's own comments on Issues pertaining to Depreciation

16.31. With respect to adjusting depreciation for foreign exchange fluctuation and disallowed assets, DIAL has commented that,

"AERA needs to reconsider the proposal for adjusting depreciation for foreign exchange fluctuation and disallowed assets.

As already deliberated in detail the decision to borrow in foreign exchange is a legitimate business decision taken before the AERA came into existence and as such the depreciation associated with the same needs to be allowed in full.

Secondly the amount spent on disallowed asset may not be eligible for DF, but that does not disqualify it for being allowed depreciation as the asset is being used by passenger and the amount spent was by a competitive bidding."

16.32. DIAL further comments that AERA proposes to incorrectly consider depreciation based on old allocation ratio, explaining that,

"Please refer to chapter on Asset Allocation where we have elaborately clarified the issue of reworking of allocation percentage based on actual numbers supported by certification. AERA is requested to adopt the new ratio of capex allocation and the depreciation also be allocated based on the same ratio. Adoption of old ratio in allocation means that depreciation is being short calculated."

16.33. DIAL has further stated that AERA is contradicting stand by allowing return on RAB on average RAB but depreciation based on actual date of capitalization, adding that, *"Authority on one hand wants to allow return on RAB based on average RAB but wants to allow depreciation based on actual date of capitalization. These two are contradicting principles. As such the depreciation should also follow the same methodology as return on RAB.*

Consultation need to be done for determining depreciation rates for items not specified in Companies Act: The Authority is requested to take industry view into consideration while finalizing the depreciation rates under the new study being contemplated for the depreciation rates."

f Authority's Examination of Stakeholder Comments on Issues pertaining to Depreciation

16.34. The Authority has carefully considered the comments from IATA and FIA as well as DIAL's comments and response to these stakeholder's comments regarding depreciation for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

16.35. Regarding the matter of basis for computation of depreciation rates as commented upon by FIA, the Authority has based its decisions on the SSA. The SSA clearly states that *"D = depreciation calculated in the manner as prescribed in Schedule XIV of the Indian Companies Act, 1956. In the event, the depreciation rates for certain assets are not available in the aforesaid Act, then the depreciation rates as provided in the Income Tax Act for such asset as converted to straight line method from the written down value method will be considered. In the event, such rates are not available in either of the Acts then depreciation rates as per generally accepted Indian accounting standards may be considered."* The Authority believes that in essence, the SSA indicates adoption of applicable depreciation rates as prescribed under the Companies Act at any point of time, and thus the relevant basis for computation of the depreciation rates for the IGI Airport, Delhi is the Companies Act 2013.

16.36. Further, regarding consideration of depreciation on apron, taxiway and runways there is no specific mention of these classes of assets in the Companies Act 2013 or 1956 or even in the Income Tax Act. The Authority has been of the view that it would be preferable to have, as far as practicable, a broad year to year consistency in the depreciation rate charged by the companies as certified by the relevant statutory auditors and what the Authority would take into account in its process of tariff determination. The Authority has noted that DIAL had in the first Control Period considered the assets of runway, taxiway and apron with the useful life of 30 years and will accordingly considered a rate of depreciation of 3.33%.

16.37. Meanwhile, the Authority has separately commissioned a Study to determine appropriate rates of depreciation to be adopted for the regulation of the airports in line with the provision of the Companies Act 2013. The Authority will consider the recommendations from the Study, and take an appropriate decision.

16.38. Regarding the issue of consideration of loss/gain on account of foreign exchange fluctuation, the Authority has noted that IATA has commented in support of the Authority's proposal to not consider the foreign exchange fluctuations in the depreciation. The Authority has also noted DIAL's comments on this matter. With respect to impact of foreign exchange fluctuations on depreciation, DIAL has submitted an auditor's certificate certifying the amount of depreciation claimed on account of capitalization forex gain/ (loss) to fixed assets during first control period from 01 April 2009 to March 31, 2014, in table below:

S.No	*Financial Year*	*Depreciation Claimed (Figures in Crores)*
1	*2009-10*	*0*
2	*2010-11*	*0*
3	*2011-12*	*1.46*
4	*2012-13*	*11.41*
5	*2013-14*	*20.87*

16.39. The Authority has noted DIAL's comments on the asset allocation ratio applied to compute the depreciation for the first Control Period. However, the Authority not persuaded to change its stance and has elaborated this decision of considering the asset allocation ratio at 89.25% in para 7.35 above.

16.40. Accordingly, the Authority has decided to consider the depreciation rates as per Table 47 above and has re-computed the depreciation to be as below,

Table 50: Depreciation computed by Authority to be considered for the second Control Period

Depreciation (INR Crore)	2014-15	2015-16	2016-17	2017-18	2018-19
RAB	510.07	483.61	488.24	494.28	499.08
HRAB	29.24	27.28	26.99	26.79	26.48
Total	539.31	510.89	515.23	521.07	525.56

Decision No. 14 The Authority decides to adopt the following approach for consideration of Depreciation towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:

14.a. **To consider depreciation rates as per the useful life of assets specified in the Companies Act 2013 for the second Control Period except for assets pertaining to runway, taxiway and apron, which are to be considered at useful life of 30 years.**

14.b. **To adjust the depreciation reflected in the books of DIAL for elements presented in para 16.6 above.**

14.c. **To consider allocation ratio for depreciation into aeronautical and non-aeronautical components**

14.d. **To consider the recommendations from the Study commissioned to determine appropriate rates of depreciation**

14.e. **To consider the depreciation for the second Control Period as presented in Table 50 above.**

14.f. **To true up the difference between the projected depreciation (calculated presently considering that such asset has been commissioned/ disposed-of half way through the Tariff Year) and actual depreciation for the Tariff year by adjusting such difference at the end of the Control Period.**

17. Operating Expenses

a DIAL Submission on Operating Expenses

DIAL Submission on Allocation of Operating Expenses

17.1. DIAL's submitted the cost allocation followed by it for allocation of operating expenses into aeronautical and non-aeronautical categories, providing details of allocation based on September 2013 costs for both staff and non-staff costs. Based on the same, DIAL submitted the following cost allocation:

"

Summary of Aero cost	*%*
Administration Expenses	
Aero	*89.48%*
Non Aero	*10.52%*
Operating Expenses	
Aero	*89.03%*
Non Aero	*10.97%*

"

DIAL Submission on Rationale for escalation in Operating Expenses

17.2. DIAL had submitted that the O&M expense for FY 2012-13 and half year of FY 2013-14 is not representative of actual amount that was required to be spent because of the cash crunch experienced by it. DIAL tariff was approved w.e.f May 15th 2012. But due to advance booking of tickets and slowdown in the traffic, the revenue accruing to DIAL was much lower than envisaged, resulting in the crash crunch in the organisation and postponement of critical operations and maintenance activities. DIAL aims to undertake some these activities in the second Control Period.

17.3. An extract of DIAL's submission with respect to increase in operating expenses in the second Control Period has been reproduced below,

> *"2. The existing costs of were based on contracts which are 4-5 years old and was part of procurement of equipment and as such quoted very low:*
>
> *As a part of the cape for Terminal 3 / other contracts and its associated works various, Electro – Mechanical and Airport Systems were procured and commissioned. At that time a 5 year AMC cost was quoted along with the main*

system package purchase cost. We expect considerable rise in the AMC charges after the expiry of the contract in the year 2014-15 and such increase in cost could be of the order of 25% to 30%.

3. The Spare parts costs are going to rise enormously. Earlier it was part of the annual package

4. Airside Infrastructure was constructed in 1980's and 1990's and has outlived their life. This entails costs of maintenance that is very high compared to a new infrastructure. As such a regular time bound operation, maintenance and its administration mean a continuously increasing cost year on year.

5. Old refurbished Terminals: Some of terminals like T1C, T1A and T2 etc. are very old terminals that were refurbished. However these refurbishments have shorter life span and as such need very high level of repair and maintenance to keep them in operation.

6. Safety and Security: The old airside and terminal infrastructure becomes risky, as it gets older. The airport needs the highest level of safety and security and nothing could be left to chance, as the resultant impact of such lapses is huge. As such to enable the safety and security the opex will be on continuous increase.

7. The new infrastructure and movable assets procured by DIAL also will be 11-12 year old by end of control period. Some of equipment procured are 6-7 years old and need cape. So many of equipment will need to be maintained and as such the maintenance cost will witness a quantum jump.

It is requested that the uncontrollable costs should be allowed to be trued up based on the actual spend. These could be in form of security costs, statutory operating costs (including but not limited to DGCA, Customs, Immigration, etc.), property taxes, safety and environment cost, utilities cost variation due to change in rates (Electricity/Water/Fuel), cost variance due to increase in service levels etc. This is in line with the tariff determination finalized in first control *period. Further, we request that any change in direct and indirect tax rates maybe allowed as pass-through."*

17.4. An extract of the DIAL submission with respect to forecast of operating expenses is as below:

"Basis of Forecast:

We have forecasted the expenditure based on the half yearly numbers of September 2013. These numbers have been extrapolated for the full year of 2013-14 to arrive at the base number on which the forecast for the next control period is done. The necessary growth drivers have been applied on these base numbers and the same are discussed in subsequent part of filing."

DIAL Submission on Manpower Expenses

17.5. An extract of the rationale provided by DIAL with respect to increase in manpower expenses was as below:

"1 We have taken the actual expenditure for the 6 months ending 30th September 2013 as the base number for the forecast purpose. This we have extrapolated to full year to arrive at 2013-14 manpower cost numbers.

2 We have estimated a 5% p.a. real increase in salaries and wages cost. This real increase has been considered keeping in mind the competitive environment DIAL is subject to and also addressing the managing of attrition levels being currently experienced.

3 Due to increase level of activity due to increased traffic, we have assumed that some additional augmentation of manpower will be necessitated. This is necessary to enable maintenance of the same quality levels. We have assumed that there will be an increase equivalent to 50% of the forecasted traffic growth (passenger growth).

4 The inflationary increase in these numbers has not been incorporated on the premise that CPI (inflation) will be a top up allowed over and above X factor.

The historical base for projections of Control period II has been taken from the following data:

Year	Manpower Employed	Manpower cost (in Crs)
FY2013 (Actual)	1458	123.72
FY2014 (H1 ended 30th Sep'13)	1476	64.46
Extrapolated manpower Cost for 2013-14		128.92

"

17.6. DIAL had submitted that it is required to do screening on 100% basis and regularise trolley workers as per BCAS and Supreme Court orders respectively. Both these actions would lead to increase in manpower expenses. DIAL envisaged this to be as below,

"

Department	Purpose	Add. Manpower to be employed	Average salary per employee p.a.	Reasons for deployment	Additional Cost
Operations	Baggage Screening	92	Rs. 3 lakhs	BCAS requirement of 100% Screening at stage 1.	Rs. 2.8 Crs.
Operations	Trolley operators	73	Rs. 2.3 lakhs	Court verdict	Rs. 1.6 Crs.

Hence we have recalculated manpower cost of 2013-14 to be utilised as the base for the forecasted manpower cost for the next control period as under:

Year	Manpower Numbers	Manpower cost (in Crs)
FY2013 (Actual)	1458	123.72
FY2014 (H1 ended 30th Sep'13)		64.46
Extrapolated manpower Cost for 2013-14		128.92
Additional manpower Cost	165	4.40
The Total manpower cost for future projections	1646	133.32

An overview of the forecast for the period starting from 2014-15 to 2018-19 is as under:

INR Crore	FY2015	FY2016	FY2017	FY2018	FY2019 (IN CRS.)
Personnel expenditure/Manpower Cost	143.21	153.82	165.23	177.48	190.64

DIAL Submission on Operating Expenses

17.7. DIAL submission with respect to sub-component Other Expenses is as below:

"Operation and maintenance have the following main components:

1. Housekeeping Cost

A. Components of Housekeeping cost:

The entire operation at the airport is carried out by Operations department. This department is one of the most crucial functions ensuring that airport day to day functions in a safe, efficient and smooth environment. The department has set out the following objectives w.r.t. Airport Operation for both Airside and Terminal:

- *Keep safety and security as the first priority*
- *Operate as an efficient airport dedicated to exceptional customer service*
- *Become a cost and price competitive airport*
- *Maintain strong relationships with "neighbors", communities, and industries*

Airport Operations is divided into various sub-functions:

a. Airside Operation looks after the various activities on the airside. It includes activities like Follow-me vehicles to guide aircraft, Bird Chasing, Wildlife monitoring etc. The department has outsourced activities like vehicle hire, Bird Chasing, Wildlife, and other operational services in the airside. These services are all manpower intensive and have been contracted for one year and come up for renegotiation every year. So these contracts costs are likely to increase in line with labour cost. Airside planning team manages the air survey, airside simulation, aerodrome license and safe airside operation.

b. Airport Operation Control Centre (AOCC): This is the nerve centre of the airport operation as it provides essential support to terminal as well as airside *and keeps an eye on various activities taking place anywhere is the airport. This requires highly trained manpower and regular training of these personnel are carried out. Slot department is part of AOCC that manages slot of airlines with the help of sophisticated software. Annual license fee and maintenance of software is done on contractual basis.*

c. Airfield Rescue Fire Fighting (ARFF) is the main fire-fighting unit at the airport. They have been equipped with all modern equipment and provide safety to the entire airport. Their costs include the training, uniform and various and the material required for fire fighting.

d. Aviation Services: Monitoring the activities of Ground Handling Agents, Flight Caterers and Aviation Fuel agencies at the Airside as per the SLAs mentioned in the concessionaire agreement. BHS operation is there to take care of housekeeping activities of baggage handling area and storage of early baggage arrival.

e. Safety: Mainly covers safety measures.

f. Environment: The activities include:

- *Fulfil & Monitor all the Environmental Legal Requirements and Compliance mentioned in Environmental Clearance of Ministry of Environment and Forest (MoEF), Consent to Operate of Delhi Pollution Control Committee (DPCC) and Environmental Regulations and Requirements of Directorate General of Civil Aviation (DGCA) and Ministry of Civil Aviation (MoCA) and related compliance Fee to Pollution Control Board.*
- *Environment Management and Monitoring of Air Quality, Water, Ambient and Aircraft Noise monitoring and management, DG sets monitoring, Greenhouse Gas Quantification and Management, Wet Scrubber operation and management, Noise and Emission Modelling, Energy Reductions Initiatives, ISO 14001, 14064 and Airport Carbon Accreditation System Implementation and Audits.*

- *Water and Waste Management, Sewage Treatment Plant (STP) compliance monitoring, Rainwater Harvesting Structure (RWHS) implementation and monitoring, Solid Waste Management System, Hazardous Waste Management System, E waste Management System implementation and monitoring and its Infrastructures developments and Green Building Criteria Fulfilments.*
- *Airfield Environment Management Committee (AEMC) Management and Monitoring and Conducting training and workshops to enhance environment work culture at airport to achieve sustainability of airport operation by balancing all Environmental, Stakeholders and Community requirements w.r.t Pollution, Recourse use and Compliance.*

*g. **Terminal Operations:** Mainly covers all housekeeping contracts which are there for upkeep of terminal standard (OMDA/ASQ)and other services like wheelchair, trolleys, maintenance of play area, medical facilities, Inter Terminal bus service and other passenger facilitations.*

*h. **COO Office:** Responsible for overall Operations. Mainly covers special projects, process improvement like CoDM, Capacity enhancement, Technical consultancy etc.*

B. Forecast methodology of housekeeping costs:

We have divided the total expenditure in three parts:

a. Contracted Costs – Long-term contracts.

b. Recurring annual costs.

c. Other Costs

a. Contracted Costs – Long-term contracts.

Various contracts of operations were signed long time back. There is no escalation assumed in these contracted amounts till the time the contract is in place. However when these contracts are coming for renewal it is assumed that *the renewal will be at a higher cost compared to the current contracted costs because of the following reasons:*

a. The facility has become old and requires higher cost.

b. Inflationary increase of last few years will require reset of prices. The economic environment has undergone a huge change.

c. Many items were under warranty and defect liability period and now their operations and maintenance will be full responsibility of DIAL.

d. One time escalation @20% is considered when the existing contract is renewed.

INR Crores	FY2015	FY2016	FY2017	FY2018	FY2019 (IN CRS.)
Long term Contracts House keeping	34.72	37.29	40.03	43.02	46.23

b. Recurring annual costs.

Other contracts are normal contracts that are renewed for short term normally on an annual basis or on, as may be required basis. It is assumed that there will be following escalations in these costs:

1. A real increase of 5% is considered. This is required to take care of additional expenditure required to be incurred for the machinery getting older. As in case of old machinery and buildings with passage of time the amount of expenditure for maintenance and upkeep keeps increasing.

In case of the manpower component of these costs a real increase is required which is over and above the inflationary increase. There is also an impact because of the mandatory increase in minimum wages as well.

2. An additional increase for additional upkeep with additional passenger also is considered. It is assumed that the costs are semi variable in nature vis-a-vis traffic. The additional traffic means that the operating cost will need to be increased. This may be in form of more number of times an area is cleaned, the *more repair and maintenance required due to extra wear and tear due to higher usage etc.*

We have assumed an extra cost equivalent to half of the expected traffic growth (Passenger Traffic Growth).

c. Other Costs

Apart from the above there were several projects which have been held up due to financial constraints which if not undertaken can impact the safety and security of airport and also these are essential and mandated costs. These costs will need to be incurred on a recurring basis.

i. Delhi Pollution Control Board Committee: Rs. 20 lakhs/year.

This is an annual fee, statutorily required and is akin to consent to operate (environment)

ii. Inter – Terminal Bus Service (Between T1-T3): Rs. 1.5 Crores /year.

The number of transfer passengers connecting between Terminal 3 and Terminal 1 has substantially increased. Indigo and Spice Jet are now operating International flights, which operate from Terminal 3.

In order to keep to the OMDA standards for connecting passengers and to offer the transfer passengers' convenient transportation between the two Terminals it is proposed to operate three air-conditioned, dedicated buses on 24x7 basis.

The schedule for one loop per bus (T3 - T1D – T1C – T3) takes one hour including the stops for de-barding and boarding. The transfer connection is offered free to the transfer passengers.

Each loop is 17kms, daily trips 67 total km. per day 1139 x 365 = 415735 km. per year.

iii. Deep Cleaning – by deep-cleaning machine: Rs. 24 lakhs/year;

Chemicals: Rs. 25 lakhs/year.

Deep cleaning of the aircraft bays needs to be done on a permanent basis as there are many oil leakages from equipment and aircraft. This is required to avoid the oil to penetrate the concrete causing permanent damage to the *surface. This facility is required now as the problem is reaching dangerous level due to the facility getting older. This facility was not there and as such these costs were not part of base cost on which extrapolation being done.*

iv. Bird Hazard mitigation, wildlife management: Rs. 1 Crore/year.

We need to ensure that the airport is a safe airport, we need to intensify the bird management because of introduction of 3 runway operation and increase in bird activity. Also important is the fact that the damage due to bird hit tantamount to a huge cost to airlines and as such utmost precautions need to be taken.

v. NOC Fire Certificate: Rs. 25 Lakhs/year

Fire NOC for all the buildings within IGI Airport

Following are the YOY additional expenditure:

INR in Crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019 (IN CRS.)*
Additional Expenditure as given above	*3.70*	*3.97*	*4.26*	*4.58*	*4.92*

The historical base for projections of Control period II has been taken from the following data:

Year	*Cost (in Crores)*
FY2013 (Actual)	*35.21*
FY2014 (H1 ended 30th Sep'13)	*18.74*
FY2014 (extrapolated)	*37.48*
Other Costs as enumerated above	*3.44*
Base Number on which future forecast done	*40.92*

Conclusion:

Based on the aforesaid assumptions, forecast for the period starting from 2014-15 to 2018-19 is as under:

INR in Crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Long term Contracts	*34.72*	*37.29*	*40.03*	*43.02*	*46.23*
Routine Contracts/ad-hoc	*6.50*	*6.98*	*7.50*	*8.06*	*8.65*

Additional Expenditure	3.70	3.97	4.26	4.58	4.92
Total	44.92	48.24	51.79	55.65	59.80

"

17.8. DIAL submission with respect to sub-component maintenance expenses is as below:

"The maintenance department looks after the entire repair and maintenance of the airport site primarily covering:

- *Airside:*

All Airside (including 3 operating runways, taxiways, aprons, parking bays, aerobridges, hangars, drains, general airfield upkeep, power sub-stations, water & waste management and all other allied airside infrastructure for all civil, electrical and mechanicals works)

- *Terminal:*

Terminal Buildings includes all existing terminals for all civil, electrical and mechanicals works and

- *City Side*

Upkeep and maintenance of access roads, landscaping and traffic management

Under the Maintenance department, there are various sub-functions that relate to the maintenance of earmarked activities. These sub-functions (cost - centre) contribute to the overall maintenance costs. The activities undertaken are unique which require specialized engineering and technical skills. The main functions are as under:

1. Airside

a. Air Ground Lighting (AGL) 09/27 and 10/28 –

This department predominantly looks after the maintenance of existing runway namely R/w 09/27 and R/w 10/28 and the associated set of taxiways. The primary cost of this function, comprises of regular maintenance related to the Airfield Ground Lighting (AGL) including replacement of approach lights, power backup etc. Runway and taxiway are under the control of ATC Tower and *regular checks are initiated so as to ensure a smooth and safe airfield-operating environment. Apart from above, necessary inventory levels and consumable are also maintained internally as these are required for conducting speedy and efficient maintenance.*

b. Air Ground Lighting (AGL) 11/29:

This department looks after the repair and maintenance of new R/w 11/29 and its associated taxiways. The budget of this department comprises of AGL Comprehensive Maintenance Contract (CMC), sub-station maintenance contract and Power backup (UPS) maintenance contract. Apart from above there is provision for housekeeping, replacement of UPS batteries and provisioning of spares and consumables.

c. Airport Systems:

Terminal 3 and all new airfield infrastructure development have been procured with the best available technologies and equipment's for augmenting the airport infrastructure to a world class airport. All these sophisticated equipment like Baggage Handling System (BHS) including X-ray/on-line screening machines, Passenger Boarding System, Visual Docking Guidance System (VDGS), travellator and Escalators (VHT), Terminal and Airfield Resource Management System, etc. are specialized and domain specific resources sourced from respective OEM vendors. Since, the spares and upkeep of such equipment requires skilled know how, we have Comprehensive Maintenance Contracts (CMC) for all such airport systems.

d. Airside Civil:

This department looks after regular maintenance and usually services the request of the Operation Department for the following works:

- *Runway marking Painting;*
- *Pavement repairs;*
- *Joint filling;*
- *Fencing;*

- *Gate Repairs;*
- *Drain cleaning;*
- *Bitumen repair;*
- *Building Painting;*
- *Fence painting etc.*
- *Airside Building for sub stations*

Most of these works are carried out based on requirement and past experience of the domain department. The estimation of these expenses is based on the historical spends achieved during the preceding year.

e. Electrical 10/28:

This department looks after the repair and maintenance of the electrical works of substation and associated facilities of R/w 10/28.

2. Terminals

a. Terminal 1

- *T1 Civil*
- *T1 Mechanical*
- *T1 Electrical*

This department takes care of all the repair and maintenance of the T1 terminal. The costs herein include the civil costs that include regular civil work which include waterproofing, sewage, road repair. Major costs herein comprises of annual repair and maintenance contract that is a rate contract.

This department also looks after the electrical and mechanical repair, maintenance related to T1 plant and machinery, baggage-handling, consumables etc. The cost herein comprises of AMC related to electrical, manpower, BHS, city side maintenance, etc.

b. Terminal 2

- *T2 Civil*
- *T2 Mechanical*

- *T2 Electrical*

This department takes care of all the repair and maintenance of the T2 terminal. The costs herein include the civil costs that include regular civil work which include waterproofing, sewage, road repair. Major cost herein comprises of annual repair and maintenance contract that is a rate contract.

This department also looks after the electrical and mechanical repair, maintenance related to T2 plant and machinery, baggage-handling, consumables etc. The cost herein comprises of AMC related to electrical, manpower, BHS, city side maintenance, etc.

c. Terminal 3

- *T3 Civil*
- *T3 Electrical.*
- *T3 Mechanical*
- *Finishes*

This department takes care of the entire repair and maintenance of T3 building that comprises of the AMC of the baggage handling equipment, electrical parts, consumables, street lights and Power Backup system. The mechanical department pre dominantly looks after the air conditioning, Public health and Hygiene, Fire detection and protection system, etc.

*i.**T3 Auxiliary** : This department accounts for the electricity and water of T3*

b. STP/WTP

c. ASB Building

d. Airport Connection Building (ACB)

*ii.**Procurement:** This department is the centralised department for procurement of all the spare and consumables related to repair and maintenance.*

*iii.**Engineering:** This department takes care of all engineering related inputs related to repair and maintenance.*

iv.***Central store:*** *This department maintains the inventory of all types of spares required for various equipment and operation related material.*

v.***Landscape:*** *It includes the maintenance cost of city side and indoor landscaping.*

3. Landside: -

It includes the maintenance cost of city side road, signage, street lighting, drainage system etc.

Motor Transport (MT): *Transport department looks after the repair and maintenance of airport vehicles used on the airside like:*

- *Fire tenders and other supporting fighting vehicles;*
- *Follow-me vehicles*
- *Runway rubber removal vehicles;*
- *Runway marking machines;*
- *Runway Friction Tester*
- *Heavy earth moving machines; maintenance and general consumables.*

Forecast methodology:

We have divided the total expenditure in two parts:

1 Contracted Costs – Long Term Contracts

2 Recurring annual costs /Contracts

3 Other Costs not part of opex spent earlier.

1. Contracted Costs – Long Term Contracts

Various contracts for maintenance were signed long time back. These contracts were part of asset capitalization contracts. The vendors bidding for the projects were compulsorily asked to bid for maintenance as well. Since the vendors were desirous of bagging the asset contract they may have offered very low maintenance costs. Now since they have no such compulsion, it is expected that *they will bid significantly higher; which will be the true economic cost of these contracts.*

The regular maintenance of specialised airport systems was outsourced to either the OEM or the third parties through competitive bidding in the year 2009/2010. The AMC were negotiated as part of the equipment procurement that included pre-agreed schedule of maintenance, DLP and service levels. All the contracts are for a period of 5 years that would lapse in the middle of the control period (End of FY 14-15).

As a part of the Capex for Terminal 3 and its associated works various Electro – Mechanical and Airport Systems were procured and commissioned. 5 year AMC cost was quoted along with the main system package purchase cost. Since, main equipment supply and its subsequent 5 year AMC was bundled together, most of the vendors have kept a low price on the provision of AMC of such equipment / systems. Such practice of keeping low value of AMC while major equipment packages are negotiated is very common in India. Vendors in India often adopt such practices of having lower value of AMC to make their consolidated project value attractive and comparable. Equipment vendor are often unable to reduce system price beyond one point due to various bought out material / equipment involved in packaging the bid. The area where they can play is mainly AMC cost.

We expect considerable rise in the AMC charges after the expiry of the contract in the year 2014-15 and such increase in cost could be as high as 25% to 30%. There is no escalation assumed in these contracted amounts till the time the existing contract is in place. However when these contracts are coming for renewal it is assumed that the renewal will be at a higher cost compared to the current contracted costs because of the following reasons:

1. *The facility has become old and requires higher cost.*
2. *Inflationary increase of last few years will require reset of prices. The economic environment has undergone a change*

3. Many items were under warranty and defect liability period and now their operations and maintenance will be full responsibility of DIAL.

4. One time escalation @20% is considered when the existing contract is renewed.

5. In addition to the contracted works, the maintenance department also carries out need based maintenance through running maintenance contracts (RMC) which are normally of short duration of approximately a year.

6. Detail of such contracts is as under:

INR in Crores	FY2015	FY2016	FY2017	FY2018	FY2019
Long term contracts Maintenance	70.44	79.43	88.67	96.18	103.33

2. Recurring annual Contracts/Costs

Other contracts are normal contracts that are renewed on an annual basis or on, as may be required basis. It is assumed that there will be following escalations in these costs:

1. A real increase of 5% is considered.

This is required to take care of additional expenditure required to be incurred for the machinery getting older. As in case of old machinery and buildings with passage of time the amount of expenditure for maintenance and upkeep keeps increasing.

Further in case of the manpower component of these costs a real increase is required which is over and above the inflationary increase.

There is an impact because of the mandatory increase in minimum wages as well.

2. An additional increase for additional upkeep with additional passenger also is considered. It is assumed that the costs are semi variable in nature vis-a-vis traffic. The additional traffic means that the operating cost will need to be increased. This may be in form of more number of times an area is cleaned, the *more repair and maintenance required due to extra wear and tear due to higher usage etc.*

We have assumed an extra cost equivalent to half of the expected traffic growth (Passenger Traffic Growth).

3. Other Costs.

Apart from the costs forecasted above, additional cost also needs to be incurred at airport. The details of such expenditure are as under:

1. Repair of Air Side taxiway Pavement works, earthworks along RWA and TWA:

The Airside pavement north of T3 terminal is taken over from AAI in 2006.

This comprises two runways, two parallel taxiways, more than 30 taxiways and apron stand area of close to 700000 sq.mts. Most of the surface is developed by AAI and have served a life varying from 10 to 30 years.

During the last 6 years, the most damaged taxiways and Runway 10-28 were taken for repair and DIAL is planning to repair further taxiways in the next 5 years. However, in view of not disturbing the operation, it's not possible to take the entire pavement repair together and for this reason, some temporary repair works are to be done for the surface with minimum cost as projected year on year.

2. Repair of Landside road works including forecourt repairs at T1C:

The road leading to terminal 1 is old and needs an overlay to sustain the increasing passenger traffic.

It is proposed to spend for repair on this road.

3. Landscaping – Earth works:

There is a need for the area around T3 to be further developed with landscaping to maintain the aesthetics of the airport. Hence large earthwork is required in the first control year with small developments for next two years.

Further maintenance expense will be met through AMC contracts for landscaping

4. Finishing works – T1C – replacement/revamp of ceiling, wall, toilets, signage:

The toilet fixtures, signage, ceiling of terminal 1 C (domestic arrival terminal), requires modification and up gradation. Modification will be carried out in the first year followed by need-based modification in the subsequent years. This is necessitated, as the facility was a revamped facility.

5. Finishing works – T1D – replacement/revamp of ceiling, toilets, signage:

The toilet fixtures, signage, ceiling of terminal 1 (Domestic departure terminal), requires modification and up gradation based on passenger and other stakeholder feedback. Major repair will be carried out in the first year followed by need-based repair in the subsequent years

6. Finishing works – T3 – replacement/revamp of ceiling, wall, and toilets:

Terminal 3 with large area and many toilet blocks needs continuous improvement works and it is proposed to revamp the ceiling and toilet blocks in some areas on continuous basis as improvement.

7. Special repair work of BHS at T1C:

The arrival baggage handling system (8 belts) at Terminal 1 C was installed during AAI period and outlived its life. It is proposed to repair the baggage handling system in phases for better passenger service

8. Repair of old Electrical system including cabling at T1C/D and T2 airside:

The Electrical system in T1 and airside area is old and needs continuous maintenance. For this purpose, the Electrical cable and panel boards with old type switches needs to be repaired. It is proposed to take up this up gradation work in phases in the next 5 years

9. Repair of Drainage system at 10/28 side and Landside:

The drainage system in the airside parallel to Runway 10-28 and 09-27 is old and in order to have proper rainwater drainage and rain water harvesting, the *existing drains needs to be strengthened. It is proposed to take up the work in phases with major repair work in the first year.*

10. Provision of Fire protection system in the old buildings and Offices:

The old buildings and offices at IGI airport is not having fire protection system. It is proposed to improve the fire detection and protection capability, it is proposed to do a thorough study of all the buildings in the operational area and work out all the requirements to have safe and protected buildings. The work is proposed to be taken in phases.

11. CMS, licensing, repair improvement for AGL, Electrical HVAC and STP systems:

All the systems at IGI airport like AGL, HVAC and STP are provided with control and monitoring systems. These systems are proprietary software and needs license renewal at periodic intervals. Further, with changes for operational improvement, process modification, new works, these software needs to be upgraded whenever a repair takes place.

12. Replacement CCR, AGL cable etc. for Runway 09 and domestic bays:

Runway 09-27 is the oldest runway at IGI airport. Repair of AGL system by changing the entire cable, CCR and power supply system is essential to ensure safe airfield ground lighting system availability. Replacement is proposed in phases.

Apart from the above there were several projects which have been held up due to financial constraints which if not undertaken can impact the safety and security of airport. These kinds of costs will need to be incurred on a recurring basis. The details of these additional expenditure is as under:

	(INR Crores)	FY-2015	FY-2016	FY-2017	FY-2018	FY-2019
1	Repair of Air Side taxiway Pavement works, earthworks along RWA and TWA	10	10	10	10	10
2	Repair of Landside road works including forecourt repairs at T1C	1	1	2	2	2
3	Landscaping – Earth works	1	1			

4	Finishing works – T1C – repair of ceiling, wall, Toilets, signage.	1	1	1	1	1
5	Finishing works – T1D repair of ceiling, Toilets, signage.	1	1	1	1	1
6	Finishing works – T3 – repair of ceiling, wall, Toilets.	3	3	2	2	2
7	Special repair work of BHS at T1C	1	1	1	1	1
8	Replacement of old Electrical system including cabling at T1C/D and T2, airside	3	3	3	3	3
9	Repair of Drainage system at 10/28 side and Landside	2	2	2	2	2
10	Provision of Fire protection system in the old buildings and Offices	2	2	1	1	1
11	CMS licensing ,modification for AGL, Electrical HVAC and STP systems	2	2	2	2	2
12	Repair CCR, AGL cable etc for Runway 09 and domestic bays	2	2	2	2	2
	Total Additional cost	29	29	27	27	27

Historical cost and the forecasted cost for 2013-14 are as under:

In Crores	maintenance
Maintenance Cost FY2013	96.95
Half Year FY2014 (H1)	49.22
Extrapolated for full Year	98.44
Base on which growth forecasted	98.44

The breakup of the long term contracts in above is as under:

In Crores	maintenance
2013-14 Long Term Contracts	65.70
Other expenditure	32.74
Total	98.44

Conclusion:

Based on the aforesaid assumptions the forecast for the period starting from 2014-15 to 2018-19 is as under:

INR in Crores	FY2015	FY2016	FY2017	FY2018	FY2019 (IN CRS.)
Long term contracts	70.44	79.43	88.67	96.18	103.33
Routine Contracts/ad-hoc	35.17	37.78	40.58	43.59	46.82

Additional expense	29.00	29.00	27.00	27.00	27.00
Total	134.61	146.21	156.25	166.77	177.15

17.9. DIAL submission on maintenance cost of security equipment is as below:

"Following is the maintenance expenditure of security equipment's is forecasted for next 5 years. It is assumed that these expenses will not be allowed as part of determination of PSF security charges.

SNo. INR Crs	Name of Item	2014 - 15	2015 - 16	2016 - 17	2017 - 18	2018 – 19	BCAS Circular
	Pre embarkation security check equipment (PESC)						INR Rs. Crores
1	Maintenance of 3 Nos. of 100100T X-BIS for random checking at Entry points of T3 & T1 Departure Building	0.18	0.20	0.22	0.24	0.27	AVSEC Order No.21/2011
2	Cabin Baggage X-Ray machines(6046i) Expansion : 7 Nos. 4 No's for SHA (Dom and Int) 3 No's for Staff Entry (Arrival Side),Int'l to Int'l Transfer & Domestic Airside gate	0.21	0.23	0.25	0.28	0.31	AVSEC Order No.21/2011
3	Maintenance of 03 ETD for random checking at entry points of T3 and T1 departure building	0.23	0.25	0.27	0.30	0.33	AVSEC Order No.21/2011 and BCAS Circular 25 / 2004
4	Ion Scan 500DT ETD 3 No's for Domestic and International SHA at T-3 (Future Expansion)-Maintenance			0.27	0.30	0.33	AVSEC Order No.21/2011 and BCAS Circular 25 / 2004
5	Ion Scan 500DT ETD 1 No's for Haj operations and VIP Movements at T-1-Maintenance	0.08	0.08	0.09	0.10	0.11	AVSEC Order No.21/2011 and BCAS Circular 25 / 2004
6A	Maintenance of NIJ 0602 Standard DFMD: Total 23 Nos. 6 No's for Domestic and International SHA expansion at T-3 . 17 No's for different locations at T-3 immediately.-	0.06	0.06	0.07	0.07	0.08	BCAS Circular 25 / 2004
6B	Maintenance of NIJ 0602 Standard DFMD: Total 16 Nos. 6 No's for SHA at T-1, 10 No's for different locations at T-1	0.04	0.04	0.05	0.05	0.06	BCAS Circular 25 / 2004
7	Maintenance of HHMD: Total 162 Nos. 12 No's for Domestic and International SHA-Future Expansion. 150 No's for different locations of T-3, immediate.	0.24	0.27	0.29	0.32	0.35	BCAS Circular 25 / 2004

8	Maintenance of HHMD:65 Nos. 12 No's for SHA . 53 No's for different locations of T-1	0.10	0.11	0.12	0.13	0.14	BCAS Circular 25 / 2004
9	GE CTX machines	0.43	0.48	0.52	0.57	0.63	
10	GE Itemaiser	0.17	0.19	0.21	0.23	0.25	
INR Crs	Name of the item	2014 - 15	2015 - 16	2016 - 17	2017 - 18	2018 – 19	BCAS Circular
PIDS System							INR Rs. Crores
1	CMC to Magal for PIDs operations	2.50	2.75	3.02	3.31	3.64	BCAS Circular 2/2007
2	Power maintenance	0.00	0.00	0.00	0.00	0.01	BCAS Circular 2/2007
3	CMC to PIDS UPS system	0.02	0.03	0.03	0.03	0.03	BCAS Circular 2/2007
4	CMC to AC system for PIDs power cabinet	0.00	0.00	0.00	0.00	0.00	BCAS Circular 2/2007
INR Crs.	Name of the item	2014 - 15	2015 - 16	2016 - 17	2017 - 18	2018 – 19	BCAS Circular
CCTV System							INR Rs. Crores
1	CCTV-T1A & 1C	0.15	0.16	0.18	0.20	0.22	BCAS Circular 2/2007
2	CCTV-T1D	0.70	0.77	0.84	0.93	1.02	BCAS Circular 2/2007
3	CCTV-T2/AOCC+Cargo	0.60	0.66	0.72	0.79	0.87	BCAS Circular 2/2007
4	CCTV-T3	4.00	4.39	4.83	5.30	5.82	BCAS Circular 2/2007
5	MLCP +3rd lane CCTV+network	0.60	0.66	0.72	0.79	0.87	BCAS Circular 2/2007
6	NUB CCTV CMC contract	0.05	0.05	0.06	0.07	0.07	
7	Installation of surveillance CCTV system at isolated bays			0.30	0.33	0.36	
8	CCTV system for Approach roads as per Delhi Police requirement			0.18	0.20	0.22	
9	Additional 542 Cameras in Terminal - 3		0.16	0.18	0.19	0.21	
10	Additional 50 Cameras in Terminal - 1			0.90	0.99	1.09	
11	Additional 20 Cameras from Gate No. 15 to BPCL & HPCL Fuel Tank for strengthening of Security at IGI Airport			0.18	0.20	0.22	
12	CCTV coverage of vital installations (WTP, STP, MRSS, SSB. MSB etc.) for strengthening of Security at IGI Airport		0.15	0.16	0.18	0.20	

INR Crs.	Name of the Item	2014 - 15	2015 - 16	2016 - 17	2017 - 18	2018 – 19	BCAS Circular
ACS System							

1	ACS-T3	3.00	3.29	3.62	3.97	4.37	BCAS Circular 2/2007
2	ACS-NUB	0.25	0.27	0.30	0.33	0.36	BCAS Circular 2/2007
3	Replacement of damaged readers and other parts 130 No of access control procurement for damage cases		0.23	0.26	0.28	0.31	BCAS Circular 2/2007
4	Phase wise replacements of ACS Readers and accessories		0.10	0.11	0.12	0.13	BCAS Circular 2/2007
5	New BCAS Requirement(Extra ACS installation project as per BCAS guideline) including turnstile and ACS reader		0.30	0.33	0.36	0.40	BCAS Circular 2/2007
INR Crs.	**Name of the Item**	**2014 - 15**	**2015 - 16**	**2016 - 17**	**2017 - 18**	**2018 – 19**	**BCAS Circular**
BDDS Equipment's							
1	AMC BDDS Equipment	0.24	0.26	0.29	0.32	0.35	BCASCAS-3/2007/DIC-1118 (BDDS) dated 3-8-2007
INR Crs.	**Name of the Item**	**2014 - 15**	**2015 - 16**	**2016 - 17**	**2017 - 18**	**2018 – 19**	**BCAS Circular**
Physical Security system Vehicle Checks (LPR & DIC)							
1	T 3 entry, Exit naka, MLCP, Airside gate no 10 &11	0.54	0.59	0.65	0.72	0.79	
2	T1D Entry naka	0.03	0.03	0.04	0.04	0.04	
INR Crs.	**Name of the Item**	**2014 - 15**	**2015 - 16**	**2016 - 17**	**2017 - 18**	**2018 – 19**	**BCAS Circular**
TCV & SLCV							
1	CMC of TCV and SLCV	0.65	0.71	0.78	0.86	0.95	
	Total Maintenance Cost	**15.07**	**17.50**	**21.05**	**23.12**	**25.39**	

Conclusion:

Following is the Security equipment Maintenance Cost:

INR Crores	2014 - 15	2015 - 16	2016 - 17	2017 - 18	2018 – 19
Security Equipment maintenance Cost	15.07	17.50	21.05	23.12	25.39

However we shall like to clarify that the security related operating expenses are dynamic in nature and the requirement of the same varies with perceived security threat and mandates from various agencies. As such we request a full true up of security related operating expenses.

Maintenance Cost : Airport IT outsource cost

IT function was outsourced through a competitive bidding process with WIPRO in 2009. Wipro had won the competitive bidding and was selected as the preferred bidder to provide IT services.

After selection of the bidder, DIAL entered into a Joint venture with the bidder.

IT costs are forecasted based on payments due from DIAL to the joint venture company providing IT services. This is based on the following methodology:

Head	Explanation	
Agreed Cost as per agreement	A	This is called subsistence level. This is based on 1 The repayment liability of JV towards the capital cost. 2 Interest Cost of the Capex incurred by JV. 3 Other expenditure of JV.
Amount Recovered by JV for providing Services	B	The JV provides service to various users and this revenue is used to net off the amount payable to the JV by DIAL
Net Payment to be made by DIAL	C=A-B	This is the net amount payable by DIAL

The current subsistence level contracted is as under:

IT JV contracted cost	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 (IN CRS.)
Subsistence as per agreement	154.87	165.15	150.59	150.18	123.67	43.41

The historical costs of IT (JV) paid by DIAL are as under:

(All amount in Crs)

IT JV net cost	FY2013 In Crores
Subsistence as per agreement	**157.27**
Total Subsistence	157.27
Non Cute revenue	16.63
Cute revenue	88.24
Total revenue of JV	104.87
Net Expenditure payable by DIAL to JV	52.40

However since most of IT systems get worn out due to heavy use and technological obsoleting the following additional Capex will need to be done by IT JV in the current control period

S.No	System	Capex Basis	Amount (INR Crs)
1	SI	Nil	0
2	Network	20x8600(20), 6xFW(3.5), 200x5600(20), 800xAPwifi(4.0), 5000xUTP(1.5), OFC(4)	54
3	Control Centres	V wall(2.0), LCD(1.8),	3.8
4	Help Desk	Remedy-(10),	10
5	CUSS & CUPPS	512xCUPPS(42),	42
6	BRS & MDS	Included in CUPPS	0
7	FIDS	1000xFIDS(22)	22
8	Telephony	5xEPABX(8)	8
9	PAVA	10000xSpk(10)	10
10	MATV	200xDisplay(3.5)	3.5
11	INK	Nil	0
12	EPOS	400xEPOS(4)	4
13	CCTV	3500xCCTV(30)+Storage(4)	34
14	ACS	4000xACS(18)	18
15	BMS	40000xEndpoints(6)	6
16	APPS	Nil	0
17	SADS	Nil	0
18	MPAS	3-4G(5.5)	5.5
19	MSI	20% of new CAPEX	48
20	TMRS	2000xTMRS(3)	3
21	MCS	Nil	0
22	Desktop/Laptop	AOCC(0.15), NOC(0.1), TSC(0.1), EMC(0.1), SOCC(0.1)	0.55
23	Server-DC	250xSvr(12), STS(1), HITACHI(2)	15
24	License-Renewal	Lic(2.75*5)	13.75
25	DC Furniture	Flooring/Ceiling/Raceways/Trays/Racks	0.75
Grand TOTAL			301.85

The above Capex by IT JV will entail following additional subsistence level expenditure. This is the amount payable by JV towards repayment of loan and interest cost.

IT JV net cost	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 (IN CRS.)
Additional subsistence	18			36	94.80	94.80	94.80

level							

Based on the above following is the IT (JV) cost forecast:

IT JV net cost (IN CRS.)	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Subsistence as per existing agreement	157.27	154.87	165.15	150.59	150.18	123.67	43.41
Addl. Subsistence forecasted due to new Capex			18	36	94.80	94.80	94.80
Total Subsistence	157.27	154.87	183.15	186.59	244.98	218.47	138.21
Non Cute revenue	16.63	16.63	16.63	16.63	16.63	16.63	16.63
Cute revenue	88.24	92.29	96.54	100.98	105.63	110.49	115.57
Total Projected revenue	104.87	108.93	113.17	117.62	122.26	127.12	132.20
IT Outsource exp. Of DIAL	52.40	45.94	69.98	68.97	122.72	91.35	6.01

Maintenance Cost: Insurance

The following are the insurance policies taken for the airport. The respective insurance cost as a percentage for the same is also given in the table:

Policy	Details	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Property Damage (PD)	% of amount of asset insured	0.035%	0.038%	0.042%	0.046%	0.051%	0.056%
Business Interruption (BI)	% of Gross Revenue	0.035%	0.038%	0.042%	0.046%	0.051%	0.056%
AOL/3rd Party Liability Policy	Premium amount on sum insured of $750Mn	$0.35 Mn	$0.38 Mn	$0.38 Mn	$0.38 Mn	$0.38 Mn	$0.38 Mn
Terrorism Policy	Premium as percentage to IAR policy value (i.e., PD + BI)	0.019%	0.021%	0.021%	0.021%	0.021%	0.021%

Forecast assumptions for insurance policy:

As percentage of insurance premium over insured assets with increase to take care of reinstatement value increase due to current trend of reduction in discount percentages due to Insurance regulatory clampdown on existing higher discounts.

Based on above assumptions following is the insurance forecast:

In Crores	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Insurance	10.35	12.04	13.12	14.37	15.81	17.53

Water:

The water supply at airport is provided by Delhi Jal board (DJB). DJB is committed to give us a water supply of 3 MLD per day. The current supply is very low and efforts are on to augment the supply and as such 2012-13 numbers are not representative of the true cost of water. Going forward as per the rates prescribed by DJB, there is a year on year escalation of 10% is envisaged.

Based on the above following are the amounts forecasted towards water charges

FY	Water demand/per day	Yearly Water Volume MLD	Rate	Water Charges IN INR
2014-15	3MLD	1095	146.41	160,318,950
2015-16	3MLD	1095	161.05	176,350,845
2016-17	3MLD	1095	177.16	193,985,930

However, there is some internal maintenance expenditure related to water and recoveries as well.

(In Crores)	FY2015	FY2016	FY2017	FY2018	FY2019
Water cost	16.04	17.63	19.38	21.32	23.45
Maintenance Cost	3.96	4.25	4.57	4.90	5.27
Recovery	(5.46)	(5.86)	(6.30)	(6.76)	(7.27)
Net payable	14.54	16.02	17.65	19.46	21.45

The net amount forecasted to be payable by DIAL is as under:

(In Crores)	FY2015	FY2016	FY2017	FY2018	FY2019
Water cost	14.54	16.02	17.65	19.46	21.45

DIAL submission on Administration Cost

17.10. DIAL submission regarding administration expenses is as under:

"The administrative cost category contains a number of types of costs, like consultancy expenses, advertisement, travel and communication costs, business promotion etc. The majority of these costs are attributable to the airport as whole. The expenses incurred during the year 2012-13 detailed as under:

Forecast assumptions:

1. A real increase of 5% is considered. In case of the manpower component of these costs a real increase is required which is over and above the inflationary increase. There is an impact because of the mandatory increase in minimum wages. Apart from above the administrative cost is expected to increase and this increase of 5% is bare minimum required over and above inflationary increase.

2. We have not incorporated inflation in any of our forecast and it is assumed that inflationary increase will be allowed over and above the x – factor.

The historical costs and its future forecast is as under: (All amount in Rs. crs)

INR in Crores	*FY2013*	*FY2014 (H1)*	*FY2014 extrapolated*
Administration cost (Without Property Tax and other finance charges)	*140.95*	*64.9*	*129.8*

Administrative Cost: IT Cost – DIAL

DIAL as part of maintenance has to spend a significant amount on various licences and permissions. These costs are on rise and an additional provision needs to be made for the same. Details of the increases are as under:

Type	*Details of license*	*2012-13 Rates*	*2013-14 rates*	*Increase Amount*	***Reasons of increase***
In Crores					
License	*Application /Software Licenses for Various Airport Systems*	*2.59*	*3.29*	*0.70*	*Implementation of Certified Software License Management Program to regularize licenses use, standardization.*

License	Wireless Frequency (Regulatory License for operating Walky-Talky at Airport)	0.36	1.13	0.77	Multi-fold increase in Government Royalty on License Cost since Apr-2012.
AMC	Application /Software Maintenance	4.95	9.22	4.27	Application scope increased, along with enhancement of support services for improved SLA.
AMC	Hardware Maintenance	10.84	14.88	4.04	Increased Hardware together with enhanced SLA.
Total		21.22	31.00	9.78	

As such an additional provision needs to be made for the above items in the base cost on which we are extrapolating 2013-14 costs.

An overview of the forecast for the period starting from 2014-15 to 2018-19

INR Crores	FY2015	FY2016	FY2017	FY2018	FY2019
Administration cost	146.56	153.89	161.58	169.66	178.14

Administrative Cost: Property Tax:

DIAL has to pay property tax to:

1. *Municipal Corporation of Delhi (MCD); and*
2. *Delhi Cantonment Board (DCB).*

The amount of property tax as per Demand Notices raised by MCD is Rs. 22.18 Crore per annum (For F.Y 2012-13). The future projections are based on same amount only.

A notice has been received from the DCB for payment of property tax. The methodology and valuation for property tax is not firmed up but based on the principles applied in case of MCD, the amount payable has been calculated on a proportion basis. It is assumed that same principles, rates and classifications as adopted by MCD will be used by DCB.

Thereafter it is estimated that DIAL will need to pay approx. Rs. 33.61 crores annually based on the current property tax rates. In future there can be additional demands of property tax. The following is the forecast of property tax:

Year	MCD	DCB	Total
In Crores			
FY2015	22.18	11.43	33.61
FY2016	22.18	11.43	33.61
FY2017	22.18	11.43	33.61
FY2018	22.18	11.43	33.61
FY2019	22.18	11.43	33.61

We request for a 100% true up of property tax.

The following are the amounts of property tax payable for last control period:

The following were the demands of property tax

INR Crores	FY 2010	FY 2011	FY 2012	FY 2013
Prop. Tax demand	10.06	21.15	23.77	22.18

The following were the amounts paid

INR Crores	FY 2010	FY 2011	FY 2012	FY 2013
Amount paid	(2.51)	(5.29)	(2.96)	(1.38)

The following demand still remains and its NPV is as under. Since DIAL may need to pay these amounts in current control period the same need to be allowed. These amounts may be trued up based on actual payment at end of control period.

INR Crores	FY 2010	FY 2011	FY 2012	FY 2013
Prop. Tax demand	10.06	21.15	23.77	22.18
Amount paid	(2.51)	(5.29)	(2.96)	(1.38)
Prop. Tax demand Outstanding (87.54%)	7.54	15.86	20.80	20.80
Compounding factor	1.63	1.48	1.34	1.22
Present Value as on Mar-14	12.33	23.50	27.94	25.32
NPV as Mar-14	89.09			

Other Finance Charges:

As part of the borrowing cost, DIAL had paid an upfront fee to lenders.

Name of Banker	Nature of expenses	Start Date	End Date	Amount paid Upfront fee/ Processing Charges (INR)
ICICI Bank-Singapore	Upfront Fee	1/7/2010	12/17/2019	106,353,000

Axis Bank	*Upfront Fee*	*3/25/2010*	*3/3/2020*	*105,318,540*
Total (A)				*211,671,540*
IDFC	*Documentation, structure & Upfront Fee @0.60% on Rs. 2550 Crores*	*4/1/2013*	*3/31/2028*	*205,000,000*
IDBI	*Upfront & Underwriting Fee on ECB 302 Million*	*6/30/2013*	*12/31/2024*	*102,732,870*
ICICI	*Upfront Fee on RTL Loan of Rs. 493.75 Crores*	*7/31/2013*	*3/31/2028*	*39,500,000*
Total (B)	*347,232,870*			
Total (A+B)	*558,904,410*			

The above is monetized over the years as under:

INR Crores	*FY2014*	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
ICICI Bank-Singapore	*1.07*	*1.07*	*1.07*	*1.07*	*1.07*	*1.07*
Axis Bank	*1.06*	*1.06*	*1.06*	*1.06*	*1.06*	*1.06*
Total (A)	*2.13*	*2.13*	*2.13*	*2.13*	*2.13*	*2.13*
IDFC	*1.37*	*1.37*	*1.37*	*1.37*	*1.37*	*1.37*
IDBI	*0.67*	*0.89*	*0.89*	*0.89*	*0.89*	*0.89*
ICICI	*0.18*	*0.27*	*0.27*	*0.27*	*0.27*	*0.27*
Total (B)	*2.21*	*2.53*	*2.53*	*2.53*	*2.53*	*2.53*
Total (A+B)	*4.34*	*4.65*	*4.67*	*4.65*	*4.65*	*4.65*

The above expenditure is charged as other finance charges."

DIAL submission on Utilities

17.11. DIAL submission regarding utilities is as under:

"Utility costs are calculated at gross level less recovery from the airlines and concessionaires.

Utility Cost- Electricity:

1. *The electricity rates have escalated on a CAGR of 7.61% p.a. during last two fiscal.*
    - *Apr 2010 – Rs. 4.70 per unit*
    - *Apr 2011 – Rs. 4.70 per unit*
    - *Sep 2011 – Rs. 5.75 per unit*
    - *Jul 2012 – Rs. 6.75 per unit*

- *Mar 2013 – Rs. 6.75 per unit*
- *Aug 2013 – Rs. 7.10 per unit*

CAGR from Apr 2010 to Mar 2013 is equal to 7.51%.

2. *We have assumed that same rate of escalation will continue in future.*
3. *We also contemplate an average 5% YOY increase in electricity unit consumption due to higher activity at airport*
4. *We request for a 100% true up of utility rates. The historical costs and its future forecast is as under: (All amount in Crs.)*

In Crores	*FY2013*	*Half Year Sept 2013*	*FY2014 (extrapolated)*
Net electricity cost	*95.96*	*63.45*	*126.90*

Conclusion:

Based on the aforesaid assumptions the forecast for the period starting from 2014-15 to 2018-19 is as under:

In Crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Net Electricity cost	*143.25*	*161.71*	*182.55*	*206.07*	*232.62*

Utility Cost - Fuel:

1 The fuel (HSD) rates historically have escalated on a CAGR of 25.28% p.a. during last two years.

- *Apr 2011 – Rs. 36.97 per litre*
- *Apr 2012 – Rs. 39.96 per litre*
- *Mar 2013 – Rs. 59.72 per litre*

2 We have assumed that same rate of escalation will continue in future.

3 We have also assumed that there will be a 5% y-o-y increase in consumption of fuel.

4 We request for a 100% true up of fuel rates.

The historical costs and its future forecast are as under:

INR in Crores	*FY2013*	*Half year – Sept 2013*	*2014 (extrapolated)*
Net Fuel cost	*2.16*	*1.21*	*2.42*

An overview of the forecast for the period starting from 2014-15 to 2018-19 is as under:

INR in Crores	*2015*	*2016*	*2017*	*2018*	*2019*
Net Fuel cost	*3.18*	*4.19*	*5.51*	*7.25*	*9.53*

"

17.12. DIAL submission regarding the summary of Operating Cost Forecast is as below:

"

In INR Crores	*FY 2015*	*FY 2016*	*FY 2017*	*FY 2018*	*FY 2019*
Manpower cost					
Salaries, wages and bonus	*121*	*130*	*140*	*150*	*161*
Operation support cost	*8*	*8*	*9*	*9*	*10*
Contribution to provident and other fund	*5*	*5*	*5*	*6*	*6*
Gratuity expense	*2*	*2*	*2*	*2*	*3*
Other post-employment benefits	*3*	*4*	*4*	*4*	*4*
Staff welfare expenses	*5*	*5*	*5*	*6*	*6*
Subtotal Manpower cost	*143*	*154*	*165*	*177*	*190*
Operating expenses	*FY 2015*	*FY 2016*	*FY 2017*	*FY 2018*	*FY 2019*
IT JV Expenses - Contracted	*70*	*69*	*123*	*91*	*6*
Airport operator fees	*117*	*145*	*161*	*179*	*198*
Repairs and maintenance	*150*	*164*	*177*	*190*	*203*
Manpower outsourcing charges	*45*	*48*	*52*	*56*	*60*
Housekeeping expenses	*45*	*48*	*52*	*56*	*60*
Security related expenses	*11*	*12*	*13*	*14*	*15*
Insurance	*12*	*13*	*14*	*16*	*18*
Water Charges	*15*	*16*	*18*	*19*	*21*
Consumables	*2*	*2*	*2*	*2*	*2*
Subtotal Operating expenses	*467*	*517*	*612*	*623*	*583*
Administrative Expenses	*FY 2015*	*FY 2016*	*FY 2017*	*FY 2018*	*FY 2019*
Professional and consultancy expenses	*88*	*93*	*97*	*102*	*107*
Travelling and conveyance	*13*	*14*	*15*	*15*	*16*
Rent	*8*	*8*	*8*	*9*	*9*
Advertising and sales promotion	*1*	*1*	*1*	*1*	*1*
Communication costs	*2*	*2*	*2*	*3*	*3*
Printing and stationery	*1*	*1*	*1*	*1*	*1*
IT related expenditure	*18*	*19*	*20*	*21*	*22*
Property Tax	*34*	*34*	*34*	*34*	*34*
Property tax – first control period	*89*	*0*	*0*	*0*	*0*

Other Admin Expenses	15	15	16	17	18
Other Finance Charges	5	5	5	5	5
Subtotal Administrative Expenses	274	192	200	208	216
Utilities cost	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Power charges	143	162	183	206	233
Fuel charges	3	4	6	7	10
Subtotal Utilities cost	146	166	188	213	242
Total Operating Cost	1030	1029	1165	1222	1232

17.13. DIAL's revised submission on 23.07.2014 regarding cost allocation is as below:

"Costs Allocation

a) Staff costs

The allocation of Manpower costs has been made based on activities undertaken by the respective departments. Auditors have certified the manpower in each department. The following allocation is based manpower employed as on 31st March 2014:

Department	*31-Mar-14 Manpower Number*	*Ratio of AERO*	*AERO Manpower Number*
Operations	422	100%	422
Commercial - Non-Aero	72	0%	0
*Finance & Accounts**	55	89.24%	49
*Security**	54	89.24%	48
*Quality, Service & Delivery**	12	89.24%	11
*Guest Relations**	23	89.24%	21
*Corporate Relations**	18	89.24%	16
*Corporate Communication**	9	89.24%	8
*Legal**	8	89.24%	7
*Project & Engg.**	28	89.24%	25
*IT**	19	89.24%	17
CPD	16	0%	0
*Ethics & Intelligence & GMRVF**	21	89.24%	19
*MAG**	5	89.24%	4
*BCM/CEO Office**	12	89.24%	11
*CBI/Business Integration & Planning**	18	89.24%	16
HR & FMS	31	91.65%	28
Baggage Screeners	431	100%	431
Trolley Operator	195	100%	195
Total Overall Allocation of HR Cost	1449	91.65%	1328

"b) Non Staff costs

The revised allocation of operating and administration expenses (based on 2013-14 operating expenses) has been independently verified by statutory auditors. The allocation of expenses, for the year ended March 31st 2014, into aeronautical and non-aeronautical as certified by the statutory auditors is as under:

Summary of Aero cost	*%*
Administration Expenses	
Aero	*89.68%*
Non Aero	*10.32%*
Operating Expenses	
Aero	*89.19%*
Non Aero	*10.81%*

"

17.14. DIAL's revised submission on 23.07.2014 regarding forecast of expenditure is as below:

"We have revised the forecast for the next control period based on the audited numbers of 2013-14. Following is a summary of the revised forecast:

In INR Crores	*FY 14*	*FY 14*	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Manpower Cost	*Earlier Submitted*	*Actual*	*Revised Projection*				
Salaries, wages and bonus	*113*	*107*	*119*	*128*	*137*	*147*	*158*
Operation support cost	*7*	*4*	*4*	*4*	*4*	*5*	*5*
Contribution to provident & other	*4*	*4*	*4*	*4*	*5*	*5*	*5*
Gratuity expense	*2*	*1*	*1*	*1*	*1*	*1*	*1*
Other post-employment	*3*	*3*	*3*	*3*	*4*	*4*	*4*
Staff welfare expenses	*4*	*5*	*5*	*6*	*6*	*7*	*7*
Subtotal Manpower cost	***133***	***123***	***136***	***146***	***157***	***169***	***181***
Operating expenses							

IT JV Expenses - Contracted	46	52	78	77	132	102	17
Airport operator fees	100	100	120	137	178	198	219
Repairs and maintenance	152	127	178	167	183	194	207
Manpower outsourcing charges	42	41	44	48	51	55	59
Housekeeping expenses	41	36	43	46	50	53	57
Security related expenses	11	12	13	14	15	16	17
Insurance	10	8	12	13	15	16	18
Water Charges	13	0.3	27	30	33	36	40
Consumables	2	3	3	4	4	4	5
Subtotal Operating expenses	**417**	**383**	**519**	**536**	**661**	**674**	**639**
Administrative expenses							
Professional & consultancy expenses	84	97	102	107	112	118	123
Travelling and conveyance	13	14	15	16	16	17	18
Rent	7	8	8	8	9	9	10
Advertising & sales promotion	1	5	5	6	6	6	6
Communication costs	2	2	2	2	2	2	2
Printing and stationery	1	2	2	2	2	2	2
IT related expenditure	18	8	8	9	9	10	10
Property Tax	34	61	34	34	34	34	34
Other Admin Expenses	14	26	28	29	31	32	34
Other Finance Charges	4		5	5	5	5	5
Subtotal Administrative	**178**	**223**	**208**	**217**	**226**	**235**	**245**
Utilities costs							
Power charges (net of solar)	127	104	116	131	143	157	179
fuel charges	2	2	3	4	5	7	9
Subtotal Utilities cost	**129**	**106**	**119**	**135**	**148**	**164**	**188**
Total Operating Cost	**857**	**835**	**892**	**1,034**	**1191**	**1242**	**1254**

17.15. DIAL's revised submission on 23.07.2014 regarding forecast of manpower expenses is as below:

"Manpower Cost

The manpower cost was INR 122.65 Crores for FY14. The forecasted figures for FY15 -19 have been updated based on the actual numbers of FY14.

INR crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*143.21*	*153.82*	*165.23*	*177.48*	*190.64*
Revised Submission	*136.14*	*146.24*	*157.08*	*168.73*	*181.24*

17.16. DIAL's revised submission on 23.07.2014 regarding forecast of operating costs is as below:

"Housekeeping Cost: The actual housekeeping cost was INR 36.14 crores For FY14. The forecasted figures for FY15-19 have been updated based on the actual numbers of FY14.

Further, we would like to inform the Authority that out of Additional House Keeping expenses, Delhi Pollution Control Board Committee fee was paid during FY2014. Rest all other Additional expense have been deferred and are expected to be incurred from FY2015 onwards.

In the earlier filing based on the half yearly numbers, we had forecasted the housekeeping cost as follows:

INR crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*44.92*	*48.24*	*51.79*	*55.65*	*59.80*
Revised Submission	*43.02*	*46.21*	*49.61*	*53.31*	*57.28*

Manpower outsourcing expenses: The Manpower outsourcing expense was INR 41.31 Crores for FY14. The forecasted figures for FY 15-19 have been updated based on the actual numbers of FY14. Revised Manpower outsourcing expenses for FY15-19 is as follows:

INR crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*44.87*	*48.14*	*51.71*	*55.54*	*59.66*

Revised Submission	44.37	47.66	51.20	54.99	59.07

Maintenance Cost:

The maintenance cost was INR 127.35 Crores for FY14. The forecasted figures for FY15-19 have been updated based on the actual numbers of FY14. Further, Additional maintenance cost projected in FY14 is shifted to the next financial year (FY15), because it could not be undertaken due to cash crunch. The revised forecast is as under:

INR crores	FY2015	FY2016	FY2017	FY2018	FY2019
Earlier Submission	134.61	146.21	156.25	166.76	177.14
Revised Submission	162.86	149.71	162.00	170.80	181.48

Maintenance Cost of Security equipment's: The forecasted maintenance cost of security equipment has not undergone any change. The revised submission is as follows:

INR crores	FY2015	FY2016	FY2017	FY2018	FY2019
Earlier Submission	15.07	17.50	21.05	23.12	25.39
Revised Submission	15.07	17.50	21.05	23.12	25.39

Maintenance Cost: Airport IT outsource cost:

IT Cost	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Total Subsistence	**157.27**	**154.87**	**183.15**	**186.59**	**244.98**	**218.47**	**138.21**
Non Cute revenue	16.63	16.63	16.63	16.63	16.63	16.63	16.63
Cute revenue	88.24	92.29	96.54	100.98	105.63	110.49	115.57
Projected revenue	104.87	108.93	113.17	117.62	122.26	127.12	132.20
IT Outsource exp.	52.40	45.94	69.98	68.97	122.72	91.35	6.01

Forecast working of IT Cost is revised based on 2013-14 financials is as under:

IT Cost (In Crores)	FY2013	FY2014
Subsistence as per agreement	157.27	153.93

Total Subsistence	*157.27*	*153.93*
[Non Cute revenue	*16.63*	*26.46*
Cute revenue	*88.24*	*75.55*
Total revenue of JV	*104.87*	*102.01*
Net Expenditure payable by DIAL to JV	*52.4*	*51.92*

Based on the above following is the IT (JV) cost forecast:

IT Cost (In Crores)	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Subsistence as per existing agreement	*165.15*	*150.59*	*150.18*	*123.67*	*43.41*
Addl. Subsistence as filed earlier	*18*	*36*	*94.8*	*94.8*	*94.8*
Total Subsistence	*183.15*	*186,59*	*244.98*	*218.47*	*138.21*
Revised Non Cute revenue	*26.46*	*26.46*	*26.46*	*26.46*	*26.46*
Revised Cute revenue	*79.03*	*82.66*	*86.46*	*90.44*	*94.6*
Total Projected revenue	*105.49*	*109.12*	*112.92*	*116.9*	*121.06*
Revised IT Outsource exp.	*77.66*	*77.47*	*132.06*	*101.57*	*17.15*

Security related expenses:

The Security related expense was INR 12.09 Crores for FY14. The forecasted figures for FY15 -19 have been updated based on the actual numbers of FY14. Revised Security related expenses for FY15-19 is as follows:

INR crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*11.34*	*12.18*	*13.09*	*14.06*	*15.10*
Revised Submission	*12.99*	*13.95*	*14.98*	*16.09*	*17.29*

Insurance Cost:

The insurance cost was INR 7.51 crores For FY14. The forecasted figures for FY15 -19 have been updated based on the actual numbers of FY14. Current insurance cost is based on revised capital expenditure and revenue numbers updated based on FY2013-14 numbers. Revised insurance cost for FY15-19 is as follows:

INR crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*12.04*	*13.12*	*14.37*	*15.81*	*17.53*
Revised Submission	*11.77*	*13.37*	*14.68*	*16.20*	*18.01*

Water:

Earlier Submission

INR crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*14.54*	*16.02*	*17.65*	*19.46*	*21.45*

New Submission

In our previous submission sewerage charge payable to DJB were not included. Now are updating the model for the aforesaid charges. These charges are 60% of water volumetric charges. So, we propose to incorporate correct rates for projecting for water charges.

ANNEXURE 9: DJB Water rate card

Based on the above following are the amounts forecasted towards water charges

FY	*Water demand per day*	*Yearly Water Volume MLD*	*Rate*	*Water Charges (INR crores)*
2014-15	*3MLD*	*1095*	*234.25*	*25.65*
2015-16	*3MLD*	*1095*	*257.68*	*28.22*
2016-17	*3MLD*	*1095*	*283.45*	*31.04*
2017-18	*3MLD*	*1095*	*311.79*	*34.14*
2018-19	*3MLD*	*1095*	*342.97*	*37.56*

However, there is some internal maintenance expenditure related to water and recoveries as well

Consumables:

The Consumables cost was INR 3.22 crores For FY14. The forecasted figures for FY15 -19 have been updated based on the actual numbers of FY14. Revised consumables cost for FY15-19 is as follows:

INR crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*1.83*	*1,96*	*2.11*	*2.26*	*2.43*
Revised Submission	*3.46*	*3.72*	*3.99*	*4.29*	*4.60*

17.17. DIAL's revised submission on 23.07.2014 regarding administrative expenses is as below:

Administrative cost: Property Tax:

Property Tax for 2013-14 was 60.92 Crores. Property tax forecast however remains the same, as submitted earlier.

INR crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*33.61*	*33.61*	*33.61*	*33.61*	*33.61*
Revised Submission	*33.61*	*33.61*	*33.61*	*33.61*	*33.61*

Other finance charges

The forecasted other finance charges have not undergone any change as submitted earlier

INR crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*4.65*	*4.67*	*4.65*	*4.65*	*4.65*
Revised Submission	*4.65*	*4.67*	*4.65*	*4.65*	*4.65*

Other administrative expenses:

Other Administrative expenses were INR 161.81 Crores for FY14. The forecasted figures for FY15-19 have been updated based on the actual numbers of FY14. Revised Other Administrative cost for FY15-19 is as follows:

INR crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*146.56*	*153.89*	*161.58*	*169.66*	*178.14*
New Submission	*169.90*	*178.40*	*187.32*	*196.68*	*206.52*

Utility Cost

Power cost: Earlier Submission

INR crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Net electricity cost	*143.25*	*161.71*	*182.55*	*206.07*	*232.62*

New Submission

Operating expense of Solar Plant:

As indicated earlier, we propose to set up solar power plant at IGI Airport, New Delhi. Following would be likely additional operating expenses for maintaining and operating these power plants.

FY15-16	*0.09*	*0.05*	*0.14*
FY16-17	*0.44*	*0.19*	*0.62*
FY17-18	*0.80*	*0.35*	*1.14*
FY18-19	*0.84*	*0.41*	*1.25*
FY15-16	*0.09*	*0.05*	*0.14*

Further, we estimate following savings on account of reduced electricity consumption

INR crores	*FY2014*	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Power cost	*104.38*	*117.83*	*133.01*	*150.15*	*169.50*	*191.34*
Solar operating cost		*0.14*	*0.14*	*0.62*	*1.14*	*1.25*
Solar Saving	*(0.47)*	*(2-13)*	*(2.13)*	*(8.09)*	*(13.42)*	*(13.42)*
Net Power cost	***103.91***	***115.84***	***131.02***	***142.68***	***157.22***	***179.17***

Fuel cost was INR 2.35 Crores for FY14. The forecasted figures for FY15-19 have been updated based on the actual numbers of FY14. Revised Other Administrative cost for FY15-19 is as follows:

INR crores	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*3.18*	*4.19*	*5.51*	*7.25*	*9.53*
New Submission	*3.09*	*4.07*	*5.35*	*7.04*	*9.26*

b Authority's Examination of Operating Expenses

17.18. The Authority had carefully examined DIAL's submissions regarding the components of operating expenses and noted DIAL's submission dated 11.11.2013 and its revised submission dated 23.7.2014.

17.19. The Authority noted from submissions by DIAL that, all its operating expenses have been grouped into seven heads. Of these seven heads, four heads namely, manpower, utilities, administration and other operating expenses have been independently analysed and divided into aeronautical and non-aeronautical components. As regards the three heads of Property tax, Payment to AAI for VRS and Airport Operator Fee, DIAL has applied weighted average of allocations of the initial four heads for distribution into aeronautical and non-aeronautical values.

17.20. The Authority had noted that DIAL has allocated manpower expense into aeronautical and non-aeronautical components based on the allocation of individual activities undertaken by the respective departments. The Authority was in receipt of the Auditor's Certificate that certifies the number of employees under each department. DIAL's submission on allocation of manpower expenses is reproduced as under:

"The departments dealing with Aeronautical activities have been taken at 100% Aeronautical cost, Non Aeronautical departments are considered at 0% Aeronautical and common departments have been allocated based on the asset ratio as certified by the Auditors."

17.21. The Authority had also noted the Auditor's Certificate submitted by DIAL which provides details of allocation of administration expenses and other operating expenses as per cost centres as on 31st March 2014. The Authority had noted that the allocation of administration expenses towards aeronautical activities has been submitted as 89.68% and that of other operating expenses towards aeronautical activities 89.19% in its submission dated 23.7.2014.

17.22. With regards to the allocation of utilities expense, the Authority noted DIAL's submission dated 15.04.2014 is as under:

"Further, all the Utility cost is net of recovery done from the utilities provided to Concessionaires and Business operators at the airport. And, DIAL does not undertake any Non-Aeronautical business activity. Hence, these costs should be 100% Aeronautical cost."

17.23. Additionally, the Authority had noted from the Tariff Model that DIAL has calculated the weighted average of the allocation of manpower, utilities, administration, and other operating expenses to aeronautical activities in FY2014-15, which DIAL has worked out to be 91.6%. This weighted average value has been considered by DIAL as applicable for allocation of airport operating fee, property tax and VRS payment to AAI towards aeronautical activities. However, the Authority noted that while DIAL's submission mentions 5 year average of overall mix, the number considered in the Tariff Model as submitted by DIAL is average for FY 2014-15 only. The 5 year average from the numbers submitted by DIAL in its Tariff Model works out to 91.25%.

17.24. These seven heads along with their values as per the first Control Period, as per DIAL initial submission and their updated values as of 31.04.2014 are as presented in Table 51 below:

Table 51: Difference in allocations of operating expenses considered by DIAL

Operating Expenses	Methodology of Allocation	Aero Allocation (As per Delhi Tariff Order No.03)	Aero Allocation (As per DIAL Submission 11th Nov 2013)	Aero Allocation (As per DIAL Submission 23rd July 2013)
Manpower cost	Analysis of Manpower	89.79%	91.38%	91.65%
Operating expenses	Department wise analysis	91.89%	89.03%	89.19%
Administration expenses	Department wise analysis	70.28%	89.48%	89.68%
Utilities cost	Net cost of utilities	100.00%	100.00%	100.00%
Property tax	Overall Operating ratio	87.54%	91.38%	91.25%
Airport operator fee	Overall Operating ratio	87.54%	91.38%	91.25%
AAI - VRS Payment	Overall Operating ratio	87.54%	91.38%	91.25%

17.25. The Authority had deliberated on the matter of change in allocation for the forecasted values as submitted by DIAL as compared to the allocation as accepted by it for first Control Period in its Delhi Tariff Order 03/2012-13 and had asked DIAL to provide justification and reasoning for the change in allocation of its operating expense for each head independently. DIAL responded to the query as given below

"DIAL has followed the same methodology as done during the 1st Control Period. The following methodology was adopted:

1. *First the total expenses of each department like Operations, Maintenance, etc. have been identified.*

2. *Thereafter each and every expense of that department has been identified at activity level (fund centre). In this exercise the expenses have been identified and related to various activities like airside expenses, terminal expenses, runway lighting expenses, procurement expenses etc.*
3. *Thereafter the activities are allocated amongst aero and non-aero based on following principles:*
    a. *The activities which can be directly attributable to aero assets have been classified as aero like operation and maintenance of runways and taxiways etc.*
    b. *The activities which can be directly attributable to non-aero assets have been classified as non-aero like commercial/retail promotions etc.*
    c. *Terminal costs have been allocated based on the area mix for the respective terminal as certified by M/s Jacobs Consultancy into aero and non-aero.*
    d. *Remaining unallocated common expenses of support functions like finance and accounts, legal, corporate communication, corporate relation, CEO office etc. have been allocated based on the overall asset value allocation as mentioned in the foregoing section. "*

17.26. The Authority had examined the submission of DIAL, but the Authority found that the response does not provide the reasons for change in allocations of individual heads. Further, the Authority was not persuaded to accept the arguments in DIAL's submission with respect to need for change in the allocation percentages for the second Control Period. Hence, the Authority proposed to consider allocation of operating expenses for the second Control Period as per its Delhi Tariff Order 03 / 2012-13 in respect of tariff determination the first Control Period.

17.27. The Authority had also noted that Payment to AAI for VRS as an expense has been allocated by DIAL at the weighted average value of the operating expenses and the same was considered by the Authority in its Delhi Tariff Order 03 / 2012-13. The Authority had reconsidered its approach and is of the opinion that VRS expense is on account of manpower and its related costs and accordingly proposed to consider the allocation of VRS payment to AAI into aeronautical and non-aeronautical components at the rate of allocation of manpower costs in the second Control period.

17.28. As regards the allocation of Airport Operator Fee into aeronautical and non-aeronautical components, the Authority noted that there can be two approaches. One of these approaches would be to consider the weighted average ratio of 87.54% for allocation of Airport Operator Fee into aeronautical and non-aeronautical components for the second Control Period. The second approach would be to consider 3% of aeronautical revenue as aeronautical component of Airport operator Fee as the Airport operator fee paid by DIAL is at 3% of Gross revenue of Airport. Accordingly it would be appropriate to apportion the Airport operator Fee between Aeronautical and non-aeronautical cost in the ratio of their respective revenues. The Authority had sought stakeholder comments on these two approaches. The difference in Airport operator fee for the second control period based on both of these approaches is as given in the table below:

Table 52: Table Representing Difference in Airport Operator Fee Based on the Two Approaches

	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
Airport Operator Fee (3% of Aero Revenue)	84.87	76.73	31.68	35.09	38.88
Airport Operator Fee (3% of Gross Revenue allocated at 87.54%))	105.18	98.21	62.25	68.36	74.84

17.29. For the time being, the Authority has considered 3% of aeronautical revenue as aeronautical component of Airport operator Fee.

17.30. The cost allocation considered by the Authority is as below,

Table 53: Allocation of Operating Costs between aeronautical and non-aeronautical as considered by the Authority for the second Control Period in Consultation Paper No. 16/2014-15

Operating Expense Head	Proposed Aero Allocation
Manpower cost	89.79%
Operating expenses	91.89%

Operating Expense Head	Proposed Aero Allocation
Administration expenses	70.28%
Utilities cost	100.00%
Property tax	87.54%
Airport operator fee	3% of Aeronautical Revenue as defined under OMDA
AAI - VRS Payment	89.79%

Observation on DIAL's argument on FY 2012-13 and FY 2013-14 not being representative years

17.31. With regards to DIAL's claims regarding paucity of funds and lower than optimum spending on operating expense, the Authority noted that it had commissioned a study on efficient costs with respect to DIAL by ICWAI. The submissions from ICWAI state that the costs incurred by DIAL in FY 2012-13 are efficient costs. Accordingly the Authority had proposed to consider the operating costs for the year FY 2012-13 as efficient in case of DIAL. The Authority had also noted from the actual operating costs incurred by DIAL in FY 2013-14 that these costs are higher by a differential equivalent to inflation plus 0.97%, as explained in para 17.67 below. Thus the Authority proposed to consider operating costs of FY2013-14 as reasonable.

Observation on DIAL submission on Manpower Cost

17.32. The Authority had noted from DIAL submissions that the total manpower cost during FY2012-13 and FY2013-14 is Rs. 123.72 crore and Rs.122.65 crore respectively and was in receipt of the Auditor's Certificates on the same. The Authority noted DIAL's rationale for increment in manpower and manpower expenses. The Authority also noted DIAL's clarifications vide its submission dated 07.04.2014 that additional manpower of 165 persons included 92 for Baggage Screening and 73 for Trolley Operations as per regulatory orders. Given that the expense is of mandatory nature on account of regulatory requirements, the Authority proposed to accept DIAL's submission on the additional manpower cost for the second Control Period.

17.33. The Authority had also noted that DIAL has assumed a 5% year-on-year real increase in salaries and wage costs on account of attrition levels and competitive environment. DIAL had also asked for an increase for CPI over this value. While the

Authority noted the justification submitted by DIAL, it was not persuaded to allow a 5% year-on-year real increase in salaries and wage costs at the outset.

Airport Operator Fee

17.34. The Authority was in receipt of Auditor's certificate that the Airport Operator fee paid by DIAL for FY2012-13 was Rs. 45.92 crore and for FY2013-14 was Rs. 100.07 crore. The Authority referred to the provisions of the Airport Operator Agreement signed by DIAL with Fraport AG Frankfurt Airport Services Worldwide in this regard and noted that the Agreement provides for payment of Airport Operator Fee in a year at 3% of Gross Revenue realized by DIAL as defined under OMDA during the previous year. However an alternate approach has been considered by the Authority pending stakeholder consultation as discussed in para 17.27 above.

17.35. As regards the revenue to be considered for calculation of Airport Operator Fee, the Authority had determined such revenue based on the X factor proposed by it. Considering that the actual revenues in the second Control Period may be different from those considered by the authority, the Authority proposed to true up the amount of Airport Operator Fee as actual paid for the 2nd Control Period at the time of determination of tariffs for the 3rd Control Period based on the final approach followed by DIAL.

Other Maintenance and Operating Expenses

Housekeeping costs

17.36. The Authority was in receipt of auditor's certificates certifying the value for housekeeping costs incurred during FY2012-13 and FY2013-14 as well as the contract period, contracted sum, last month payment along with the contractual cost for next control period for all the existing contracts. The Authority had noted that it comprises of costs on account of existing long term service contracts, renewal of long term service contracts, recurring annual costs and other costs and forecast of increase of such expenses.

17.37. The Authority had noted that DIAL expects housekeeping costs under long term contracts to increase due to inflation and increase in operations and maintenance cost and accordingly DIAL has considered escalation of 20% on renewal of existing contracts and 5% per annum in recurring annual costs as well as the other costs. IN Authority's view no significant increase appears to be required in resources for housekeeping and maintenance activity and the increase proposed by DIAL appears to be high. However, DIAL justified that it has planned to incur an additional expense on this account to provide for – Delhi Pollution Control Board Committee, Inter Terminal Bus Service, deep cleaning machine, bird hazard mitigation and wild life management and NOC fire certificate. As these activities pertain to safety and security related aspects, the Authority proposed to consider the expenditure planned for these activities for the year FY2014-15 and apply 8% rate of increase per year for this component of housekeeping costs as explained in para 17.70 below.

Repair & Maintenance

17.38. The Authority had noted the DIAL submission regarding Repairs and Maintenance expenses which includes actual value of existing long term contracts, projected value of long term contracts upon renewal, recurring annual costs, additional expenses and maintenance expenses towards security related equipment.

17.39. The Authority was in receipt of the Auditor Certificate on the break-up of operating expenses.

17.40. The Authority had noted from the Tariff Model submitted by DIAL that value of repairs & maintenance costs under long term contracts is expected to increase due to inflation, increase in operations and maintenance cost under this category and that DIAL has considered an escalation of 20% on renewal of existing contracts, 5% per annum in recurring annual costs and 7.415% per annum in other costs without including the inflationary growth.

17.41. The Authority had noted DIAL submission regarding projections of maintenance expenses towards security related equipment. It had also noted that these expenses were being considered by DIAL as operating expense towards determination of aeronautical tariff rather than towards PSF (Security Charge) Accounts. The Authority has noted from the Tariff Model that these are included under the Repairs and

Maintenance Additional expenses category. The Authority proposed to accept these expenses towards determination of aeronautical tariff.

Security Related Expenses

17.42. The Authority had noted from the Tariff Model submitted by DIAL that security related expenses have been considered at Rs. 11.43 crore and Rs. 12.09 crore in FY2012-13 and FY2013-14 respectively. The Authority had sought Auditor's Certificate for the same and is now in receipt of this certificate. The Authority had noted from the Tariff Model that these expenses are expected by DIAL to increase at 7.415% per year in the second Control Period.

17.43. The Authority has noted that DIAL's submission regarding security related maintenance expenditure is based on the assumption that these will not be allowed as part of PSF (Security Charge). The Authority proposed to consider these expenses towards determination of aeronautical tariff.

17.44. The Authority had noted from the Tariff Model that Manpower Outsourcing expenses were to the tune of Rs. 41.41 crore and Rs. 41.31 crore in FY2012-13 and FY2013-14 respectively. The Authority had sought Auditor's Certificate for these numbers and is in receipt of the same. The Authority had noted from the Tariff Model that the projections for these expenses during the second Control Period are based on a 7.415% increase per annum. However, as discussed in para 17.71 below, the Authority had considered this component to increase at 8% per annum in the second Control Period.

IT JV Expense

17.45. The Authority had noted that DIAL has incorporated a JV with Wipro to provide IT services at IGI Airport, Delhi. The Authority understood from DIAL submissions that the net of (a) revenue from IT JV (sum of CUTE and Non-CUTE revenue) and (b) expenses towards the IT JV is the amount considered by DIAL as net expense (called as subsistence cost) on account of IT JV. The Authority was in receipt of the Contract Agreement between DIAL and Wipro providing monthly service charges for July 2010 – March 2020 period. It had also noted the details on proposed capital expenditure to be incurred by IT JV and the consequent amount payable towards repayment of loan and interest costs.

17.46. The Authority noted from the IT JV contract that, the subsistence cost to be paid by DIAL to the JV includes the repayment liability of JV towards the capital cost and interest cost of the Capex incurred by the JV as well as other expenditures of the JV. The Authority was in receipt of the Auditor's Certificate certifying the net IT JV expense in FY2012-13 and FY2013-14.

17.47. The Authority had noted from the Tariff Model that the Non CUTE revenues were Rs. 16.63 crore in FY2012-13 and then increased to Rs. 26.46 crore. These are expected to remain unchanged at Rs. 26.46 crore in the second Control Period and CUTE revenues are expected to increase at 4.6% per year in the second Control Period.

Insurance Costs

17.48. The Authority had noted DIAL's submission regarding its insurance costs related to its insurances policies for - Property Damage, Business Interruption, AOL/3rd Party Liability Policy and Terrorism Policy. The Authority had sought the Auditor Certificate for these numbers for FY2013-14 and the Authority was in receipt of the same. The Authority had noted from the Tariff Model that insurance cost for AOL/3rd party liability is given as the actual expense on this account in FY2012-13 and for the other 3 categories, namely Property Damage, Business Interruption and Terrorism Policy has been calculated as a % of gross block, gross revenue and % of sum of gross revenue and gross block respectively.

17.49. The Authority had also noted from the Tariff Model that the respective rates have been increased by 10% every year during the second Control Period. The Authority was in receipt of clarification by DIAL submitted on 07.04.2014 that mentions that the future forecast of Insurance is calculated based on the asset base, past experience and the likely rates of insurance in the future, providing details of the computation. The Authority had also noted from the Tariff Model that there is a Miscellaneous Insurance cost expense included under the total Insurance cost expense. This is projected by DIAL to increase at 7.415%.

Water Charges

17.50. The Authority had noted DIAL submission that FY2012-13 numbers for water charges are not representative of the true cost of water due to shortage of supply as well as the internal maintenance expenditure related to water and recoveries. The Authority had noted from the Tariff Model that there are water charges associated with DJB and additional supply and recoveries, provided for FY2012-13 and FY2013-14. The Authority had then sought Auditor's Certificate for these numbers. The Authority was in receipt of the Auditor's Certificate certifying the total charges for water from DJB and additional supply and the recoveries. Regarding future projections of water charges, DIAL had provided the following clarification in its submission dated 07.04.2014,

> *"However, we would like to clarify that the future forecast of Water charges is not based on the actual expense for FY2013-14. The water charges are calculated based on likely usage and the applicable rates as prescribed by DJB."*

17.51. The Authority had noted from DIAL submissions that DIAL has a demand of 3 MLD of water on daily basis, however the amount being currently supplied to DIAL is much less. The Authority further noted that DIAL has been efficiently managing its operations with the existing level of water supply. The Authority has considered the submission from DIAL that DIAL is in discussions with DJB for ensuring a supply of 3 MLD per day. In absence of any confirmation from DJB as on date and considering the requirements of DIAL, the Authority proposed to consider the growth in volume of water consumption at IGI Airport, Delhi at the same rate as that of growth in passenger traffic. Additionally the Authority noted from DIAL submission that the tariff for water supply is proposed to be increased at 10% per annum and the Authority proposed to consider the same in its projection of water expenses along with the increase on account of volume growth for IGI Airport, Delhi.

Administrative Expenses

17.52. The Authority had sought Auditor's Certificate for each of the sub-heads under Administration costs for FY2012-2013 and FY2013-14. The Authority was in receipt of the same. The Authority had noted from the Tariff Model and DIAL submission in

Para 17.10 that for categories other than "Other Administrative Expenses", Property Tax and Other Finance Charges, the projections for the second Control Period are based on the assumption that these costs will increase at a real rate of 5% per annum through the period.

Property Tax

17.53. The Authority had noted from DIAL's submission that it is required to pay property tax to Municipal Corporation of Delhi (MCD) and Delhi Cantonment Board (DCB). The Authority has also noted from the Auditor's Certificate that the property tax paid in FY2013-14 was Rs. 6.94 crore and DIAL made provision for Rs. 53.65 crore as cumulative provision towards property tax. Further, the Authority has noted that DIAL has considered Rs. 33.61 crore towards property tax in each year of the second Control Period. In response to a clarification from the Authority, DIAL responded as under,

"DIAL has to pay property tax to:

1. Municipal Corporation of Delhi (MCD); and

2. Delhi Cantonment Board (DCB).

The amount of property tax as per Demand Notices raised by MCD is Rs. 22.18 Crore per annum (For F.Y 2012-13), and same were submitted to Authority along with the Tariff proposal submitted on 10th November 2013 (as Annexure N). The future projections are based on same amount only.

A notice has been received from the DCB for payment of property tax. The methodology and valuation for property tax is not firmed up but based on the principles applied in case of MCD, the amount payable has been calculated on a proportion basis. It is assumed that same principles, rates and classifications as adopted by MCD will be used by DCB.

Therefore at this stage we have considered approx. Rs. 33.61 Crores annually based on the demand of MCD. This forecast of property tax is subject to true up."

17.54. The Authority found that the property tax of Rs. 33.61 crore projected by DIAL in each year of the second Control Period was considerably higher than the property tax actually paid by DIAL in the last two years of the first Control Period. Further, as property tax to be paid by DIAL is a mandatory expense governed by regulatory determination by MCD and DCB, the Authority proposed to consider the property tax actually paid by DIAL in a recent year as property tax liability for each year of the second Control Period for the purpose of determination of aeronautical tariffs. Accordingly, the Authority proposed to consider the property tax paid by DIAL in FY2013-14 of Rs. 6.94 crore to be considered in each year of the second Control Period.

17.55. Further the Authority had sought Auditor's Certificate certifying the split between property tax paid on airport infrastructure assets and non-transfer assets of DIAL. The Authority proposed to consider property tax paid by DIAL on airport infrastructure assets only towards computation of ARR. In response to a clarification, the Authority was in receipt of a confirmation from DIAL that *"the actual payment in FY2013-14 and projections does not include tax levied on Non Transfer land and assets"*.

17.56. Furthermore, the Authority proposed to true-up these values as per actual property tax paid by DIAL in each year of the second Control Period at the time of determination of aeronautical tariff for the third Control Period. The Authority will also appropriately consider any property tax, which DIAL would have recovered from or which was borne by third party on behalf of AAI / DIAL as per respective contractual arrangements.

Electricity & Fuel Costs

Power

17.57. The Authority had sought Auditor's Certificate for Utility costs for FY2013-14 and was in receipt of the Auditor's Certificate certifying the respective values for power expenses (net of recovery) and fuel charges.

17.58. The Authority noted DIAL's submission regarding increase in electricity rates at 7.51% CAGR from April 2010 to March 2013. The Authority also noted DIAL's assumption that these rates will continue to increase at 7.51% per annum over the second Control Period in addition to an increase at 5% per annum in the consumption on account of higher activity at the airport resulting in projected increase of 12.89% per annum in electricity expense.

17.59. As regards the electricity expense, the Authority proposed to account for the actual cost of electricity billed by the concerned regulatory authority. The Authority also proposed to adjust any electricity cost recovered from or to be borne by third party for consideration towards determination of ARR.

Fuel Costs

17.60. The Authority had also noted DIAL's submission regarding the increase in fuel rates at a CAGR of 25.28% between April 2010 and March 2013. The Authority had also noted DIAL's submission that fuel rates are projected to increase at this rate over each year in the second Control Period in addition to the projected increase in the consumption of fuel at 5% per year resulting in 31.54% increase in expense on account of fuel.

17.61. The Authority noted the submissions from DIAL on requirement of fuel for running DG sets and motor transport. The Authority found the increase considered by DIAL at 31.54% in projection of fuel expense on the higher side.

VRS Payment

17.62. The Authority noted that DIAL, in its submissions, considered VRS payment to AAI as an operating expense with 91.6% allocation towards aeronautical activities. The Authority was in receipt of a letter forwarded by DIAL from AAI dated 19.07.2011, providing the monthly VRS payments or Retirement Compensation Claim for the period May 2009 to April 2019. The Authority is also in receipt of computation of annualized VRS payment schedule from the above monthly schedule which is given below,

Table 54: Schedule for VRS payments from DIAL to AAI

Annualised Figures	*1-Apr-10*	*1-Apr-11*	*1-Apr-12*	*1-Apr-13*	*1-Apr-14*	*1-Apr-15*	*1-Apr-16*	*1-Apr-17*	*1-Apr-18*	*1-Apr-19*	*1-Apr-20*	*1-Apr-21*
	31-Mar-11	*31-Mar-12*	*31-Mar-13*	*31-Mar-14*	*31-Mar-15*	*31-Mar-16*	*31-Mar-17*	*31-Mar-18*	*31-Mar-19*	*31-Mar-20*	*31-Mar-21*	*31-Mar-22*

Annualised Figures	1-Apr-10	1-Apr-11	1-Apr-12	1-Apr-13	1-Apr-14	1-Apr-15	1-Apr-16	1-Apr-17	1-Apr-18	1-Apr-19	1-Apr-20	1-Apr-21
VRS Payments (in Crores)	20.10	19.68	19.38	19.07	18.72	18.26	17.61	17.07	16.48	1.36	0.00	0.00

"

17.63. The Authority noted that VRS has been capitalized in the books of DIAL as an intangible asset. The Authority, vide Decision no 7.a. of its Delhi Tariff Order 03 / 2012-13, decided to expense out VRS based on the actual payments made by DIAL instead of the proposed schedule. However, for projections during the second Control Period, the Authority proposed to consider the schedule of VRS payments as submitted by DIAL which itself is based on the VRS schedule presented above. The Authority also proposed to true it up based on the actual payments made by DIAL during the second Control Period and not merely as per the scheduled originally decided.

Study on Efficient Operation and Maintenance Cost

17.64. In order to determine the efficient operating and maintenance costs of IGI Airport, Delhi, the Authority had commissioned an independent study by ICWAI. The Authority was in receipt of a letter from ICWAI that states that *"the Authority may take the operating and maintenance expenses incurred for the FY 2012-13 as the costs for efficient operation in the formulating the consultation paper for the next control period."* This is discussed in detail in Para 6.22 above.

17.65. The Authority also noted that the terminal was commissioned by DIAL in FY 2010-11 and operations at the terminal have stabilized by now and accordingly actual operating expense for DIAL for FY 2012-13 reflects the operating requirements of the airport. IGI Airport has witnessed moderate increase in the passenger growth and there has not been any considerable expansion of its terminal or other facilities. Based on the ICWAI study and the above, the Authority was of the view that operating costs for FY 2012-13 are the efficient operation and maintenance cost.

17.66. The Authority had noted from DIAL submissions that the actual values for operating expenses for the first Control Period materialized as follows,

Table 55: Actual Aeronautical Operating Expenses for DIAL for first Control Period as per Auditor's Certificate

INR crore	2009-10	2010-11	2011-12	2012-13	2013-14
Staff Cost	91.28	125.11	128.05	111.08	110.12
Administrative & General Expenses	60.04	86.24	106.19	95.88	108.13
Electricity & Water Charges	31.21	61.29	86.89	98.17	106.54
Operating Expenses	113.12	178.06	193.06	227.06	260.01
Sub-total	**283.20**	**450.61**	**514.19**	**532.20**	**584.80**
Growth , y-o-y%		**59.12%**	**14.11%**	**3.50%**	**9.88%**
Average growth p. a, %	**21.65%**				
Payment to AAI for VRS	71.83	29.38	43.26	17.40	17.12
Interest on DF expensed	0	0	162.12	0	0
Airport Operator Fee	13.01	15.38	17.61	18.91	68.00
Property Tax	0.00	0.00	13.13	1.21	6.07
Total Operating Expenses	**368.03**	**495.37**	**750.31**	**569.72**	**676.00**

Note: The numbers in this Table are derived after allocation of respective expenses into aeronautical component.

17.67. The Authority noted that the operation and maintenance cost for FY 2013-14 worked out to Rs. 584.80 crore, which is an increase of 9.88% over FY 2012-13. Considering that the inflation in FY 2013-14 was 9.50%[3], the real increase in operating expenses from FY 2012-13 to FY 2013-14 works out to less than 1%. Thus the Authority considered the actual operating costs for FY 2013-14 as reasonable and appropriate as the base for projection of operating costs for the second Control Period.

17.68. As regards the growth rate to be considered for projection of this efficient operation and maintenance cost for the second Control Period, the Authority had noted that the actual growth rates in the first Control Period turned out to be significantly different from what was projected.

17.69. The Authority noted from DIAL revised submission on the second Control Period projections that the average growth for the operating expenses (aeronautical) projected by DIAL for the second Control Period is 8.51%, which does not include inflation. DIAL projected year to year increase in expenses as well as asked for increase in CPI inflation on yearly basis. This growth rate (8.51%), including inflation

[3] CSO Release 30th May 2014

as per RBI projections of 6.6%, would work out to 15.67%. On account of fluctuations in growth rates as well as need for maintaining efficiency in operations, the Authority was not persuaded to accept DIAL's projections.

17.70. On balance, the Authority proposed to consider annual growth rate of 8% for each sub-head of the operating costs including projected inflation at 6.6% (Average CPI-IW forecast for FY 2014-15 to FY 2018-19 as per RBI Survey of Professional Forecasters on Macroeconomic Indicators 30th round) with a headroom (real increase) of 1.4%. This real increase is more in line with the past trends at DIAL. The overall growth of 8% proposed to be considered for projection of operating expenses was expected to take into account the requirements of operational and maintenance needs. This growth rate was proposed to be applied on the efficient operation and maintenance cost for IGI Airport. As presented in para 17.67 above, the Authority proposed to consider the actual costs for FY 2013-14 as the base for projection of operating expenses for second Control Period.

17.71. However, the Authority, proposed to consider a 10% increase in manpower costs as discussed in para 17.33 above instead of 8% as considered for the remaining heads as given above.

17.72. The above approach was proposed to be followed for all sub-heads of operating expenses except for VRS expense, Property tax and Airport Operator Fee. For VRS expense, the Authority proposed to consider the values as per payment schedule agreed upon by AAI and DIAL, as presented in Table 54.

17.73. Similarly, the Authority had proposed to consider Property tax at Rs. 6.94 crore as per DIAL submission of actual property tax paid in FY2013-14, in each year during the second Control Period, as this is of statutory nature and is not driven by inflation. Considering the disagreement between DIAL and MCD ("DIAL has paid the property tax under protest") and in absence of settlement of any statutory dues for property tax owed by DIAL to MCD, the Authority proposed to provide a true-up as per actual property tax paid by DIAL in the second Control Period at the time of tariff determination for the next Control Period.

17.74. Based on the adopted allocation of costs, the Authority proposed to consider the operating expenses of DIAL for the second Control Period to be as below.

Table 56: Aeronautical Operating Expenses considered by the Authority for the 2nd Control Period (2014-15 to 2018-19) in Consultation Paper No. 16/2014-15

INR crore	2014-15	2015-16	2016-17	2017-18	2018-19
Airport operator fees (Only Aero)	84.87	76.73	31.68	35.09	38.88
Manpower cost	125.09	137.60	151.36	166.49	183.14
Operating expenses	286.50	309.40	334.13	360.84	389.67
Administration expenses	120.05	129.41	139.49	150.38	162.15
Property tax	6.08	6.08	6.08	6.08	6.08
Utilities cost	113.28	122.50	126.98	132.92	144.65
Payment to AAI for VRS	16.81	16.39	15.81	15.32	14.79
Total	**752.68**	**798.10**	**805.52**	**867.13**	**939.36**

17.75. The Authority was of the view that second control period being the first complete control period of stabilised operations can have a significant impact on how the operating costs evolve. DIAL had also submitted that it has postponed certain expenses to the second Control Period on account of paucity of funds and accordingly the Authority inferred that the efficiency levels for DIAL may have to be relooked at the end of second Control Period. Schedule 1 of SSA requires the Authority to consider efficient operation and maintenance costs towards determination of aeronautical tariff.

17.76. Accordingly the Authority proposed to commission an independent study to assess the efficient operating costs of IGI Airport, Delhi for the second Control Period and to true-up the operating costs, based on the findings of the study, at the time of determination of tariff for the third Control Period.

17.77. The Authority proposed to true-up at the time of determination of tariff for the third Control Period (a) mandated costs incurred due to directions issued by regulatory agencies like DGCA; (b) All statutory levies in the nature of fees, levies, taxes and other such charges by Central or State Government or local bodies, local taxes/levies, directly imposed on ~~and paid~~ for by DIAL on final product/ service provided by DIAL. Furthermore, any additional payment by way of interest payments, penalty, fines and other such penal levies associated with such statutory levies, which DIAL has to pay for either any delay or non-compliance, the same would not be trued up.

c Stakeholder Comments on Issues pertaining to operating expenses

17.78. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders including IATA, VistaRa, APAO, CII, MIAL, Air India etc. in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No 16/2014-15 dated 28.01.2015. Comments with respect to operating expenses are presented below.

17.79. Regarding cost allocation, APAO commented as below,

> *"AERA proposes to consider the old allocation ratio for arriving at the aeronautical portion of the Operating Expenses*
>
> *i. In the Consultation Paper, AERA has noted that DIAL has not provided the reasons for change in allocations of individual heads in the operating cost and as a result it has not considered the new allocation ratio.*
>
> *ii. AERA may notice that DIAL has submitted the new operating cost allocation ratio based on the same underlying principles which were used to determine the operating allocation ratio for the 1st Control Period. This was further certified by the statutory auditors.*
>
> *APAO Recommendation:*
>
> *APAO feels there is enough evidence produced before AERA that it may consider the actual ratio based on the realistic circumstances. There is strong rationale to rely on the new numbers duly certified by the auditors, provided to AERA."*

17.80. Regarding cost allocation, FIA has presented that,

> *"81. It is to be noted that allocation ratio for operating expenses proposed by Jacobs Study for the 1st Control Period has been considered by the Authority for the 2nd Control Period. This study was commissioned by DIAL and hence it*

cannot be considered as an independent study. It is submitted that the allocation of expenses should be considered on the basis of independent study by consultants. FIA has computed target revenue for change in share of aeronautical vs non-aeronautical expenditure, Sensitivity analysis indicated that if ratio of aero to non-aero expenditure changes to 80:20, target revenue will reduce by 2%."

17.81. CII's comments regarding cost allocation are as below,

"Operating Cost Allocation.

Background: AERA proposes to use allocation ratio used in the 1st control period for the segregation of operating expenses into aeronautical and no aeronautical.

DIAL has submitted operating cost allocation on the same principles for the 2nd control period. The new allocation study is based on the actual figures and is duly audited.

CII request: The allocation as adopted in first control period may kindly be maintained.

Airport Operator Fee.

Background: AERA, in first control period had allowed allocation of airport operator fee based on overall allocation ratio of operating expenditure. Now AERA proposes to change this based on revenues of aero and non-aero.

Internationally no allocation is being done based on revenue. This will send wrong signals to investor on regulatory uncertainty.

CII request: The allocation as adopted in first control period may kindly be maintained. This is necessary to ensure economic viability of DIAL. This is also important to send positive message to investor community that there is regulatory uncertainty."

17.82. CII's comments regarding Property Tax and Water Supply are as below,

"Property Tax:

Background: AERA proposes to allow property tax to the extent actual payment made by DIAL. The demand of property tax on the other hand is higher.

CII request: It's requested that the Property Tax forecast as done by DIAL be allowed with provision for true up based on actual spend.

Water Supply Payment:

Background: AERA wants to allow water charges based on past payment wherein the major supply was from ground water. This will lead to a lower opex being allowed and DIAL will be short of cash.

CII request: The water forecast as done by DIAL based on the supply commitment of DJB be allowed with provision for true up based on actual spend."

17.83. ACI's response to the projections considered for the operating expense in the second Control Period is as stated below,

"Operating Expenditure (Opex): A very low growth in opex forecast is considered. It is questionable to assume that aeronautical operating expenses will not even grow in commensurate with growth in inflation. It is recommended that a higher growth rate of operating expenditure is allowed, in order to ensure the proper maintenance and repair of infrastructure to ensure safe airport operations."

17.84. AOC's comments on the opex projections for the second control period are as stated below,

"The approach from DIAL with regards to costs and revenues are unrealistic – and consistently argued in favour of the airport operators. While costs should rise not only drastically due to contract renegotiations, other extraordinary elements and also with inflation added on top; revenue increases are subdued in a manner that not even inflation increments per year are possible. In other words, while costs are planned to rise at least with inflation and in most categories much higher than the rate of inflation, revenues are falling in real terms. Furthermore, the whole document is missing a robust analysis and

justification on the percentile of cost increase - often it is simply a stated number (5%) which is then applied indiscriminately without logic and objectivity."

17.85. The AOC adds that,

"5) There are many other items where increases in costs are stated simply as "assumed" or "envisaged" or for the unjustified reason that "costs are on the rise". Proper justification has to be provided, otherwise cost increases must not be considered.

6) Authority's proposal to consider the expense incurred by DIAL towards inline screening and associated manpower costs for the first and second control period must be relooked into and we propose that this expense be borne out of the PSF Security Component and not to be added up as DIAL's expense citing MoCA's directives."

17.86. APAO's comments on projections for the operating expenses for the second control period are as stated below,

"i. The Authority has proposed 5.2% year on year growth in Aeronautical Operating Expenses for the second control period

ii. The projections are unjustifiably low. The proposed growth in Operating expenses is almost half of the actual inflation witnessed during the 1st control period at 10.13%, year on year inflation during the 1st Control Period is as follows:

Year	*Inflation Rate*
2010	*11.80*
2011	*10.28*
2012	*8.42*
2013	*10.43*
2014	*9.71*
Average	*10.13*

iv. As covered in the Para 17.80 of the CP, where AERA has commented on the true up of operating cost, it has said that, *The Authority notes that the operation and maintenance cost for FY 2013-14 comes to Rs. 584.80 crore, which is an increase of 9.88% over FY 2012-13. Considering that the inflation in FY 2013-14 was 9.50% the real increase in operating expenses from FY 2012-13 to FY 2013-14 works out to less than 1%. Thus the Authority considers the actual operating costs for FY 2013-14 as reasonable and appropriate as the base for projection of operating costs for the second Control Period*

APAO Recommendation: APAO is of opinion that AERA may consider the projection as filed by DIAL. This could provide some respite for DIAL in meeting the increased operating cost in the 2nd Control Period."

17.87. CII's comments regarding opex projections for the second Control Period are as below,

"Very Low real increase in the operating expenses.

Background: AERA has proposed to allow a meager 1.4% real increase (+ CPI) on operating expenses. The facility at airport is getting old and its repair, maintenance and administration need higher operating cost. Most of the equipment at airport is outside warranty, the spare parts cost is also likely to increase substantially.

With such low operating expenditure, the airport will not be able to maintain the standards as prescribed under the concession agreements.

CII request: The operating cost forecast as done by DIAL be allowed."

17.88. FIA's comments regarding opex projections are as below,

"Without considering Past Trends, Allocation, Productivity Improvements and Cost Drivers, the Authority has determined Operating Expenditure on a very broad basis

73. It is further submitted that the Authority has considered the Operating Expenditure on a broad basis without basing past trends, productivity improvements and cost drivers and considering a technical evaluation. As per Proposal of, the Authority has considered actual operating and maintenance *costs for FY2013-14 as the base for projection of operation and maintenance costs for the 2nd Control Period. Also, the Authority has proposed to adopt an average growth rate of 8.0% (based on inflation of 6.6% per annum and headroom in real growth of 1.4%) for projection of the operation and maintenance costs for the 2nd Control Period except for manpower costs for which the Authority proposes to consider a growth rate of 10%.*

74. It is submitted that the growth rate on base of FY2014-15 considered in the tariff determination is higher (10.28%) than that proposed (10% and 8%) by the Authority. Hence, there is inconsistency in the application of the approach proposed by the Authority "

17.89. FIA's comments regarding efficient O&M and base for opex projections are as below,

"75. The Authority has proposed to consider the actual costs incurred by DIAL for FY2012-13 as the efficient operations and maintenance ("O&M") costs on the basis of the independent study by ICWAI. Contrary to the same, the Authority has considered FY 2013-14 as appropriate base for projection of operating costs for the 2nd Control Period as real increase in costs is less than 1 percent. Hence, it is clearly evident that the base of FY201314 taken for projections does not represent the efficient O&M costs.

76. The Authority has not considered other key recommendations of the O&M efficiency study conducted by ICWAI for the purpose of evaluation of DIAL's submission with respect to O&M costs, which are as follows: (a) The Authority may examine related party transactions in greater detail (b) The Authority may consider capping of expenses for the next control period at the nominal amount for FY2012-13, adjusted for future inflation (c) Cost control measures may be taken by management of DIAL to mitigate increase in controllable costs.

77. It is submitted that the abovementioned recommendations of ICWAI clearly indicates that in absence of cost control measures, the Authority may like to cap the expenses with focus on related party transactions. Hence, it is submitted that these recommendations of ICWAI should be factored while determination of tariff of 2nd Control Period

78. As per clause 5.4.2 of the Guidelines, while reviewing forecast of operating expenditure the Authority has to assess:

(a) Baseline operation and maintenance expenditure based on review of actual expenditure indicated in last audited accounts and check for underlying factors impacting variance over the preceding year; and

(b) Efficiency improvement with respect to such costs based on review of factors such as trends in operating costs, productivity improvements, cost drivers, as may be identified and other factors as maybe considered appropriate.

However, contrary to Clause 5.4.2 of the Guidelines the Authority has allowed uniform growth rate on majority of the operating expenditure on a very broad basis without:

(a) Going in details regarding their technical and commercial feasibility; and

(b) Without considering past trends, productivity improvements, cost drivers which is not in line with the provisions of Airport Guidelines.

79. Operating expenditure is one of the major components for determining aggregate revenue requirement ("ARR") (constituting approximately 54% of ARR), hence, the Authority should have evaluated these expenses in detail rather than broadly relying on projections and basis provided by DIAL. Hence, the approach of the Authority for reviewing the operating expenditure is not in line with the provisions of the Guidelines.

80. The Consultation Paper shows that DIAL has incorporated a JV with Wipro to provide IT services at IGI Airport, Delhi. The Authority noted from the IT JV contract that, the subsistence cost to be paid by DIAL to the JV includes the repayment liability of JV towards the capital cost and interest cost of the capex incurred by the JV, as well as other expenditures of the JV. It is submitted that the Authority should evaluate the prudence of the transaction on the basis of arm's length and ensure that the transaction being entered into is at competitive rates. "

17.90. CII has also requested that,

"Background: AERA proposed to disallow bad debts. Bad debts which are incurred in normal course of business need to be allowed.

CII request: Bad debts be allowed as a part of operating expenditure."

17.91. AOC's has highlighted the following on the matter of manpower/staffing expenses,

" 1) DIAL's proposal to increase staffing levels by 50% of the traffic increase, since such a relation is not only unusual but also irrelevant. It should be clear that not all staffing functions relate to Passenger traffic as manpower is directly related to the work-force required for handling the Passenger Traffic.

2) The basis for staffing increment due to enhanced screening and Supreme Court's decisions are not properly explained: a number is presented for an increase but it is not made clear how the number has been arrived at and the Authority should verify the claim of DIAL.

3) Any increase such as the proposed positive 10% for 2015 is in our view unwarranted and unjustified."

17.92. AOC's has added that some of the expenses have been considered as opex but are related to capex, as below,

"4) The Capex expenses have been reflected as opex expenses. The entire list of expenses under other costs (page 195-197) are in fact investments and should .be treated as such with only the depreciation WACC amount to be applied for the tariff determination. These are being treated as Op Ex -as opposed to treating it as Cap Ex which they really are, since these works enhance the value of Assets - like Replacement of Old Electrical System Provision of Fire Protection System j lot of finishing works. We request AERA to review this list and consider the items as investments."

Scrutiny of the airport's opex proposal should not be relaxed in any way simply because there is a truing up process. One of the fundamental objectives of economic regulation is to ensure that the airport is managed and operated in a cost efficient manner and it is imperative that every proposed cost item is *carefully scrutinized and justified. Truing up of a loose opex forecast does not incentivize the airport to drive for cost efficiency but in fact encourages excess spending in order not to be penalized in the truing up process. The*

Authority should bear in mind that the Airport being an essential infrastructure of the country should be cost effective, efficient yet modern thus making it viable and not a burden on its users and the state as such."

17.93. IATA's general comments relating to Authority's treatment of operating expenses including that on manpower and other costs are as below,

"General Comments

The approach from DIAL throughout the document with regards to costs and revenues is consistent in applying the questionable assumption that while costs shall rise (not only drastically due to contract renegotiations and other extraordinary elements but also with inflation added on top), revenues shall be subdued to such an extent that not even inflation increments per year would be possible. So while costs are planned to rise at least with inflation (and in most categories, with a much higher rate on top), revenues would be falling in real terms. The whole document is also missing a robust analysis on why the determined percentage increases in costs are justified – it is often simply a figure (e.g. 5%) which is then applied without justification.

IATA sees the need to comment on several of DIAL's proposals as they tend to misrepresent the actual situation, as follows: "

17.94. IATA's comments regarding manpower expenses are as below,

"1) IATA rejects DIAL's proposal to increase staffing levels by 50% of the traffic increase as such a relation is not only unusual but also irrelevant. It should be stressed that not all staffing functions relate to passenger traffic. Furthermore, staffing levels had been falling recently and any increase such as the proposed 10% for 2015 seems unjustified and against the trend.

2) The arguments for staff increases due to increased screening and various Supreme Court decisions are not properly explained: a number is presented for *an increase while it is not made clear how the number was calculated. As such, while a slight increase may be justified, the presented figure should be rejected in the absence of further evidence. :*

17.95. IATA's comments regarding other items is as below,

"3) IATA is concerned that the entire list of expenses under 'Other costs' are in fact investments and should be treated as such with only the depreciation/WACC amount to be applied for the tariff determination. IATA requests AERA to review this list and consider the relevant items as investments.

4) The need for the full list of items for IT systems is not properly justified. As it stands, this list may simply represent a "wish-list" of items the IT department would like to procure. As the amount of 301 Crores is significant, a robust justification (which includes mentioning the consequences for not acquiring these items) should be presented. Otherwise, IATA would request that the list be reduced significantly to cover only items where a replacement can be properly justified. The argument made by DIAL that IT systems get worn out due to heavy use is generally untrue as IT systems are most often replaced because of technological obsolescence rather than physical wear and tear.

5) With regards to cost increases and the lack of robust arguments, IATA also notes the frivolous terms used to justify increases, such as "these cost increases are assumed or envisaged" or simply that "costs are on the rise". "

17.96. IATA's submission with respect to each of the Authority's proposals are as stated

"

- *IATA reiterates that where the cost allocation of operating expenses follows the same basis as that used for asset allocation, we would disagree with the allocation figures. We urge AERA to commission a* *study to review the cost allocation percentages based on a different set of assumptions.*

- *Given that the cost allocation percentages to aeronautical and non-aeronautical tills remains debatable, it should not form the basis for assignment of the Airport Operator Fee. As aeronautical revenues and non-aeronautical revenues are clearly demarcated, we support the Authority's proposal to assign 3% of gross aeronautical revenue as the portion of aeronautical costs associated with the Airport Operator Fee.*

- *IATA supports the Authority's consideration of actual costs incurred in previous periods as the base for future cost planning.*

- *The airport has demonstrated its ability to deliver the required levels of service at a lower cost than originally planned. While this could be viewed as an achievement, it could also be viewed as realized savings against an over-planned budget. The fact that the original budget had likely been over-planned should signal to the Authority to scrutinize the presented budget for the coming years which could well contain unjustified contingencies too.*

- *In line with the general comments above, IATA supports the Authority's approach to cap cost increases at 8% per annum. Nevertheless, this cap is still higher than the rate of inflation and as such, proper justification of each cost item should be required. In certain cases, it would be fair to assume that competitive bidding and tendering processes would allow DIAL to increase costs below the general inflation level, as not all costs are primarily linked to CPI. As a further supporting argument, it should be noted that real cost increases in the previous period had been below 1%.*

- *Scrutiny of the airport's opex proposal should not be relaxed in any way just because there is a truing-up process. One of the fundamental objectives of economic regulation is to ensure that the airport is managed and operated in a cost efficient manner and it is imperative that every proposed cost item is carefully scrutinized and justified. Truing up of a lax and inefficient opex forecast does not incentivize the airport to drive for cost efficiency but in fact encourages excess spending in order not to be penalized in the truing-up process. "*

d DIAL's response to Stakeholder Comments on Issues pertaining to operating expenses

17.97. In response to ACI's comments on operating expenses, DIAL commented as below,

> *"Detailed rationale of 2013-14 numbers not being true representative is given in details in subsequent chapters. However we shall like to submit that DIAL tariff was approved w.e.f May 15th 2012. However, due to advance booking of tickets and slowdown in the traffic, the revenue accruing to DIAL was much lower than envisaged. This resulted in cash crunch in the organization. O&M expense of FY 12-13 and half year of 2013-14 is not representative of actual amount that was required to be spent. This is because of the following reasons: Cash crunch: DIAL did not have sufficient cash to spend in 2012-13 and 2013-14.*
>
> *Part of procurement contract: Up to 2013-14 many AMC contacts were part of the original procurement contracts and the opex quoted therein was very low.*
>
> *Warranty: Most of equipment are now out of warranty The Spare parts costs are going to rise enormously. Earlier it was part of the procurement package:*
>
> *Aging Infrastructure which needs higher opex."*

17.98. In response to various comments by AOC, DIAL responded as below,

> *"There is no factual basis for the AOCC's comment that the approach from DIAL with regards to costs and revenues are unrealistic. In fact, an Independent study was done by AERA and the independent agency has found DIAL to be cost efficient.*

As submitted earlier with Authority we had mentioned that figures of 2013-14 manpower cost numbers are not representative of the actual expenditure to be incurred at airport. DIAL tariff was approved w.e.f May 15th 2012. However, due to advance booking of tickets and slowdown in the traffic, the revenue accruing to DIAL was much lower than envisaged. This resulted in cash crunch in the organization. This had a twofold impact:

The increment to staff was restricted to bare minimum possible

Additional recruitment was put on hold as Authority had in its order had put restriction on total manpower.

Resultantly, now DIAL will need to:

Ramp up the manpower to ensure that the quality standards are not compromised

Allow sufficient increase in salaries to ensure that efficient manpower is retained.

Moreover, the manpower cost is a direct function of the following:

1. *Growth in the number of passengers*
2. *Growth in the number of ATMs*
3. *Growth in cargo tonnage*
4. *Higher peak hour demand, especially in number of passengers and ATMs.*
    a. *Passengers: more supervision required in Terminal Check in departure hall, coordination at Immigration and Security queuing and the various transfer areas (D-I, I-I, I-D, D-D)*
    b. *ATM peaks: more follow-me requests, increased apron control, enforcement and vigilance in airside safety.*
5. *Airport Service Quality (ASQ) standards – Customer service initiatives and supervision*
6. *Increased maintenance because of aging of assets.*

7. *Increased maintenance and up-gradation work, especially on airside on the northern side of runway 10/28.*

Therefore Authority is requested to allow:

5% real growth in manpower strength.

2.3% as towards traffic growth (50% of traffic growth).

Inflationary growth (as mandated @ 6.6% by authority) and accordingly allow Additional cost required to ramp up manpower numbers.

Screeners Cost: Detailed judgement in this regard has already been submitted to Authority

10% increase being high in manpower cost:

AERA has given a miniscule increase in manpower cost compared to the market realities and the same need to be reviewed.

Capex being treated as opex:

We do not agree to the contention of AOCC. No capex can be classified as opex as the Auditors of the company scrutinize such payments.

Expenses to be booked into PSF:

The current filing is based on the latest mandate of Govt. in this regard. Scrutiny of Opex: as regards to scrutiny of opex we will like to submit that the Authority has allowed the lowest growth in opex amongst Indian airports.

It is earnestly requested to allow the opex filed by DIAL as that is the bare minimum opex required to maintain the service standards of airport as per the concession agreement.

We hereby again reiterate that:

Figures of 2013-14 are not representative of the actual expenditure to be incurred at airport and if that is taken as the base than airport will not have enough resources to run the airport.

A real increase of 1.4% as proposed by Authority is grossly insufficient.

The following are the reasons in support of above: DIAL tariff was approved w.e.f May 15th 2012. However, due to advance booking of tickets and slowdown in the traffic, the revenue accruing to DIAL was much lower than envisaged. This resulted in cash crunch in the organization. O&M expense of FY 12-13 and half year of 2013-14 is not representative of actual amount that was required to be spent. This also resulted in postponement of critical operations and maintenance activities. Taking a simplistic approach of real growth of 1.4% over the figures of FY 2013-14 is incorrect because of the following reasons: 1. DIAL did not have sufficient cash to spend in 2012-13 and 2013-14. As a result there was a rationalization and postponement of opex. Any further rationalization is likely to impact efficient operations and will be a risk to the passengers and airlines and will affect the quality standards at the Airport. 2. Up to 2013-14 many AMC contacts were part of the original procurement contracts awarded to vendors and were quoted very low. As a part of the Capex for Terminal 3 / other contracts and its associated works were procured and commissioned. At that time, a 5 year or similar period AMC cost was quoted along with the main system package purchase cost. It is a well-known practice that the cost of AMC at the time of original bidding is kept low to achieve competitive pricing for the main equipment. However these AMC costs would not be available for renewal bidding of AMC. This is also because of the fact that the equipment and its installation at the time of purchase is new and the repair and maintenance cost during such initial phase is usually low. This cost usually increases as the equipment becomes older.

In view of the above, we expect a considerable rise in the AMC charges after the expiry of the contract in the year 2014-15 and such increase in cost could be of the order of 25% to 30% which need to be factored in line with the operating cost projections submitted by us to the Authority.

3. Most of equipment is now out of warranty: The Spare parts costs are going to rise significantly. Earlier this was part of the procurement package:

The earlier contracts were under manufacturer's warranty. Now the operation and maintenance is going to be without this warranty. This will entail additional cost of spare parts. This will become a major opex cost item, as the facility gets older.

4. Aging infrastructure = higher opex:

The infrastructure on airside of DIAL was constructed in 1980's and 1990's and has outlived their life. The cost of maintenance of this is very high compared to a new infrastructure. As such a regular time bound operation; maintenance and its administration of the old infrastructure mean a continuously increasing cost year on year.

5. Refurbished terminal — life of refurbishment is short and need frequent revamp:

Terminals T1C, T1A and T2 etc. are very old terminals that were refurbished by DIAL at the time of taking over of the Airport. However these refurbishments have shorter life span and as such need very high level of repair and maintenance to keep them in operation.

The infrastructure procured by DIAL post privatization also is now getting older. Some of equipment procured are now 6-7 years old and need Capex. By end of the second control period these equipment will be 12 years old and since it is not possible to replace all the equipment, part of these equipment will need to be maintained and as such the maintenance cost will witness a quantum jump during the second control period.

This increase, keeping in consideration the aging infrastructure of airport, is the minimum required. As Authority is aware the older the facility, higher are the opex.

Considering the aforesaid facts, it is reasonable to consider real growth of 5% + ½ of traffic growth = 7.4plus the CPI being allowed by the Authority. This is without prejudice to our contention that CPI needs to be allowed on the X-Factor determined and not on each of building block).

Our earlier submission had dearly contemplated that most of the existing contracts are due for renewal and the revised cost will be much higher than the cost originally contemplated when opex contracts were part of Capex tender."

17.99. In response to APAO's various comments, DIAL commented as below,

"DIAL's response to Allocation of Airport Operator Fee

There is no major Non Aeronautical activity carried out by DIAL. All of Non Aeronautical activity is outsourced and needs almost no advice of airport operator and as such it needs to be 100% Aeronautical.

Airport Operator Fee is in the nature of any other operating expense. It can be deemed as any other service provided n the nature where service provider gets paid for the services rendered. The same principle of segregation in aero and non-aero component should be applied for operator fee as well and be considered as any other operating expense.

Moreover, DIAL has already submitted the report from Leigh Fisher confirming that the methodology of allocation based on revenue is not prevalent in any regulatory regime. This report was submitted to Authority vide our letter number SIAL/2014-15/fin acc /6476 dated 10th April 2015.

Furthermore, this methodology was finalized in the 1st control period. Reviewing its own decision in the 1st control period s against its own stand, which is already settled and finalized. AERA must maintain consistency in methodology which is vital to any regulatory determination, and avoid uncertainty.

The airport operator fee has no relationship with aeronautical and non-aeronautical revenues, earned.

International Practice on allocation:

We have not found an example of any regulator which has recommended or required revenue based allocations. In fact regulators in some cases have specifically opposed it. Terminal floor areas/asset base approach, in contrast appears too regarded as in line with expectations and in some cases it reflects requirement.

DIAL's response to Provision of Bad Debts not allowed as opex

It is to be noted that provision of bad debts are essentially a business expenses, which is incurred in any form of business. Every company makes effort not to incur bad debts but despite strong credit control mechanism, certain debts would go bad due to certain exogenous factors which are beyond the control of the company. Moreover, the various regulatory commissions in the electricity sector has allowed bad debts at actual, % of ARR and defined the absolute limit for bad debts during the control period.

DIAL's response to Interest on Development Fee

The construction under 1st control period towards interest on development fee should be considered since it was finalized and settled.

DIAL's response to Operating Expense Forecast

The detailed rationale of each and every component has already been submitted to Authority. The operating expenses increases as the facility gets older. When the facility was new many equipment were under defect liability period / Warranty. The above is no more in vogue and these expenses will increase significantly.

AERA has allowed only 5.2% growth in the aeronautical operating expenses that flow to the building block.

DIAL's response to True Up of Operating Cost

The current methodology of truing up the entire opex is violation of the concession agreement. Under concession agreement a CPI-X methodology need to be adopted. However, the methodology being followed by Authority is a Rate of Return regulation and not CPI- X regulation.

The current 'true up' is against the principles of CPI-X. The CPI-X is based on the view that the regulated industry (airport in this case) should set an efficiency target and should be exposed to the gains or losses with the regulatory period, without 'true up' or 'claw back' thereafter.

DIAL's response to Allocation Ratio Operating Expenses

DIAL has submitted Auditor Certificate of new opex allocation ratio based on Audited numbers and the same needs to be taken into consideration by the Authority."

17.100. In response to CII's various comments, DIAL commented as below,

"DIAL's response on CII's comments on Efficiency Study and True up of opex

We strongly are of opinion that the study done by AERA must have been shared with us for our comments before the same was accepted by Authority. This is a violation of natural justice.

AERA has conducted an efficiency study on operating cost of DIAL AERA now proposes to consider the actual expenditure incurred in FY13 and FY14 as efficient and it proposes to disallow the difference in the actual operating cost incurred during FY13 and FY14 and operating cost allowed under building block in the Order No.3 2012— 13.

DIAL had done several initiatives in 1st control period. AERA has taken away saving from these initiatives. This will mean that in future airport operators will have no initiative to save costs. This will lead to an inefficient regulatory system.

DIAL's response on CII's comments on Operating Expenses

Airport Operator Agreement:

As per the airport operator agreement, the airport operator has to provide to DIAL the following three types of services:

General Services;

Manager Services; and

Consultancy Services

Upon examining the nature of all these services and the obligations of airport operator, like:

its recommendation on appropriate policy formulation for overall management of airport,

operation and management of terminals & airport utilities,

compliance with safety requirements,assistance in procurement of ISO certification for facilities relating to aeronautical facilities at the airport,compliance with objective service quality requirements all of which pertain to aeronautical services only,

It can be clearly established that the services of the airport operator are predominantly provided in respect aeronautical services and facilities at IGI Airport.

Though the airport operator is also required to provide its assistance in the area of operations and management of non-aeronautical assets however compared to the assistance levels required to be provided for aeronautical *services and facilities, the quantum of services and assistance towards the non-aeronautical services is quite miniscule since DIAL do not have any non-aeronautical services being provided by it DIAL Further, the separate consultants have been engaged for non-aeronautical services and DIAL has not sought assistance of airport operator for the same. Accordingly, the bulk of services and assistance provided by the airport operator are in respect of aeronautical services and facilities.*

International Practice:

The airport operator fee has no relationship with aeronautical and non-aeronautical revenues, earned. We have not found an example of any regulator which has recommended or required revenue based allocations. In fact regulators in some cases have specifically opposed it. An allocation by revenue is effectively a tax rather than a cost driven allocation. This has been explicitly criticized in regulatory circumstances Details of the stand by various regulator has already been submitted to Authority in our submission dated 10Lh April 2015.

DIAL's response on CII's comments on very low real increase in the Operating Expenses

DIAL needs a much higher opex because of the following reasons:

Most of equipment are now out of warranty: The Spare parts costs are going to rise significantly. Earlier this was part of the procurement package:

The earlier contracts were under manufacturer's warranty. Now the operation and maintenance is going to be without this warranty. This will entail additional cost of spare parts. This will become a major opex cost item, as the facility gets older.

Aging Infrastructure = higher opex :

The infrastructure on airside of DIAL was constructed in 1980's and 1990's and has outlived their life. The cost of maintenance of this is very high compared to a new infrastructure. As such a regular time bound operation; maintenance and its administration of the old infrastructure mean a continuously increasing cost year on year.

Refurbished terminal – life of refurbishment is short and need frequent revamp:

Terminals T1C, T1A and T2 etc. are very old terminals that were refurbished by DIAL at the time of taking over of the Airport. However these refurbishments have shorter life span and as such need very high level of repair and maintenance to keep them in operation.

The infrastructure procured by DIAL post privatization also is now getting older. Some of equipment procured are now 6-7 years old and need Capex. By end of the second control period these equipment will be 12 years old and since it is not possible to replace all the equipment, part of these equipment will need to be maintained and as such the maintenance cost will witness a quantum jump during the second control period. This increase, keeping in consideration the aging infrastructure of airport, is the minimum required. As Authority is aware the older the facility, higher are the opex.

Considering the aforesaid facts, it is reasonable to consider real growth of 5% + ½ of traffic growth = 7.41 plus the CPI being allowed by the Authority. This is without prejudice to our contention that CPI needs to be allowed on the X-Factor determined and not on each of building block). Our earlier submission had clearly contemplated that most of the existing contracts are due for renewal and the revised cost will be much higher than the cost originally contemplated when opex contracts were part of Capex tender.

DIAL's response on CII's comments on Property Tax

The future forecast for Property tax by DIAL is based on actual demand received. The past payments are low as the demand is under contest. It will be prudent that Property Tax forecast as done by DIAL be allowed with provision for true up based on actual spend. In case the demanded amount is not allowed DIAL will have no money to pay these demands and will default in payments.

DIAL's response on CII's comments on Water Supply Payment

AERA warts to allow water charges based on past payment wherein the major supply was from ground water.
DIAL is now depending less on ground water supply and more on supply from DJB. DJB has committed water supply of 3 MLD per day (out of which 2 MLD supply has already started).DIAL has forecasted water cost based on the 3 MLD per day.

DIAL's response on CII's comments on Operating Cost Allocation

DIAL has submitted operating cost allocation on the same principles for the 2nd control period. The new allocation study is based on the actual figures and is duly audited.
Instead of using the operating cost allocation ratio submitted by us, AERA proposes to use 1st control period operating cost allocation ratio which is not justified."

17.101. DIAL's response on various comments submitted by IATA are as below,

"DIAL's response on IATA's comments on expenses for creation of security related fixed assets.

We hereby confirm that no other funds are being utilized for this security related capex.
The current inclusion is as per the mandate of MoCA. There is an inbuilt methodology to ensure efficiency of capex by way of competitive bidding. While forecasting the security related asset additions, we have mentioned the

respective BCAS circular mandating these Capex. All these capex are critical for overall security of the airport and hence should not be subject to any compromise.

DIAL's response on IATA's comments on inline baggage screening expenses

We hereby confirm that no other funds are being utilized for this expenditure. There is no way that there can be double payment of a single spend as there is an inbuilt internal control system and the accounts are subject to audit.

These expenses are related to the amount spent and not allowed to be recovered earlier by Authority.

Secondly, the Authority has moved in tandem with the order from MOCA. Non consideration of the inline baggage expenses would be in conflict with MOCA advice.

As regards to opex like cost of inline baggage screeners, the operating cost of DIAL have been found to be very efficient as analyzed by Leigh Fisher and thereafter as reviewed by ICWA-MARF.

DIAL's response on IATA's comments on True Up exercise

We reserve our comments on this time until after the finalization of policy by MoCA.

DIAL's response on IATA's comments on opex allocation

The principles of allocation study have been verified by the independent consultant appointed by AERA (ICWA MARF) and found to be correct. As such the IATA's suggestions hold no merit. The current suggestion of IATA is not backed by any evidence.

Evidence: However, the new allocation as submitted by DIAL is backed by evidences by way of Auditor's Certificate and the allocation studies.

DIAL's response on IATA's comments on Airport Operator Fee

Most of the non-Aeronautical activities have been outsourced by DIAL and as such the airport operator's services are not required for the same.

Secondly, the airport operator fee has no connection with aeronautical and non-aeronautical revenues. This is expenditure and there is no airport regulator in the world which does cost allocation based on revenue.

Evidence: We have already submitted evidence showing that no allocation is done based on revenue.

DIAL's response on IATA's comments regarding operating expenses

The forecast related to opex and Non Aero are based on scientific principles backed by evidences. The Non Aeronautical have a tendency al plateauing after a sharp increase train a low base. With higher base the growth momentum slows down.

On the other hand the opex has a tendency to increase at higher speed because:

Warranty period is over

Spare parts cost starts increasing

Older machine has higher wear and tear

Manpower cost associated with repair and maintenance become higher

Detailed rationale has been submitted to Authority in this respect including copy of judgments

IATAs rejection of DIAL's stand on manpower increase is without any evidence in support and as such cannot be relied upon.

The allegations that costs are investments are not based on any evidence and just a kind of passing remark. Auditors are there to ensure that the capex and opex is well differentiated.

DIAL's response on IATA's comments regarding consideration of actual costs

Detailed rationale of 2013-14 numbers not being true representative is given in details in subsequent chapters. However we shall like to submit that DIAL tariff was approved w.e.f May 15th 2012. However, due to advance booking of tickets and slowdown in the traffic, the revenue accruing to DIAL was much lower than envisaged. This resulted in cash crunch in the organization. O&M expense of FY 12-13 and half year of 2013-14 is not representative of actual amount that was required to be spent. This is because of the following reasons:

Cash crunch: DIAL did not have sufficient cash to spend in 2012-13 and 2013-14.

Part of procurement contract: Up to 2013-14 many AMC contacts were part of the original procurement contracts and the opex quoted therein was very low.

Warranty: Most of equipment are now out of warranty The Spare parts costs are going to rise enormously. Earlier it was part of the procurement package:

Aging Infrastructure which needs higher opex.

As such it is earnestly requested that the Operating expenditure as filed by us is approved.

We shall like to clarify that the concession agreement of DIAL mandates a CPI-X methodology:

Under CPI-X provides a way for the regulator to allow consumers to benefit from cost reductions and improvements in productive efficiency under price cap regulation without diminishing the incentives for managers and owners to undertake activities that create these efficiencies.

As such the efficiencies of a regulatory period are allowed to be retained by the airport operator and not taken away as done in current system.

DIAL's response on IATA's comments on projection of operation and maintenance cost

As a part of the Capex for Terminal 3 / other contracts and its associated works were procured and commissioned. At that time, a 5 year or similar period AMC cost was quoted along with the main system package purchase cost. It is a well-known practice that the cost of AMC at the time of original bidding is kept law to achieve competitive pricing for the main equipment. However these AMC costs would not be available for renewal bidding of AMC. This is also because of the fact that the equipment and its installation at the time of purchase is new and the repair and maintenance cost during such initial phase is usually low. This cost usually increases as the equipment becomes older.

In view of the above, we expect a considerable rise in the AMC charges after the expiry of the contract in the year 2014-15 and such increase in cost could be of the order of 25% to 30% which need to be factored in line with the operating cost projections submitted by us to the Authority.

3. Most of equipment is now out of warranty: The Spare parts costs are going to rise significantly. Earlièr this was part of the procurement package:

The earlier contracts were under manufacturer's warranty. Now the operation and maintenance is going to be without this warranty. This will entail additional cost of spare parts. This will become a major opex cost item, as the facility gets older.

4. Aging Infrastructure = higher opex:

The infrastructure on airside of DIAL was constructed in 1980's and 1990's and has outlived their life. The cost of maintenance of this is very high compared to *a new infrastructure. As such a regular time bound operation; maintenance and its administration of the old infrastructure mean a continuously increasing cost year on year.*

5. Refurbished terminal — life of refurbishment is short and need frequent revamp:

Terminals T1C, T1A and T2 etc. are very old terminals that were refurbished by DIAL at the time of taking over of the Airport. However these refurbishments have shorter life span and as such need very high level of repair and maintenance to keep them in operation.

The infrastructure procured by DIAL post privatization also is now getting older. Some of equipment procured are now 6-7 years old and need Capex. By end of the second control period these equipment will be 12 years old and since it is not possible to replace all the equipment, part of these equipment will need to be maintained and as such the maintenance cost will witness a quantum jump during the second control period.

This increase, keeping in consideration the aging infrastructure of airport, is the minimum required. As Authority is aware the older the facility, higher are the opex.

Considering the aforesaid facts, it is reasonable to consider real growth of 5% + ½ of traffic growth = 7.4% plus the CPI being allowed by the Authority. This is without prejudice to our contention that CPI needs to be allowed on the X-Factor determined and not on each of building block).

Our earlier submission had dearly contemplated that most of the existing contracts are due for renewal and the revised cost will be much higher than the cost originally contemplated when opex contracts were part of Capex tender."

e DIAL's own comments on Issues pertaining to operating expenses

17.102. Regarding cost allocation DIAL commented that, *"The reasons for change in allocation were provided by DIAL earlier also. It is reiterated that the allocation of expense in the first control period was based on theoretical forecasted expenses of first control period since the major terminal i.e. terminal 3 was not operational. The earlier expenditure allocation was done by Leigh Fisher applying certain principals but in the absence of real numbers projected numbers were taken as a base. Applying the same principals as enshrined in Leigh Fisher report, the Statutory Auditors have given the allocation ratio which is real and more factual.*

Auditors have clearly mentioned that they have followed the same principles adopted by Leigh Fisher:

"We have reviewed the cost centers maintained by the Company and application of allocation principles outlined in operating expenditure allocation certified by Jacobs consultancy certificate vide dated November 21, 2011 attached to this certificate."

The allocation is based on scientific principles. The following statement of auditors clearly lays down the methodology followed and the final outcome:

Based on our verification, we have found the classification of expenditure to be reasonable and justified. We certify the following allocation percentages for the period ending March 31, 2014.

Sl. No	Expense Group	Aero	Non Aero
1	Operating Expenditure	89.19%	10.81%
2	Administration Expenditure	89.68%	10.32%

Note:

I. Cost Centers directly identifiable with the activity are allocated to Aero and Non-Aero segments respectively. Other common costs centers which include both aero and non aero costs are allocated based on the Terminal Area wise as certified by Jacobs.

2. Operating expenditure does not include Manpower Costs. Finance Costs, Revenue Share Payable to AAI, utility costs and Depreciation.

As such by applying the same principles and based on actual cost, the allocation has changed. As such the revised allocation needs to be applied for both control periods as compared to the presumed allocation as considered by the Authority in its order for first control period. The actual allocation numbers are real and not fictitious and on any stretch of reasonableness the actual numbers should be used to ensure fact based allocation. There does not appear to be any rationale in updating the allocation ratio when all relevant documents for actual allocation have been provided to Authority. The Authority should therefore consider the submission of actual data."

17.103. Regarding allocating VRS from overall opex ratio to manpower ratio, DIAL responded as below,

"Inconsistency in approaches from one control period to another in this fashion is seriously detrimental to a balanced and stable regulatory regime that is appreciated by stakeholders including critical stakeholders like lenders and investors. There is no rationale for a change in principles for allocation of VRS payment in the second control period as compared to the methodology followed for first control period and we request the Authority to maintain the same methodology, as was followed by it in the first control period."

17.104. With regards to change allocation methodology of airport operator fee to 3% of aero revenue, DIAL has quoted international cases elaborating why revenue split should not be used as allocation methodology in addition to the following comment,

"The airport operator fee has no relationship with aeronautical and non aeronautical revenues, earned. It can be deemed as any other service provided in the nature where service provider gets paid for the services rendered. The same principle should be applied for operator fee as well and be considered as any other operating expense.

We have not found an example of any regulator which has recommended or required revenue based allocations. In fact regulators in some cases have specifically opposed it.

Terminal floor areas/asset base approach in contrast appears to be regarded as in line with expectations and in some cases it reflects requirement."

17.105. Regarding efficient cost on FY 2012-13 numbers based on ICWAI report, DIAL commented as below,

"No Opportunity to review the fining of ICWAI:

At the outset we submit that DIAL was not provided any opportunity to review, comment and provide its inputs on the findings of ICWAI in respect of their study on efficient costs. This is highly unfortunate as being the entity in question its inputs would have been critical in this matter. In any case natural justice demands that for a study being done on DIAL, an opportunity must be given to DIAL to submit its comments on the same. DIAL therefore does not agree with the one line conclusion provided by AERA that the costs of 2012-13 as the base case for efficient costs. This is especially so because in this year, given the cash crunch due to past losses, DIAL had deferred and postponed costs. we request that DIAL be provided an opportunity to review the ICWAI report and make relevant submissions on the same.

Against the CPI-X principles:

The above principle of considering actual expenditure as the efficient expenditure is against the CPI-X methodology. In CPI-X methodology the efficiency in cost is retained by Airport operator. This incentivizes airport to save costs. If the cost savings are taken away by Authority in name of efficient cost, this disincentives the airport to achieve savings in future.

2013-14 numbers not representative of true opex which can be taken as base:

Detailed rationale of 2013-14 numbers not being true representative is given in details in subsequent chapters. However we shall like to submit that DIAL tariff *was approved w.e.f May 15th 2012. However, due to advance booking of tickets and slowdown in the traffic, the revenue accruing to DIAL was much lower than envisaged. This resulted in cash crunch in the organization. O&M expense of FY 12-13 and half year of 2013-14 is not representative of actual amount that was required to be spent. This is because of the following reasons:*

1. Cash crunch: DIAL did not have sufficient cash to spend in 2012-13 and 2013-14.

2. Part of procurement contract: Up to 2013-14 many AMC contacts were part of the original procurement contracts and the opex quoted therein was very low.

3. Warranty: Most of equipment are now out of warranty The Spare parts costs are going to rise enormously. Earlier it was part of the procurement package:

4. Aging infrastructure which needs higher opex.

As such it is earnestly requested that the operating expenditure as filed by us is approved."

17.106. Regarding rationale for increase in manpower expense,

"As submitted earlier with Authority we had mentioned that figures of 2013-14 manpower cost numbers are not representative of the actual expenditure to be incurred at airport. DIAL tariff was approved w.e.f May 15th 2012.

However, due to advance booking of tickets and slowdown in the traffic, the revenue accruing to DIAL was much lower than envisaged. This resulted in cash crunch in the organization. This had a twofold impact:

1 The increment to staff was restricted to bare minimum possible

2 Additional recruitment was put on hold as Authority had in its order had put restriction on total manpower.

Resultantly, now DIAL will need to:

1 Ramp up the manpower to ensure that the quality standards are not compromised.

2 Allow sufficient increase in salaries to ensure that efficient manpower is retained.

Moreover, the manpower cost is a direct function of the following:

1 Growth in the number of passengers

2 Growth in the number of ATMs

3 Growth in cargo tonnage

4 Higher peak hour demand, especially in number of passengers and ATMs.

a. Passengers: more supervision required in Terminal Check in departure hall, coordination at Immigration and Security queuing and the various transfer areas (D-I, I-I, I-D, D-D)

b. ATM peaks: more follow-me requests, increased apron control, enforcement and vigilance in airside safety.

5 Airport Service Quality (ASQ) standards – Customer service initiatives and supervision

6 Increased maintenance because of aging of assets.

7 Increased maintenance and up-gradation work, especially on airside on the northern side of runway 10/28.

Therefore Authority is requested to allow:

1. 5% real growth in manpower strength.

2. 2.3% as towards traffic growth (50% of traffic growth).

3. Inflationary growth (as mandated @ 6.6% by authority) and accordingly allow Additional cost required to ramp up manpower numbers."

17.107. With respect to use of 2013-14 water expense as base for future projection, DIAL has commented as below,

We shall like to point out that water supply has increased manifold as shown in third quarter of 2014-15. The current water supply is 2.58 times more compared to the supply in 2013-14.

It is thus clear that the water supply from DJB has been forthcoming in the past few months and DIAL will need to pay much higher for the water consumption. Hence it will be incorrect to use the water supply of the year 2013-14 as base and then forecast growth

Comparison of per month supply of water in 20014-15 compared to 2013-14:

	October	November	December	Average
2013-14	6,271	11,129	16,771	11,390
2014-15	22,393	36,721	29,276	29,463

17.108. Regarding consideration of Rs. 6.94 Crore per year as property tax, DIAL has commented as below,

"DIAL with the current tariff will have a cash deficit exceeding 3000 crore. As such DIAL cannot pay the property tax and recover as true up in III control period. As such it's earnestly requested that the property tax be allowed as filed with true up based on actual payment"

17.109. DIAL further commented as below with respect to growth assumptions,

"We hereby submit that:

1 Figures of 2013-14 are not representative of the actual expenditure to be incurred at airport and if that is taken as the base than airport will not have enough resources to run the airport.

2 A real increase of 1.4% as proposed by Authority is grossly insufficient.

The following are the reasons in support of above:

DIAL tariff was approved w.e.f May 15th 2012. However, due to advance booking of tickets and slowdown in the traffic, the revenue accruing to DIAL was much lower than envisaged. This resulted in cash crunch in the organization. O&M expense of FY 12-13 and half year of 2013-14 is not representative of actual amount that was required to be spent. This also resulted in postponement of critical operations and maintenance activities. Taking a simplistic approach of real growth of 1.4% over the figures of FY 2013-14 is incorrect because of the following reasons:

1 DIAL did not have sufficient cash to spend in 2012-13 and 2013-14. As a result there was a rationalization and postponement of opex. Any further rationalization is likely to impact efficient operations and will be a risk to the passengers and airlines and will affect the quality standards at the Airport.

2. Up to 2013-14 many AMC contacts were part of the original procurement contracts awarded to vendors and were quoted very low. As a part of the Capex for Terminal 3 / other contracts and its associated works were procured and commissioned. At that time, a 5 year or similar period AMC cost was quoted along with the main system package purchase cost. It is a well known practice that the cost of AMC at the time of original bidding is kept low to achieve competitive pricing for the main equipment. However these AMC costs would not be available for renewal bidding of AMC. This is also because of the fact that the equipment and its installation at the time of purchase is new and the repair and maintenance cost during such initial phase is usually low. This cost usually increases as the equipment becomes older.

In view of the above, we expect a considerable rise in the AMC charges after the expiry of the contract in the year 2014-15 and such increase in cost could be of the order of 25% to 30% which need to be factored in line with the operating cost projections submitted by us to the Authority.

3. Most of equipment are now out of warranty: The Spare parts costs are going to rise significantly. Earlier this was part of the procurement package:

The earlier contracts were under manufacturer's warranty. Now the operation and maintenance is going to be without this warranty. This will entail additional cost of spare parts. This will become a major opex cost item, as the facility gets older.

4. Aging Infrastructure = higher opex :

The infrastructure on airside of DIAL was constructed in 1980's and 1990's and has outlived their life. The cost of maintenance of this is very high compared to a new infrastructure. As such a regular time bound operation; maintenance and its administration of the old infrastructure mean a continuously increasing cost year on year.

5. Refurbished terminal – life of refurbishment is short and need frequent revamp:

Terminals T1C, T1A and T2 etc. are very old terminals that were refurbished by DIAL at the time of taking over of the Airport. However these refurbishments have shorter life span and as such need very high level of repair and maintenance to keep them in operation.

The infrastructure procured by DIAL post privatization also is now getting older. Some of equipment procured are now 6-7 years old and need Capex.

By end of the second control period these equipment will be 12 years old and since it is not possible to replace all the equipment, part of these equipment will need to be maintained and as such the maintenance cost will witness a quantum jump during the second control period.

This increase, keeping in consideration the aging infrastructure of airport, is the minimum required. As Authority is aware the older the facility, higher are the opex.

Considering the aforesaid facts, it is reasonable to consider real growth of 5% + ½ of traffic growth = 7.41 plus the CPI being allowed by the Authority. This is without prejudice to our contention that CPI needs to be allowed on the X-Factor determined and not on each of building block).

Our earlier submission had clearly contemplated that most of the existing contracts are due for renewal and the revised cost will be much higher than the cost originally contemplated when opex contracts were part of Capex tender.

The following are the opex forecast adopted by Authority in various orders

	Opex as part of building block (INR Crores)									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Chennai		210.53	239.01	334.2	359.64	385.17	412.75			
BIAL			180.07	248.42	232.76	355.14	383.21			
GHIAL			243.76	250.93	267.3	270.74	291.96			
Lucknow		44.57	49.65	58.58	63.39	68.1	73.18			
MIAL - Aero Only	255.6	212.6	274.4	547.3	621.7					
DIAL - Aero Only					728.67	752.68	798.10	805.53	867.14	939.37

The following is the resultant growth:

Opex as part of building block	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average
Chennai		210.53	239.01	334.2	359.64	385.17	412.75				
Growth %				39.8%	7.6%	7.1%	7.2%				15.4%
BIAL			180.07	248.42	232.76	355.14	383.21				
Growth %				38.0%	-6.3%	52.6%	7.9%				23.0%
GHIAL			243.76	250.93	267.3	270.74	291.96				
Growth %				2.9%	6.5%	1.3%	7.8%				4.6%
Lucknow		44.57	49.65	58.58	63.39	68.1	73.18				
Growth %			11.4%	18.0%	8.2%	7.4%	7.5%				10.5%
MIAL - Aero Only	255.6	212.6	274.4	547.3	621.7						
Growth %		-17%	29%	99%	14%						31.3%
DIAL - Aero Only					728.67	752.68	798.10	805.53	867.14	939.37	
Growth %						3.3%	6.0%	0.9%	7.6%	8.3%	5.2%

The above analysis depicts that the growth forecast of operating expenses for DIAL is very abysmally low. It is earnestly requested to allow the opex filed by

DIAL as that is the bare minimum opex required to maintain the service standards of airport as per the concession agreement."

f Authority's Examination of Stakeholder Comments on Issues pertaining to operating expenses

17.110. The Authority has carefully considered the comments from CII, ACO, APAO, FIA and ACI as well as DIAL's comments and response to these stakeholder's comments regarding operating expenses for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

17.111. Regarding airport operator fee, the Authority has addressed the issue in para 6.119 above. Accordingly, the Authority has considered 3% of aeronautical revenue as aeronautical component of Airport operator Fee.

17.112. The Authority has noted APAO's comment regarding DIAL's submission of a revised cost allocation in the second Control Period on the basis of the same principles as those in the first Control Period, approved by DIAL. The Authority had deliberated on the issue in the Consultation No. 16/2014-15 in detail mentioned in para 17.25 to 17.26 above. As the Authority was not persuaded by the clarification provided by DIAL, the Authority has decided to consider allocation of operating expenses for the second Control Period as per its Delhi Tariff Order 03 / 2012-13 in respect of tariff determination the first Control Period.

17.113. Regarding FIA's comment that Jacob's Study on cost allocation cannot be considered independent as it has been commissioned by DIAL, the Authority wishes to clarify that DIAL had submitted a report at the time of tariff determination for the first Control Period and the Authority had reviewed the same. The Authority is in agreement of the principles followed by Jacob's in computation of the cost allocation in respect of the IGI Airport, Delhi.

17.114. The Authority has noted CII's comments regarding considering property tax owed to the MCD and DCB. The Authority has considered the Property tax at Rs. 6.94 crore, the actual property tax paid in FY2013-14 by DIAL, in each year during the second Control Period (as this is of statutory nature and is not driven by inflation). Following the principle that expenses actually incurred and incomes actually received will be considered towards the tariff determination, the Authority will consider only the taxes that have been paid by DIAL or are required to be paid by DIAL in the future based on any contracts. Considering the disagreement between DIAL and MCD ("DIAL has paid the property tax under protest") and in absence of settlement of any statutory dues for property tax owed by DIAL to MCD, the Authority will provide a true-up as per actual property tax paid by DIAL in the second Control Period at the time of tariff determination for the next Control Period.

17.115. The Authority has noted FIA's comments regarding the consideration of expenses on account of the IT-JV arrangement. The Authority had received certain information from DIAL in this regard as discussed in para 17.45 and 17.46 above. However DIAL has not separated aeronautical and non-aeronautical assets, costs and revenues as on date, therefore it is not clear as to the classification of these items. The Authority had sought the complete IT-JV agreements with Wipro including Master Agreement dated 22nd October 2009, the detailed scope of services provided by the IT-JV and the detailed break-up of charges being levied by IT-JV and services provided against levy of these charges. DIAL has provided the Master Agreement for the JV along with the along with the addendums. It provided information on the break-up of charges levied by the IT-JV as below,

"Major charges as shown below,

Minutes of Meeting between AOC and DIAL on IT charges at T3

IT & C Charges	*Published Rates/Terms*		*Negotiated Rates/Terms*	
	A	*B*	*A*	*B*
CUTE	*Domestic INR 40*	*International: USD 1.20*	*Domestic INR 38*	*International: INR 51*
Port Charges	*Activation INR 5000*	*Rental INR 1200 pm*	*Activation INR 4000*	*Rental INR 1000 pm*
Telephony	*Security Deposits local: INR 3000*	*Security Deposits STD/ISD INT 4000/5000*	*No security deposits*	
TMRS	*Purchase Price /Set. USD 700*		*Purchase Price Set: Cheaper Options Available*	*Rental INT 1800 pm*

Escalation	*7.50%*	*5% of escalation for the first year of Operations. Thereafter a 7.5% escalation shall apply*
Deposits	*Security Deposits for CUTE / Other IR services*	*One single Bank Guarantee covering all IT &C services*

"

17.116. Further, DIAL provided the following information regarding break up of CUTE revenue and break-up of Non-CUTE revenues for the IT JV submitted in its filing. DIAL submitted the following in response,

"Following is the break up between cute and non cute revenues and the methodology of arriving at subsistence level:

Forecast working of IT Cost based on 2013-14 financials is as under:

IT Cost (in Crores)	*FY2014*
Subsistence as per agreement	*153.93*
Total Subsistence	*153.93*
Non Cute revenue	*26.46*
Cute revenue	*75.55*
Total revenue of JV	*102.01*
Net Expenditure payable by DIAL to JV	*51.92*

Based on the above following is the IT (JV) cost forecast:

IT Cost (in crores)	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Subsistence as per existing agreement	*165.15*	*150.59*	*150.18*	*123.67*	*43.41*
Addl Susbsistence as filed earlier	*18*	*36*	*94.8*	*94.8*	*94.8*
Total Subsistence	*183.15*	*186.59*	*244.98*	*218.47*	*138.21*
Non Cute revenue	*26.46*	*26.46*	*26.46*	*26.46*	*26.46*
Cute revenue	*79.03*	*82.66*	*86.46*	*90.44*	*94.6*
Total Projected revenue	*105.49*	*109.12*	*112.92*	*116.9*	*121.06*
Revised IT Outsource exp.	*77.66*	*77.47*	*132.06*	*101.57*	*17.15*

"

17.117. The Authority had also sought explanation on how pricing of services is currently being done by the IT-JV. DIAL provided the following clarification, referring to the table on negotiated rates presented in para 17.115 above, *"The pricing of IT services to the airlines was formalized through negotiation process. An AOC had managed the negotiation on behalf of airline bodies. Since then, these original rates are now escalated as per the negotiated rate card. AOC (Airline Operators Committee) recognised by IATA and is formed at each operating station. This body comprises of members representing their respective airlines. The airlines themselves nominate one representative of the member airline as Chairman to represent the interest of the airline community."*

17.118. The Authority has noted DIAL submission regarding the IT-JV arrangement; however, it is still not clear as to the issue of allocation of assets, services, revenues and expenses generated in the JV into aeronautical and non-aeronautical in nature. The Authority has noted DIAL has projected capital expenditure of Rs. 301.85 crores which includes computers, servers, CCTV, cameras and so on. There is a need to analyse this based on the requirements. Thus, the Authority has decided to commission an independent study to examine the issue of allocation of assets, services, revenues and expenses generated in the JV into aeronautical and non-aeronautical more closely. Based on the outcome of the study, proper treatment will be given to the revenues and costs. The Authority is aware that under the current arrangement of IT-JV, there is a potential revenue loss to AAI, as the revenue that ought to have come to DIAL is entirely being recorded in the books of the JV.

17.119. The Authority has noted IATA and AOC's comments on the increase in manpower costs and comments on inline baggage screeners. The Authority has also noted a recent circular by BCAS on minimum standard for Civil Aviation Security Equipment, inline baggage screening is to be done on a 100% basis rather than on random basis as was the practice earlier and due to this requirement DIAL will have to enhance the strength of its security screeners by 92 nos. This cost is included in the manpower cost. The Authority will provide a true-up on the basis of actual manpower costs realised by DIAL during the second Control Period at the time of the third Control Period.

17.120. Following the same consideration on inflation as proposed in the Consultation Paper No. 16/2014-15, the manpower costs are projected to increase at 10% as proposed by the Authority in the Consultation Paper No. 16/2014-15. While costs on account of Repair & Maintenance are based on actual contractual increases and shall be assumed to increase at 9%.

17.121. Further, the Authority has recognised that the expenses highlighted by DIAL – repairs & maintenance, property tax and water bills are important expenses required for regular operations of the airport. The Authority has noted that DIAL has made certain projections for each of these expense heads. However, the Authority has followed its own approach to project these expenses. The Authority notes that DIAL's projections are significantly higher than the Authority's projections, and DIAL has requested that such a difference will lead to a cash crunch situation for DIAL. In respect of these expense heads as well as unforeseen expenses, the Authority suggests DIAL to utilise working capital loans. The Authority has decided to consider the interest on the working capital loan as an operating expense (refer Decision 13.b) in respect of these items. Further, based on the documentary evidences submitted by DIAL on account of these categories, the Authority will provide a true-up at the time of tariff determination for the third Control Period.

17.122. The Authority has noted AOC's comment on consideration of items of the nature of operating expenses under Other Costs as capital expenditure. The Authority would like to point out that the list of items essentially pertains to repairs and maintenance of capital assets and therefore can be classified as operating expenditures.

17.123. The Authority has made projections of operating expenses in respect of DIAL for the second Control Period, based on the efficiency of the overall expenditure incurred at the Airport as indicated by the ICWAI Study commissioned by the Authority. Projections for individual items have not been made. Further to the comments by APAO, ACI, CII point of low operating cost projections the Authority wishes to clarify that it had mandated ICWAI to conduct an independent study to determine efficient costs for the first Control Period at the IGI Airport, Delhi as per its decision in the Delhi Tariff Order No. 03/2012-13. The ICWAI has determined that the costs for FY 2012-13 can be considered efficient costs in respect of the IGI Airport, Delhi. Noting that operation and maintenance cost for FY 2013-14 comes to an increase of 9.88% over FY 2012-13 (similar to the average inflation in FY 2013-14); it has considered the actual operating costs for FY 2013-14 as reasonable and appropriate base for projection of operating costs for the second Control Period. Projections have been made by applying annual growth rate of 7% for each sub-head of the operating costs including projected inflation at 5.1% (Average CPI-IW forecast for FY 2014-15 to FY 2018-19 as per RBI Survey of Professional Forecasters on Macroeconomic Indicators 35th round, refer para 22.9 below) with a headroom (real increase) of 1.9%. Thus, the projected operating expenses work out to be as below,

Table 57: Aeronautical Operating Expenses considered by the Authority for the second Control Period

Operating Expenses, Rs. crore	2014-15	2015-16	2016-17	2017-18	2018-19
Airport operator fees (Only Aero)	84.21	89.70	75.01	14.64	16.18
Manpower cost	125.09	137.60	151.36	166.49	183.14
Operating expenses	286.32	308.88	333.23	359.52	387.92
Administration expenses	118.97	127.08	135.74	145.01	154.93
Property tax	6.08	6.08	6.08	6.08	6.08
Utilities cost	112.21	120.21	123.28	127.62	137.52
Payment to AAI for VRS	16.81	16.39	15.81	15.32	14.79
Total Aeronautical Operating Expenses	**749.69**	**805.92**	**840.49**	**834.68**	**900.57**

Decision No. 15 The Authority decides to adopt the following approach for consideration of operating expenses towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:

15.a. To consider the cost allocation for the second Control Period as in Table 53 which is as per its Delhi Tariff Order No. 03/2012-13 for all sub-heads except VRS payment to AAI and Airport Operator Fee.

15.b. To consider the allocation of VRS payment to AAI at the rate of manpower allocation while projecting aeronautical expenses for the second Control Period.

15.c. To consider 3% of aeronautical revenues of DIAL as aeronautical component of Airport Operator Fee in the second Control Period

15.d. To commission an independent study to examine the issue of allocation of assets, services, revenues and expenses generated in the IT JV into aeronautical and non-aeronautical more closely. Based on the outcome of the study, proper treatment will be given to the revenues and costs.

15.e. To consider actual costs incurred by DIAL for FY 2012-13 as the efficient operation and maintenance costs for IGI Airport, Delhi based on ICWAI study on efficient Operation and Maintenance cost.

15.f. To consider actual costs for FY 2013-14 as the base for projection of operation and maintenance costs for the second Control Period.

15.g. To adopt an average growth rate of 7.0% (based on inflation of 5.1% per annum and headroom in real growth of 1.9%) for projection of the operation and maintenance costs for the second Control Period except for manpower costs for which the Authority decides to consider a growth rate of 10% while Repair & Maintenance expenses shall be considered at 9%.

15.h. To consider the inline baggage screening expenses incurred by DIAL towards security related requirements for determination of aeronautical tariff. Further, to bring to the attention and information of MoCA the inclusion of these elements of expenses of security, as the same is presently determined and monitored by MoCA.

15.l. To commission an independent study to assess the efficient operating costs of IGI Airport, Delhi for the second Control Period and to true-up the operating & maintenance costs, based on the findings of the study, at the time of determination of tariff for the third Control Period.

18. Taxation

a DIAL Submission on Taxation

18.1. DIAL's submission dated 11.11.2013 on Taxation is given as below:

"In this section, we describe the key considerations in relation to determination of corporate tax on the aeronautical services. SSA require that corporate, tax pertaining to aeronautical services shall be separately calculated and added as a building block to compute the final target revenue.

The computation of income tax, on aeronautical income, has been made on the prevailing Income Tax laws and rules. Further, the assumptions are as below:

- *The Aeronautical Segment has been treated as a standalone entity with its own tax computations. This may not necessarily reflect the overall tax computation of DIAL as a whole;*
- *In line with this, all items excluded from the calculations of the regulatory building blocks have been excluded from the regulatory tax computation. The items not taken into account include:*
    - *Non-aeronautical operating costs or depreciation;*
    - *Revenue share costs as they are mandated, to be excluded as per concession documents.*
    - *Tax Computation has also considered MAT provisions.*
- *In our current calculation we have not assumed any tax on true up revenue. This is based on the assumption that this tax was allowed by authority in earlier control period and there is no true up of taxation for first control period.*

  However at any stage if this stand is changed then we need to incorporate tax on true up revenues as well."

18.2. DIAL submission dated 11.11.2013 on forecast for corporate tax for the second Control Period as under:

"

INR Crore	2014-15	2015-16	2016-17	2017-18	2018-19
Corporate Tax	410	604	769	981	1237

"

18.3. DIAL's revised submission dated 23.07.2014 on forecast for corporate tax for the second Control Period as below:

"

INR Crores	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Aero Corporate Tax	250	711	891	1129	1413

"

b Authority's Examination of DIAL Submissions on Taxation

18.4. The Authority had carefully examined DIAL submissions with regard to taxes to be considered towards determination of aeronautical tariff and noted DIAL's submission on exclusion of following items for the purpose of regulatory tax computation:

"Non-aeronautical operating costs or depreciation, Revenue share costs and MAT provisions"

18.5. The Authority noted that if the above elements of costs are excluded from the composition of tax, the notional tax burden would be substantially higher than the actual burden on account of tax that is paid out by DIAL.

18.6. The Authority had noted that wordings of State Support Agreement (SSA) – "corporate taxes on earnings pertaining to aeronautical services". The Authority also noted that tax is a statutory payment due to the Government. Further, the tax is being expensed out as a building block in the target revenue computations. Therefore, if the actual tax paid in any of the years (in the control period) is lower than the tax forecast to have been paid (and accordingly included in the target revenue calculation), it would lead to a situation wherein DIAL would benefit unjustly. The Authority was of the view, that calculation of tax on theoretical basis without linkage to actual tax paid, being a statutory payment, is not appropriate.

18.7. The Authority proposed to determine such corporate tax pertaining to aeronautical earnings based on the consideration of actual / projected aeronautical revenue, operating expenses pertaining to aeronautical services, depreciation pertaining to aeronautical assets and interest expense and had considered the applicable tax rate. As the actual tax liability for DIAL would include the adjustment of its gross revenue by the amount of revenue share paid by it to AAI, the Authority proposed to consider revenue share as an expense purely for the purpose of calculation of corporate tax on earnings pertaining to aeronautical services. The Authority further clarified that the depreciation, to be considered for such tax calculation, should be the depreciation on account of aeronautical assets only. The Authority was of the view that as Hypothetical Regulatory Base, to be determined in line with SSA, is of hypothetical nature and does not correspond to physical assets in the books of accounts of MIAL, depreciation on such assets should not be considered towards calculation of tax pertaining to aeronautical services.

18.8. The Authority estimated and proposed to consider the values for taxation in the second Control Period as below,

Table 58: Summary of Tax forecast for the second control period by DIAL in Consultation Paper No. 16/2014-15

Component	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Corporate Tax (Rs. crore)	-	-	-	-	-

18.9. The Authority was not persuaded to reconsider its earlier decision as per the Delhi Tariff Order no. 3/2012-13 and proposed that only the actual corporate tax paid that can be ascribed to aeronautical earnings will be reckoned for the purpose of determining the target revenue. The Authority also proposed to true up the same at the time of determination of the tariff for the third control period.

c Stakeholder Comments on Issues pertaining to Taxation

18.10. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders including IATA, VistaRa, APAO, CII, MIAL, Air India etc. in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No 16/2014-15 dated 28.01.2015. Comments with respect to taxation are presented below.

18.11. On the matter of consideration of revenue share to AAI as cost for determination of tax, CII commented that,

"Revenue Share not to be considered as Operating Cost for the purpose of arriving at AERO Tax figure Background: The SSA entered between DIAL and the Government of India lays down the methodology of fixation of Aeronautical Charges. The stand and view taken by AERA that tax need to be trued up and be calculated with revenue share as expense is not correct in the context for the purpose of aero tax determination. The revenue share paid to AAI is not allowed as a pass through cost as per SSA. Under Schedule 1, corporate taxes are to be allowed only on earnings pertaining to Aeronautical services.

CII request: Corporate tax has to be computed on standalone basis in respect of aeronautical services on notional basis."

18.12. MIAL commented the following in this regard,

"As you are aware Schedule 1 of SSA prescribes Principles of Tariff fixation. SSA and OMDA, along with other Project Agreements were the basis for bidders to quote revenue share at the time of privatization of Delhi and Mumbai airports. Example given in the Schedule 1 for tariff calculation clearly demonstrates how tax need to be calculated on aeronautical earnings.

AERA has adopted provisions of SSA - Reference Schedule 1 and clause 3.1.1 concerning. Inter alia, non-allowability of Annual Fee as cost pass through. However while accepting one part of the issue, the Authority has disregarded the fact that the tax has to be computed without considering Annual Fee as an expense. Hence impact of non-allowability of Annual Fee to be borne by DIAL is net of applicable tax. Authority's approach would lead to a situation in which (he airport operator would never receive the corporate tax and thereby making this building block (i.e. Tax) redundant, which could not have been the intention of the government while entering into SSA.

Negative impact on Target Revenue of DIAL as per the Authority Consultation Paper compared to that as per SSA Schedule I are shown by way of an illustration in the table below:

	As per Authority's Approach	*As per SSA*
Aeronautical Revenue before cross subsidisation(assumed)	*130*	*130*
Less: Cross subsidy (assumed)	*30*	*-*
Aero revenue considered for tax computation	*100*	*130*
Less:		
Revenue Share@ 45.99%	*45.99*	*-*
Operating expenses	*55.39*	*55.39*
Depreciation	*34.63*	*34.63*
Finance Charges	*24.83*	*24.83*
Total Expenses	*160.84*	*114.85*
Profit Before Tax	*-60.84*	*15.55*
Tax @30%	*-*	*4.55*
Loss to DIAL vis-à-vis SSA provisions	*4.55*	

Note. Expenses considered above i.e. operating expenses, depreciation and financing charges are estimated figures

As is evident from above, not allowing corporate tax reimbursement as per the Target Revenue equation prescribed is against the explicit provisions of SSA which were considered by each bidder while quoting Revenue Share. Considering corporate tax which is an important building block of Target Revenue as zero perpetually could have never been the intention of the legislature. Hence, Annual Fee should not be considered as an expenditure while calculating corporate tax."

18.13. APAO too has submitted a similar view stating that, *"The treatment of revenue share as an operating expense is against the State Support Agreement.*

The Section 3.1.1 of the agreement clearly states:

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

Furthermore, the treatment by AERA with respect to revenue share is extremely discretionary and inconsistent. The proposal penalizes the airport twice, once by not including revenue share as a part of building block and another by treating it as a pass through for arriving at aero tax building block.

i. In compliance with the provisions of SSA, the target revenue of the DIAL is calculated as per the following formula:

TRi = RSi X WACC + OMi + Di +Ti - Si

Where T=Tax represents the corporate taxes on earnings only on Aeronautical Services

ii. AERA may note that regulatory and statutory accounts are two different set of books.

Regulators in other parts of the world do not follow statutory accounts. Both are considered to be separate set of books of accounts. They only regulate on a notional entity which includes all or part of some parts of revenues or cost but exclude others.

i) In Denmark, as in many countries it is possible for some assets in the statutory accounts to be revalued – particularly when they have a market value which can be directly assessed.

ii) For Copenhagen Airport, these revaluations are included in statutory accounts but excluded in accounts used for regulatory purposes.

APAO Recommendation:

Hence, it is recommended that tax should be allowed in the regulatory accounts based upon the calculation in which Revenue Share is not taken into *account as an expense which is in accordance with the example and provisions of the SSA."*

18.14. ACI stated the following on this issue,

> *"We urge the AERA to adhere to the concession agreement with respect to the methodology of calculation of the building blocks. For example, the consideration of Revenue Share as a pass through for determining the aeronautical tax building block. If AERA considers revenue share as a pass through for the tax building block, then the same effect should also be given for the operating cost tax building block and allowed as a cost to be recovered. This is the logical framework of the DIAL concession agreement."*

d DIAL's response to Stakeholder Comments on Issues pertaining to Taxation

18.15. DIAL has agreed with CII's suggestion with respect to not considering revenue share with AAI as operating cost for the purpose of arriving at AERO tax, stating that,

> *"The SSA entered between DIAL and the Government of India lays down the methodology of fixation of Aeronautical Charges. As per Schedule 1 of the SSA, the target revenue of target revenue of the DIAL is calculated as per the following formula:*
>
> *TRi = RSi X WACC + OMi + Di +Ti - Si*
>
> *Where T=Corporate Taxes on earnings pertaining to Aeronautical Services. The words aeronautical services are emphasised being the way T is defined under the Schedule 1 as that only pertaining to Aeronautical Services.*
>
> *Furthermore, clause 3.1.1 of SSA reads as follows: 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 the costs for the provision of Aeronautical Services and no pass through would be available in relation to the same*
>
> *Thus under clause 3.11., revenue share paid/payable to AAI shall be not be*

treated as costs for provision of Aeronautical Services. While the definition of tax in the Schedule 1 of SSA provides for tax only on Aeronautical Services, clause 3.1.1 clearly excludes revenue share as a cost for the provision of Aeronautical Services. While AERA proposes to exclude revenue share from operating costs for computation of tariffs for Aeronautical Service, it is not excluding the revenue share for the purpose of calculation of Tax in the building blocks arid going by the actual tax as per books."

18.16. With respect to MIAL's comments on the subject, DIAL has stated that it agrees with MIAL and added the following in addition to its comments in para 18.19 below to para 18.22 below,

"In our opinion Revenue share multiplied but corporate tax should be added back as a building block in tariff calculation.

Apart from above we shall like to add that Authority has deviated from methodology followed in first control period in allowing the tax building block. In first control period the tax was calculated without revenue share as tax. AERA is requested to calculate tax without revenue share as an operating expenditure for determining the building block of Tax."

18.17. With respect to APAO's comments, DIAL stated that *"the concession agreement needs to be read holistically and a logical and consistent approach on this issue followed."* DIAL provided the same comments as in para 18.19 below to para 18.22 below.

18.18. In response to ACI's comments, DIAL reproduced its comments in para 18.15 above. It further added,

"Revenue share was not considered as Opex for the 1st control period and tax benefit was allowed in first control period (with a later rider that it will be trued up basing on the actual payments in the subsequent control period). So there is a change in the principle settled earlier. Further, it may also be stated that the principle adopted by the Authority is not justifiable since while calculating ARR the revenue share was not considered as opex while calculating the corporate

tax entitlement as per the SSA formula, the revenue share was considered as an expense which is not as contemplated in the SSA. This goes against the construct of the OMDA and puts DIAL to unfair financial jeopardy.

In many forms of regulation worldwide (including DUAL and Hybrid Approaches) the entity being regulated, obviously under Dual/ Hybrid Till, will not have separate Profit and Loss Statement and Balance Sheet for aeronautical side of business. The company always maintains single P&L and BS for the entire business which includes Aeronautical.

Authority is requested to follow the following principles:

If a part of company is included in a regulatory determination, then its tax impact would be taken into account if a part of a company is to be excluded from regulation, its tax impact would equivalently be excluded."

e DIAL's own comments on Issues pertaining to Taxation

18.19. DIAL stated the following with respect to truing up of actual taxes, stating as below,

"AERA is truing up actual taxes for first control period in violation of the its own approach in first control period and the provision of the concession agreement.

The above matter is sub judice. Authority has deviated from methodology followed in first control period in allowing the tax building block. In first control period the tax was calculated without revenue share as tax. AERA is requested to calculate tax without revenue share as an operating expenditure for determining the building block of Tax."

18.20. Regarding the Authority's stand on considering taxation on aeronautical services, DIAL has commented that,

"The Authority needs to appreciate that there is no unjust benefit accruing to DIAL. To the contrary, if DIAL has not been allowed revenue share as part of building block, considering the same as cost for the purposes of tax calculation will unjustly put DIAL to a serious financial disadvantage. This approach of the Authority is thus not consistent and lacks merit.

The concession agreement needs to be read holistically and a logical and consistent approach on this issue followed.

The SSA schedule 1 lays down that what does the component "T" – the Tax mean while determining the components of building block for Target revenue. The letter "T" is defined in schedule 1 as under:

T = corporate tax on earnings pertaining to Aeronautical Services

From this definition, following two clarities emerge:

3. Tax need to be calculated only for the earnings pertaining to aeronautical services:

In terms of Schedule 1 of the SSA, the corporate tax on earnings pertaining to Aeronautical Services should be separately calculated and added as a building block to compute the final target revenue. This approach is consistent with the standards and practices accepted worldwide. This approach contemplates an artificial division of DIAL's overall income and independent consideration of the earnings pertaining to Aeronautical Services to compute the tax component for the aeronautical side.

The SSA envisages corporate tax pertaining to aeronautical earnings be separately calculated and added as a building block to compute the final target revenue. This calculation has no correlation with the statutory tax calculation, for various reasons like revenue share not being allowed as opex and non-aero as also the past losses."

18.21. Further, regarding cost pass through of the revenue share of AAI for determining target revenue and estimating tax, DIAL commented as below,

"Under Schedule 1 of the SSA, tax is a building block towards the target revenue; the notional tax on aeronautical services (without considering revenue share as a deduction) need to be the building block of tax. The reason for not considering the revenue share is that since the revenue share is not taken as O&M cost, it can also not be deducted for

tax purposes. Acting contrary to the express provisions of the SSA, AERA has decided to take into account the revenue share as an opex which is contrary to concession agreement. Thus DIAL gets a lower tax add-on in Authority's Examination of Stakeholder Comments on Issues pertaining to Taxation the building block. This is not permissible and runs contrary to the provisions of the SSA.

In our view AERA has committed error in methodology of calculating tax based the methodology which considers revenue share as opex. The key principle underlying the Concession Agreements and the AERA Act is that DIAL would have two separate tax calculations, one regulatory and the other statutory. They both have different purposes. The Statutory tax is calculated as per Income Tax act for payment of income tax whereas aero tax is mandated to be calculated as per provisions of the concession agreement."

18.22. DIAL has requested that in calculation of taxation, the revenue share should not be taken as opex, elaborating on ICF Report on Statutory accounts and regulatory accounts and international experience, provided by it to the Authority.

f Authority's Examination of Stakeholder Comments on Issues pertaining to Taxation

18.23. The Authority has carefully considered the comments from CII, MIAL, APAO and ACI as well as DIAL's comments and response to these stakeholder's comments regarding taxation for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

18.24. In response to CII, MIAL, APAO and ACI's comments on the issue of consideration of revenue share to AAI as a cost pass through, the Authority notes that if revenue share is considered as a cost pass through, the, the notional tax burden would be substantially higher than the actual burden on account of tax that is paid out by DIAL. Further on the matter of computation of taxation aeronautical services, the Authority has noted that wordings of State Support Agreement (SSA) – "corporate taxes on earnings pertaining to aeronautical services", and further that the tax is a statutory payment due to the Government. Furthermore, the tax is being expensed out as a building block in the target revenue computations. Therefore, if the actual tax paid in any of the years (in the control period) is lower than the tax forecast to have been paid (and accordingly included in the target revenue calculation), it would lead to a situation wherein DIAL would benefit unjustly. The Authority is of the view, that calculation of tax on theoretical basis without linkage to actual tax paid, being a statutory payment, is not appropriate.

18.25. Additionally, the Authority has decided to determine such corporate tax pertaining to aeronautical earnings based on the consideration of actual / projected aeronautical revenue, operating expenses pertaining to aeronautical services, depreciation pertaining to aeronautical assets and interest expense and had considered the applicable tax rate. As the actual tax liability for DIAL would include the adjustment of its gross revenue by the amount of revenue share paid by it to AAI, the Authority has decided to consider revenue share as an expense purely for the purpose of calculation of corporate tax on earnings pertaining to aeronautical services. The Authority further clarifies that the depreciation, to be considered for such tax calculation, should be the depreciation on account of aeronautical assets only. The Authority is of the view that as Hypothetical Regulatory Base, to be determined in line with SSA, is of hypothetical nature and does not correspond to physical assets in the books of accounts of DIAL, depreciation on such assets should not be considered towards calculation of tax pertaining to aeronautical services.

18.26. Thus, the Authority has estimated that the projected tax is nil in each year during the second Control Period. The Authority has decided to consider the values for taxation as nil in each year during the second Control Period.

18.27. Furthermore, since the actual corporate tax paid that can be ascribed to aeronautical earnings will be known at the end of the 2nd control period, the Authority also proposed to true up the same at the time of determination of the tariff for the third control period.

Table 59: Summary of Aero Tax forecast for the second control period considered by the Authority

Component	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Corporate Tax (Rs.	-	-	-	-	-

crore)					

Decision No. 16 The Authority decides to adopt the following approach for consideration of taxation towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:

16.a. To consider the operator as a legal corporate entity and treat its revenue share as an operating expense for the purpose of estimation of corporate taxes in respect of DIAL for the second Control Period.

16.b. To forecast the corporate tax payable on aeronautical earnings in the second Control Period as per Table 59.

16.c. To true up the forecast figures of tax on aeronautical earnings of the 2nd Control Period as per the actuals at the time of determination of aeronautical tariff for the third Control Period.

19. Non-aeronautical revenue

a DIAL Submission on Non-aeronautical revenue

19.1. An extract of DIAL's submission on forecast methodology and classifications for Non-aeronautical revenue dated 11.11.2013 is as given below,

"In this section of the regulatory filing, we present forecasts of non-aeronautical revenues, together with explanations to support these.

Forecast methodology:

We have forecasted the Non-Aeronautical revenue based on the nature of revenue. There are services that generally grow in line with growth in:

1 ATM

2 International Passengers

3 Total Passengers

4 Cargo growth

5 Others: There are revenue streams which are not linked to any of the above drivers or are based on contracted amounts

We have taken the Numbers of the half Year ended 30th September 2013 and extrapolated the same for the full year assuming that the same growth trend will prevail in the II half of the year. These are the latest numbers available for the filing."

19.2. An extract of DIAL's submission on "Air Traffic Movement Linked Revenue" is given as below,

"A. Into Plane (ITP) Concession revenues

This section is concerned with the forecast of the into plane revenues.

We have two ITP concessionaires namely

1. M/s Indian Oil Skytanking Ltd. (IOSL); and

2. Bharat Star Services P. Ltd. (BSSPL)

These concessionaires are responsible for Procurement, Installation, and Maintenance & Operation of ITP Assets at IGI Airport. ITP concessionaires pay us 5% as concession fee.

Historical trend of fuel throughput & into plane farm is as below:

INR Crores	*2012-13*	*September 2013 (half year)*
Into Plane Service	*1.25*	*0.68*

ITP Assumptions:

- *These services are availed by flights using Terminal 3.*
- *Growth rate assumed here for revenue projections is of air traffic movements (ATMs) of 5.37% (CAGR) as per the Mott Forecast.*
- *Additional increase assumed over and above traffic growth is 5%.*
- *We also foresee a trend among airlines to opt for better fuel-efficient aircrafts such as 787, A320, Q400 etc. to reduce their operational cost. This will have negative impact of 3% on ITP throughput at IGIA. This is in line with the historical trend where the revenue has declined.*
- *Apart from above there will not be any growth in this revenue stream from any other factor. There will not be any inflation-linked growth of Non Aeronautical revenues.*

B. Ground handling (Bridge-mounted equipment- BME)

Providers of bridge-mounted equipment pay a fixed percentage of revenue as concession fee. The total concession fee payable is calculated by multiplying total revenue by the revenue share percentage. Total revenue consists of following ground handling services:

- *Ground power unit revenue;*
- *Pre air-conditioning unit revenue; and*
- *Potable water revenue.*

forecasts for each revenue stream are based on MOTT forecast of air traffic movements as well as assumptions in aircraft types and use of remote stands. Rates are assumed to remain unchanged in real terms.

Historical trend of BME revenues is as below: INR Crores 2011-12

INR Crores	*2011-12*	*2012-13*	*September 2013 (half year)*
Bridge-mounted equipment revenues	*4.43*	*5.96*	*3.18*

BME Assumptions:

- *Growth of BME business is linked with ATM growth.*
- *We have applied ATM growth rate of 5.37% (CAGR) as forecasted by MOTT.*
- *Apart from above there will not be any growth in this revenue stream from any other factor. There will not be any inflation-linked growth of Non Aeronautical revenues.*

C. Ground handling revenues

This section is concerned with the forecast of the ground handling concession fees payable. These are based on concession contracts with ground handling providers, and are fixed until the end of concession term. There are currently four authorised Ground Handling service providers at the airport:

1. *Cambata,*
2. *BWFS,*
3. *Air India-SATS and*
4. *Celebi.*

These providers make two types of payments:

a. Rental or annual licence fees, which has been covered below land rental below; and

b. A concession fee expressed as a percentage of revenue.

Historical Revenue of ground handling has been as below:

INR Crores	*2012-13*	*September 2013 (half year)*
Revenue from Registered Handlers	40.66	21.82
3rd Party Ground Handlers	16.22	7.97
Total Ground handling revenues	56.88	29.79

The Ground handling revenue of 2013-14 (half year) includes revenue from third party ground handlers of Rs. 7.97 Crores. In future we expect that due to changes in ground handling policy this revenue will not accrue to us. As such the revenue is forecasted based on only registered ground handlers.

Ground Handling Forecast Assumptions. This forecast is based on:

- *The ATM forecast, sourced from MOTT.*
- *ATM Growth is assumed to be 5.37% (CAGR) as forecasted by MOTT*
- *We have assumed a decline in rates of 2% due to increased competition.*
- *As per the terms of contract the GH price increase is based on WPI. As per contractual term with GH we are eligible for an increase equivalent to WPI every 3 years.*

The current RBI forecast of WPI for next 5 years is 6.1%.

Accordingly we have considered an increase of 18.3% (6.1% X 3) for the year FY2016 and FY2019. This is based on forecast report of professional forecasters released by RBI.

RBI Forecast of WPI:

- *Extract from RBI Forecast (Results of the Survey of Professional Forecasters on Macroeconomic Indicators – 24th Round (Q1:2013-14).*

Source: rbidocs.rbi.org.in/rdocs/Publications/PDFs/01MSPF270713.pdf

Split between different aircraft types, based on the current split and it is assumed to remain unchanged;

- *No revenues have been considered for NACIL "Air India" Flights (Both International and Domestic) as they are being self-handled by Air India SATS Ground handling company. There is no revenue accruing to DIAL from above.*

- *Apart from above there will not be any growth in this revenue stream from any other factor. There will not be any inflation-linked growth of Non Aeronautical revenues.*

The current ground handling forecast has been based on historic ground handling revenues.

- *The forecasted revenues have been increased at the ATM growth rate of each year.*
- *We have taken the revenue of registered ground handlers for 6 months ending September 2013 and extrapolated the same to arrive at 2013-14 numbers.*
- *These are the base numbers on which we have forecasted future revenues.*

D. Cute Counter Rental (Charges)

Cute counter charges revenue for 2012-13 was as below:

INR Crores	*2012-13*	*2013-14 Half year*
Cute Counter Charges		
Domestic	*4.70*	*1.96*
International	*5.67*	*3.45*
Total	*10.37*	*5.41*

Assumptions:

- *Growth of cute counter charges is linked with ATM growth rate of 5.72% (CAGR) for domestic and 4.27% for international as per the Mott Forecast.*
- *Six months revenue of FY 2013-14 is extrapolated to arrive at complete year revenue and is used as base for future forecast.*
- *Apart from above there will not be any growth in this revenue stream from any other factor. There will not be any inflation-linked growth of Non Aeronautical revenues."*

19.3. An extract of DIAL's submission on "Total Passenger Traffic Linked Revenue" is given as below.

"A. In-flight kitchen (IFK) revenues

This section is concerned with the forecast of the in-flight kitchen concession fees. These are based on concession contracts with in-flight kitchen providers. The rates have been assumed to remain same due to competitive scenario. There are currently four providers of (IFK's) services at the airport:

1 Ambassador,

2 Oberoi,

3 Sky Gourmet and

4 Taj Sats.

All providers make two payments to DIAL:

- *Rental or an annual licence fee, which has been covered below land rental; and*
- *A concession fee expressed as a percentage of their total revenue (revenue earned from inflight and outside catering).*

The following are the historical revenues from In Flight Kitchen:

INR Crores	*2011-12*	*2012-13*	*September 2013 (half year)*
In-flight kitchen revenues	*36.62*	*33.20*	*17.15*

IFK Assumptions:

Inflight catering business usually grows at the rate of passenger growth rate; however we assume that there will be pressure in this stream due to followings:

o The airline business will be negatively impacted due to cessation of operations of full service airlines like Kingfisher and American Airlines

o Shift of PAX Traffic from Full service airlines to LCC.

o Most of the domestic airlines are changing their meal concept from Full Meal to Buy on Board (BOB). BOB are much lower priced than the Full Meal that is *resulting in lesser revenue per meal to the caterer. We also foresee, increase in future demand of ready to cook meals (packaged meals) in flights.*

o Competitive environment in IFK business has resulted in reduction in per meal prices.

o In view of the sluggish business environment we have not considered any growth for first two years.

o Thereafter we have only assumed a Y-o-Y increase of 4.60% (pax growth - CAGR) as forecasted by Mott.

o There is no other growth including inflation expected in this revenue source.

- *We have taken the revenue of 6 months ending September 2013 and extrapolated the same to arrive at 2013-14 numbers.*
- *These are the base numbers on which we have forecasted future revenues.*

B. Car parking, Entry Ticket and Left Luggage Facility revenues

DIAL has concessioned out car park to Delhi Airport Parking Services Private Limited ("DAPS"). DAPS provides car parking management, entry ticket and left luggage services at the Delhi Airport. The parking facilities at Terminal 1 and are also handle by DAPS. DAPS manages services at the airport and collect charges/fees as revenue from the users. The Delhi Airport has a five-storied car park.

An overview of the car parking, entry ticket and left luggage facility audited revenue for financial year 2011-12, 2012-13 and half year of 2013-14 is depicted in the following table.

INR Crores	2011-12	2012-13	September 2013 (half year)
Car park	5.47	5.76	4.40

The Car Park business is below tremendous pressure because of following:

o There has been a shift in passenger traffic to T1 from T3 due to shift of traffic towards LCC and the collapse of Kingfisher.

o The terminal T1 has limited parking space. This is resulting in a decline in the revenue from car park.

o Metro impact wherein we expect stiff competition in terms of pricing and passengers migrating towards the same over a period of time as it is convenient and fast mode to connect city has resulted in less usage of cars

o Impact of DTC buses both in T3 and T1 has resulted in less usage of cars

We have taken revenue of the half year ended 30th September 2013 as base for extrapolation to arrive at forecast of revenue for the control period. Forecasted revenue is escalated on following accounts:

o In year 2013-14 the revenue share has increased from 10% to 15% as per terms of contract.

o In 2015-16 Revenue share is scheduled to increase to 20% as per terms of contract.

o In 2016-17 one time Parking tariff increase by 15%. This is based on our assumption.

o Apart from above there is no growth expected due to any other factor including inflation

C. Retail

There are a number of concessionaires in Retail category at Delhi Airport. The revenue shares payable to DIAL are a percentage of total retail revenue. The percentage is provided in concession agreements with the concessionaires. The contracts also specify a minimum amount of guaranteed revenue (MMG). If the revenue multiplied by the revenue share percentage falls below this minimum guaranteed amount, the revenue share payment is replaced by the minimum guarantee.

An overview of the historical revenue is as below:

INR Crores	*2011-12*	*2012-13*	*September*

			2013(half year)
Retail-Duty Paid	42.35	54.45	31.10

Increase of 28.6% in FY2013 vis-à-vis FY2012 was achieved as many large vacant retail spaces were let out to new concessionaires.

We have taken revenue of the half year ended 30th September 2013 as base for extrapolation to arrive at forecast of revenue for the control period. Forecasted revenue is escalated on following accounts.

Total passenger traffic growth of 4.60% (CAGR) as per Mott Study

1. Additional growth of 2% pa

2. Apart from above there is no growth expected due to any other factor including inflation.

INR Crores	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Retail-Duty Paid	62.20	66.36	70.80	75.54	80.60	85.99

D. Food & Beverage and Lounges

DIAL has following major food and beverage concessionaires:

1. Travel Food Services (Delhi Terminal 3) Private Limited,

2. Devyani Food Street Private Limited and

3. Delhi Select Service Hospitality Private Limited,

4. Lite Bite foods Private Limited

5. Devyani International

These concessions have been entered into with the aim of undertaking the design, establishment, setting up, development, operation, maintenance and managements of food and beverage outlets at the Delhi Airport. The Delhi Airport has food and beverage outlets, falling within the categories of cafes and bars; fine dining; quick service restaurants and sweets and ice creams.

E. Lounge revenues

In case of lounges we get revenue share. The revenue shares payable to DIAL are a percentage of total lounge revenue. An overview of the audited revenue of financial year 2011-12, 2012-13 and half year of 2013-14 is as following:

INR Crores	*2011-12*	*2012-13*	*September 2013 Half year*
Food & beverage	*41.39*	*42.24*	*24.18*
Lounges	*20.10*	*18.82*	*10.39*

- *There is a shift of traffic from T3 to T1 due to collapse of Kingfisher and emergence of low cost carriers.*
- *The food and beverage option at T1 are limited and there is going to be pressure to be able to get the same level of revenue as 2012-13*
- *In T1 since the space is limited, the shift in passengers are not effectively being converted into revenue. Also due to limitation of space for large format concepts, there is growth limitation.*

We have taken audited revenue of the half year ended September 2013 as base for extrapolation to arrive at forecast of revenue for the control period.

Forecasted revenue is escalated on following accounts.

1. Total passenger traffic growth of 4.60 (CAGR) as per Mott Study

2. Apart from above there is no growth expected due to any other factor including inflation.

For Lounges the following is the list of concessionaires and the expected revenue:

Contract Name	*Current Monthly Avg. Billing (in Rs. Crs)*
Premium Lounge T1D SHA	*0.05*
Premium Port Lounge	*0.31*
ITC Lounge at T3, Int'l Wing	*0.17*
Premium Port Lounge, INL 04 T-3	*0.16*
Emirates Lounge, IL-8 T-3	*0.27*
Buddy Retail Amex Lounge Domestic Departure T-3	*0.11*
Singapore Airlines Lounge IL 09 (B)	*0.09*
Lufthansa Lounge IL 09 (A)	*0.10*

Nap & Massage T1D PPML	*0.03*
Air India Lounge	*0.29*
Grand Total	*1.56*
Annual Projected	*18.75*

For Lounges there is only overall pax growth used for escalation assumption because of the following reasons:

a. Impact of business in lounges due to shift in passengers to T1. The T1 is a small terminal with less option and as such revenue generation also is low.

b. Closure of Kingfisher has impacted business.

c. Impact on CIP Lounge operators due to direct lounge operations by airline

d. Consolidation of business and competition in terms of pricing

Following is forecast of Food & Beverage and Lounges

INR Crores	*2014-15*	*2015-16*	*2016-17*	*2017-18*	*2018-19*
Food & beverage	*50.58*	*52.91*	*55.35*	*57.89*	*60.55*
Lounges	*19.61*	*20.51*	*21.46*	*22.45*	*23.48*

Radio taxi

Radio taxi service providers pay fees to DIAL for the use of the facilities.

An overview of the audited revenue for financial year 2011-12, 2012-13 and half year of 2013-14 is depicted in the following table:

INR Crores	*2011-12*	*2012-13*	*September 2013 - Half year*
Radio Taxi	*15.96*	*15.01*	*8.03*

T

There is drop of about 6% in revenue from radio taxi in 2012-13 as shown above. The reasons of decline are

1 Availability of alternate means of transport like metro.

2 Shift to Black and yellow taxis due do tightening budgets both of the families and corporates.

3 Better connectivity by bus

We have taken revenue of the half year ended 30th September 2013 as base for extrapolation to arrive at forecast of revenue for the control period.

Forecasted revenue is escalated on following accounts.

1. An overall growth of 2% p.a.

2. Apart from above there is no growth expected due to any other factor including inflation.

F. Other Travel Services

There are other travel service portals/providers which occupy space at terminal and pay fees to DIAL for use of facilities. An overview of the audited revenues for financial year 2012-13 and half year of 2013-14 is depicted in the following table

INR Crores	*2012-13*	*September 2013 (Half year)*
Other Travel Services	*10.31*	*6.19*

We have taken revenue of the half year ended 30th September 2013 as base for extrapolation to arrive at forecast of revenue for the control period.

Forecasted revenue is escalated on following accounts.

1. An overall passenger growth of 4.6% p.a.

2. Apart from above there is no growth expected due to any other factor including inflation."

19.4. DIAL's submission on "Total Passenger Traffic Linked Revenue" is given as below,

"A. Retail-Duty-Free revenues

Duty free was concessioned out on a competitive bidding where the highest bidder was selected to manage the duty free operations at airport. The duty free is concessioned out to Delhi Duty Free Services Pvt. Ltd. (DDFS). DDFS was incorporated for the purpose of setting up, developing, operating, maintaining and managing the duty free outlets at the Delhi Airport.

DDFS is the largest duty free retail operator in India operating out of Terminal-3. The duty free shops at the Delhi Airport are spread across international departure and arrivals. DDFS provides a wide range of products for passengers *such as perfumes, cosmetics, confectionery, liquor, tobacco, souvenirs and fashion. DDFS also has a specialty fashion area at the international departures area where travellers can purchase fashion products and accessories from luxury brands.*

Contract with duty free provider also specifies a minimum amount of guaranteed revenue to DIAL (MMG). If the provider's revenue is multiplied by the revenue share percentage falls below this minimum guaranteed amount, the revenue share payment is replaced by the minimum guarantee. This is the case in every year of the forecast. The minimum guarantee for the concessionaire DDFS is expressed as a constant amount per passenger in US dollars.

An overview of audited revenue for financial year 2011-12, 2012-13 and half year of 2013-14 is as following:

INR Crore	2011-12	2012-13	September 2013 Half year
Retail-Duty Free – DIAL revenue share	157.99	194.94	111.85

However if we see the turnover of concessionaire in USD terms it is severely below pressure as shown below:

USD - million	2011-12	2012-13	September 2013 Half year
Retail-Duty Free turnover of concessionaire without promotional income	97	109	57
Growth %		12%	5%

The increase 2013-14 is mainly because of depreciation of Indian currency.

- *IN USD terms the growth is not high.*
- *The growth has severely declined in 2013-14 as shown above.*

We have taken revenue of the half year ended 30th September 2013 as base for extrapolation to arrive at forecast of revenue for the control period.

Going forward with the economy in a very bad shape the discretionary spend by passenger is going to be hit the most. The Duty Free mainly deals in luxury goods. This is the item that is impacted the most in an economic downturn. As *such we expect that the performance of the Duty Free is going to be impacted in this control period.*

Forecasted revenue is escalated on following accounts:

1. International passenger traffic growth of 4.60 (Intl Pax CAGR- as per Mott Study).

2. Additional growth of 2% pa

3. Apart from above there is no growth expected due to any other factor including inflation."

19.5. DIAL's submission of summary of the "Other Revenues" for the 2nd control period is given as below,

"A. Advertisement revenues

DIAL has concessioned out the advertisement below a competitive bidding to TIM Delhi Airport Advertising Private Limited ("TIMDAA"). DIAL gets a revenue share of 55% (up to 15 years) and 61% (from the 16th to the 20th year).

TIMDAA provides advertising opportunities within and outside the Delhi Airport. The sites awarded are classified below following major locations (i) locations at Terminal 3 - indoor and outdoor sites at Terminal 3; (ii) locations at other terminals – indoor and outdoor sites at Terminal 1; and (iii) metro stations.

Advertising opportunities within the airport is in the form of ambient lit banners; front lit static sites, backlit totems, digital media, wall wraps and pillars, promotional stalls, strollers, giant banners and light boxes. Advertising opportunities outside the Delhi Airport are in the form of banners along the road to and from the Delhi Airport. Historical revenues till 2012-13 have been as below:

INR Crores	*2011-12*	*2012-13*	*September 2013 Half year*
Advertisement	*65.85*	*70.43*	*40.54*

Advertisement is a discretionary spends of the corporates. Advertisement revenues are curtailed the most in an economic down turn. As such we expect pressure on the revenues in the future years.

2. Advertising business's growth depend on factors like macro-economic scenario and industry growth driven by corporate spends Due to slowdown and reduced spends by corporates on large OOH format, the growth is expected to be challenged.

We have taken revenue of the half year ended 30th September 2013 as base for extrapolation to arrive at forecast of revenue for the control period.

Forecasted revenue is escalated on following accounts

1. We have considered traffic growth of 4.6% YOY for the future during the control period

2. Apart from above there is no growth expected due to any other factor including inflation.

B. Foreign exchange

In case of foreign exchange, there is a cap on the commission chargeable by the concessionaires. The concessionaire share part of their commission with DIAL that is expressed as a percentage of their total turnover. The contracts with concessionaries also specify a minimum amount of guaranteed revenue (minimum monthly guarantee of MMG).

An overview of the audited revenue for financial year 2011-12, 2012-13 and half year of 2013-14 is depicted in the following table:

INR Crores	*2012-13*	*September 2013 Half year*
Forex	*42.09*	*23.00*

We have taken revenue of the half year ended 30th September 2013 as base for extrapolation to arrive at forecast of revenue for the control period.

Forecasted revenue for the period is escalated on following basis:

1. Growth assumed of 4.6% p.a. (international passenger growth) from 13-14 due to lower conversion on account of change in profile (higher NRI and tour groups whose spending is lower in Forex at airport)

2. Perceived higher value of USD and hence lesser spends

3. There is no other increase expected from inflation or any other factor

C. Land License Revenue

In case of Land revenues, the same is based on various leases with Airlines, Government Agencies, Oil Companies and Private Agencies the lease revenue is derived. The rates have been escalated by average 7.5 % p.a. based on contracts.

INR Crores	*2012-13*	*September 2013 Half year*
Land License Fee	*110.46*	*55.69*
Prior period revenues booked in 2012-13		*4.61*
Net Revenue		*105.85*
Revenue from area likely to be surrendered during Control period II – being forecasted separately		*19.09*
Net		*86.76*

The above income is extrapolated below two heads:

1. Contracts which will continue without any interruptions

2. Contracts which are likely to be surrendered based on information available about their alternate arrangement.

INR Crores	*2012-13*
Total Revenue	*105.85*
Revenue from area which will progress normal increase	*86.76*
Revenue from area likely to be surrendered during Control period II – being forecasted separately	*19.09*

We have forecasted the revenue in following manner:

- *Revenue from areas that is not likely to be surrendered in current control period is escalated @ average 7.5% P. A.*

- *Revenues from areas that is likely to be surrendered in current control period. This amount is projected based on the likely date of surrender based on contracted rate of those areas.*
- *There is no traffic linked or any other growth expected due to inflation.*

e) It is envisaged that the following Land area will be surrendered. The area details and reason and year of surrender is as given hereunder:

Tenant	Area (Sq. mts.)	Reason	Surrender during Year
Celebi	5,563	Temporary allocation to be surrender	FY2012-13
Kingfisher Airlines	2,254	Operations closed	FY2012-13
Blue Dart	5,200	Excess area surrender	FY2013-14
DCSC	6,296	Excess area surrender	FY2013-14
ACAI	8,235	Relocating to Cargo Terminal	FY2014-15
CISF	2,907	Area surrender	FY2014-15
CISF	44,310	Relocating to area allotted by DDA	FY2016-17

Contacted lease rental from these parties is as below:

Tenant	Area (Sq. mts.)	2012-13	2013-14	2014-15	2015-16	2016-17
Celebi	5,563	1.61	-	-	-	-
Kingfisher Airlines	2,254	0.15	-	-	-	-
Blue Dart	5,200	1.80	1.93	-	-	-
DCSC	6,296	1.47	1.58	-	-	-
ACAI	8,235	1.42	1.53	1.64	-	-
CISF	47,217	12.64	13.59	14.61	12.49	13.42
Total	74,765	19.09	18.63	16.25	12.49	13.42

D. Space rentals revenues

Space rental comes from lease of space within the terminals. The revenue for rentals is based on the contracts and the existing arrangements. The rates have been escalated by 7.5 % p.a. based on relevant contracts. The above income is extrapolated below two heads:

1. Contracts which will continue without any interruptions

2. Contracts which are likely to be surrendered based on information available about their alternate arrangement.

It is envisaged that the following Space areas will be surrendered during FY2013-14 period.

Tenant	*Area (Sq. mts.)*	*Rental (Rs. Crs)*	*Reason*
Paramount Airways	*28.56*	*0.03*	
Kingfisher Airlines	*1,675.61*	*1.83*	*Operations closed at Delhi Airport*
Nepal Airlines	*25.33*	*0.03*	*Operations closed at Delhi Airport*
Air Asia	*47.00*	*0.04*	*Operations closed at Delhi Airport*
MDLR Airlines	*69.60*	*0.06*	*Operations closed at Delhi Airport*
Aerosvit Airlines	*21.67*	*0.03*	*Operations closed at Delhi Airport*
Eat On Smart-Hotels	*115*	*0.02*	*Operations closed at Delhi Airport*
Travel Food Services	*16.45*	*0.04*	*Operations closed at Delhi Airport*
Nayak Aviation Services	*67.15*	*0.01*	*Operations closed at Delhi Airport*
Phillipines Air	*30.00*	*0.08*	*Operations closed at Delhi Airport*
Sahara Int'l Airport Pvt Ltd	*96.00*	*0.03*	*surrendered*
Total	*2,192.37*	*2.20*	

Considering the large surrender of spaces, the actual revenue of Rs. 20.58 Crs for the 6 months ending 30th Sep. 2013 is extrapolated and used as the base for forecasting of revenue in the next control period.

E. Common Area Maintenance Charge (CAM)

Maintenance cost of the Common Space is additionally recovered from lessee of space. The forecasting of such charge is based on the contracts and the existing arrangements. The rates have been escalated by 7.5 % p.a. based on normal increase in the contracts.

INR Crores	*2012-13*	*September 2013 Half year*
Common Area Maintenance	*2.96*	*3.75*
Prior period revenues	*1.29*	
Net Revenue	*1.67*	

We have extrapolated the half yearly numbers of September 2013 to arrive at 2013-14 numbers and used the same as base for forecasting the future revenues.

F. Hangar Rental

Hanger rental comes from lease of hangers to airlines. The revenue for rentals is based on the contracts and the existing arrangements. The rates have been escalated by 7.5 % p.a. based on relevant contracts.

INR Crores	*2012-13*	*September 2013 Half year*
Hangars	*13.53*	*7.99*

We have extrapolated the half yearly numbers of September 2013 to arrive at 2013-14 numbers and used the same as base for forecasting the future revenues.

G. Transit Hotel

Transit Hotel facility has been provided to the passengers at Terminal 3. The hotel business has been concessioned out to a third party for consideration in form of revenue share that is a fixed percentage of gross revenue. The revenue shares payable to DIAL is as a percentage of total turnovers of concessionaire. Contract with provider also specify a minimum amount of guaranteed revenue (MMG).

An overview of the audited revenue of financial year 2011-12, 2012-13 and half year of 2013-14 is as following:

INR Crores	*2011-12*	*2012-13*	*September 2013 Half year*
Transit Hotel	*1.57*	*2.17*	*1.23*

There is going to be a huge supply of hotels in CPD in the current control period and we do not expect revenue more than MMG from this concessionaire.

H. Airport Service Charges

All the concessionaires pay fixed monthly service charges for common services. Annually, the airport service charges are escalated by CPI on the first day of January every year.

The following are the Airport Service charge collected during 2012-13 and 2013-14 (Half Year ending September 2013):

INR Crores	*2012-13*	*September 2013 Half year*
Airport Service Charges	*18.15*	*9.43*

A CPI based growth of 7.7% (as per the forecast of Professional Forecasters Published by RBI for next 5 years) has been assumed as per the terms of contracts.

I. Bank ATM revenue

On Bank and ATMs, there is a monthly rental per location per month. This is a fixed monthly amount payable to DIAL. The contracts with concessionaries also specify a minimum amount of guaranteed revenue (minimum monthly guarantee of MMG).

An overview of the audited revenue for financial year 2011-12, 2012-13 and half year of 2013-14 is depicted in the following table:

INR Crores	*2011-12*	*2012-13*	*September 2013 Half year*
ATM	*11.36*	*11.37*	*7.09*

We presume that going forward there will be no fresh leasing of ATM and Bank space and lease rental would remain constant during the forecasted period. There will be no increase in the revenue from Banks and ATM because the rates and area lease out is not increasing.

J. Telecom/Branding

Revenue of telecom/ Branding for the year 2013-14 is forecasted based on 2011-12 revenue and it is escalated by passenger growth and further increased by 5% pa.

Since the telecom is below tremendous pressure due to heavy losses and reduced margins there is expected to be a decline in the revenues and the pressure is likely to be huge going forward. We also expect some key telecom branding contracts which expire in near future to get renewed at a further lower value due to poor market sentiments. However we have not assumed any decline in current revenue."

K. Other Miscellaneous

DIAL is likely to receive some other miscellaneous income, such as Passes issuance charges, Penalties and others. An overview of the audited revenue for financial year 2011-12, 2012-13 and half year of 2013-14 is depicted in the following table:

INR Crores	*2012-13*	*September 2013 Half year*
Passes/Penalties/Other Misc.	*4.86*	*0.87*

We presume that going forward these revenues would remain constant during the forecasted period."

19.6. DIAL's submission of Cargo revenues for the 2nd control period is given as below,

"DIAL has given concession for Cargo Terminals to the following concessionaires as per the Operations, Management and Development Agreement (OMDA) signed between Airports Authority of India and Delhi International Airport Private Limited:

1. Celebi Delhi Cargo terminal Management India Pvt. Ltd. (CDCTMIPL)

2. Delhi Cargo Service Centre (DCSC)

These concessionaires provide cargo-handling service at Cargo Terminals at IGIA and give to DIAL

1. Revenue share from Cargo Handling and

2. Space rental

The revenue share % from both concessionaires is as below:

1. Celebi Delhi Cargo terminal Management India Pvt. Ltd. (CDCTMIPL): 36%

2. Delhi Cargo Service Centre (DCSC): 24%

Historical Cargo revenues of DIAL are as below:

INR Crores	*2011-12*	*2012-13*
Cargo Revenues from Concession (INR Crores)	*128.46*	*129.36*

A. Assumptions for forecast:

The Cargo forecast has been done below following assumptions:

1 Tonnage:

a. First year of the next control period, i.e., FY 2014-15 3.94% growth (half of the forecast of Mott) has been considered.

b. There has been a slowdown in growth of Cargo Volumes in last 2 years (negative by 5.56% and 1.52% respectively) and the same trend is seen in Q1 and Q2 of FY 2013-14. As such it is assumed that Cargo growth will remain in pressure. A similar trend has been noted in Domestic volume, hence in first year 2.75% growth (Half of Mott Forecast) is assumed.

c. Thereafter from 2015-16 onwards it is assumed that the Cargo Growth will be as per the growth forecasted by Mott McDonald

Traffic Forecast -Cargo	2014-15 (% Growth)	2015-16 to 2018-19 (% Growth)
International	3.94%	7.88%
Domestic	2.75%	5.50%

2 Market Share:

a. On International side, it is assumed that the market share of DCSC will gradually increase and market share of CDCTMIPL will decline in the next control period. It is to be noted that DCSC has a significantly lower revenue share of 24% than that of CDCTMIPL which is 36%.

b. On domestic side, market share of DCSC may remain constant at 75% during the next control period.

Market share	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Celebi Market share						
International	80%	70%	60%	60%	55%	55%
Domestic	25%	25%	25%	25%	25%	25%
DCSC Market share						
International	20%	30%	40%	40%	45%	45%
Domestic	75%	75%	75%	75%	75%	75%

4. Demurrage:

Demurrage is expected to continue to fall as is seen in historic trend. Last two years have shown a negative trend in Import and Export both. It is expected to fall further by 10% year on year.

5. X-Ray Screening:

X-Ray screening income will increase at the growth rate of Export and Outbound Volumes. Hence the average tonnage growth is assumed during the next control period.

B. Forecast methodology:

1. We have extrapolated the total revenue of DIAL based on revenue share of respective service providers to arrive at the total cargo market.

2. This we have bifurcated amongst Handling and Demurrage revenues.

3. We have considered growth on various revenue items as Handling and Demurrage as per the assumptions mentioned above.

4. Thereafter we have divided the total market amongst two concessionaires as given above.

5. Based on revenue share percentage of the concessionaire, the total revenue of DIAL has been arrived."

"D. Rationale for Drop in Revenues:

Revenue to DIAL is expected to drop Y-o-Y from FY 12-13 till 2015-16 due to the following reasons:

a. Shift in market share from CDCTMIPL to DCSC with revenue share declining from 36% to 24%.

b. Demurrage is expected to continue to fall as seen in historic trend. This will be enabled by improved facilities of cargo handling.

c. Marginal growth in Tonnage due to global slowdown. In the last 2 years there has been negative growth in International and Domestic."

19.7. DIAL's revised its 11.11.2013 submission in its submission dated 23.07.2014 on summary of non-aeronautical revenues is as below on account of availability of FY2013-14 years. Its revised submission is as below,

"We have revised the forecast for the next control period based on the audited numbers of 2013-14. Following is a summary of the revised forecast:

In INR Crores	*FY14*	*FY14*	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Air traffic related revenues	*Earlier Submitted*	*Actual*	*Revised Projection*				
Into plane concession fee	1	1	1	2	2	2	2
Bridge-mounted equipment revenues	6	5	5	5	6	6	6
Ground handling revenues	44	45	47	58	61	64	79
Ground handling revenues – 3rd Party	0	18					
Cute counter charges - Dom.	4	5	5	5	5	6	6
Cute counter charges - Int'l	7	6	7	7	7	8	8
Subtotal Air traffic related revenues	62	80	65	77	81	86	102
Passenger traffic related revenues							
In-flight kitchen revenues	34	35	35	35	37	39	41
Car Parking	9	10	10	13	15	15	15
Retail-Duty paid	62	73	78	83	89	95	101
Food & beverage	48	48	50	52	55	57	60
Lounges	19	21	22	23	24	25	26
Radio taxi	16	17	17	18	18	19	19

Other travel services	*12*	*15*	*15*	*16*	*17*	*17*	*18*
Subtotal Pax traffic related revenues	*201*	*218*	*227*	*240*	*254*	*266*	*279*
Int'l passenger traffic related revenues							
Retail-Duty free	*224*	*247*	*264*	*281*	*300*	*320*	*342*
Subtotal Int'l Pax traffic related revenues	*224*	*247*	*264*	*281*	*300*	*320*	*342*
Other revenues							
Advertisement	*81*	*90*	*94*	*98*	*103*	*107*	*112*
Forex	*46*	*48*	*50*	*52*	*55*	*57*	*60*
Land license fee	*111*	*99*	*107*	*110*	*114*	*108*	*116*
Space rental	*41*	*43*	*47*	*50*	*54*	*58*	*62*
Hangar	*16*	*17*	*19*	*20*	*22*	*23*	*25*
Common area management	*8*	*5*	*6*	*6*	*6*	*7*	*8*
Transit hotel	*2*	*3*	*2*	*3*	*3*	*3*	*3*
Airport service charges	*19*	*19*	*21*	*22*	*24*	*26*	*28*
Bank ATM	*13*	*15*	*15*	*15*	*15*	*15*	*15*
Telecom	*6*	*8*	*8*	*8*	*8*	*8*	*8*
Misc. others	*2*	*2*	*2*	*2*	*2*	*2*	*2*
Subtotal Contract linked revenues	*345*	*349*	*369*	*387*	*405*	*414*	*438*
Cargo revenues							
Cargo Concession fee – Brownfield	*82*	*94*	*85*	*77*	*81*	*79*	*82*
Cargo Concession fee – Greenfield	*21*	*22*	*28*	*36*	*37*	*43*	*45*
Cargo screening – Domestic	*6*	*7*	*7*	*8*	*8*	*9*	*9*
Cargo screening – Exports	*14*	*15*	*16*	*17*	*19*	*20*	*22*
Cargo others	*0*	*3*	*0*	*0*	*0*	*0*	*0*

Subtotal Cargo revenues	*124*	*141*	*136*	*138*	*145*	*150*	*158*
Total Non-Aero revenues	*955*	*1,036*	*1,062*	*1,124*	*1,185*	*1,236*	*1,319*

e. Authority's Examination of DIAL Submissions on Non-aeronautical revenue

19.8. The Authority had carefully examined DIAL's submission regarding all components of the non-aeronautical revenue for the second Control Period. The Authority had sought from DIAL the Auditor's Certificates providing detailed break-up of revenues from aeronautical and non-aeronautical sources, duly reconciled with the amounts shown in the DIAL's Balance Sheets relating to FY2011-12, FY2012-13 and FY2013-14. The Authority was in receipt of the same.

19.9. The Authority had noted that, DIAL has projected the streams of non-aeronautical revenue for the second Control Period under five groups namely, (i) Air-traffic related revenues, (ii) Passenger traffic related revenue, (iii) International passenger traffic related revenue, (iv) Contract-linked revenue and (v) Cargo revenue. These groups have been formed by DIAL as per the key factor, which drives the growth of these revenues. Based on the growth rate of the drivers such as passenger traffic, ATM traffic and cargo traffic, each sub-head of non-aeronautical revenues has been projected by DIAL at respective growth rates. Contract-linked revenue has been projected on the basis of contractual provisions for various concessionaires. The values of non-aeronautical revenues projected by DIAL for the second Control Period are presented in Para 19.7 above.

19.10. The Authority had noted that the growth in actual non-aeronautical revenues of DIAL in the first Control Period exhibits a fluctuating trend, as presented in the table below. The average growth of actual non-aeronautical revenues for the first Control Period worked out to be 15.52% (including other income), as shown in the table below:

Table 60: Actual Non Aeronautical Revenue as per DIAL's financial statements in the first Control Period

INR Crore	2009-10	2010-11	2011-12	2012-13	2013-14
Actual Non Aero Revenue	594.31	576.96	776.21	885.22	1001.40
Growth , y-o-y%		-2.92%	34.53%	14.04%	13.12%
Average growth p.a	14.70%				
Other Income (excl. dividends)	8.46	11.50	16.35	23.60	44.63
Non Aero Revenue including Other Income	602.77	588.46	792.56	908.82	1,046.03
Growth , y-o-y%		-2.37%	34.68%	14.67%	15.10%
Average growth p.a	15.52%				

19.11. The Authority had further noted the DIAL projections for the non-aeronautical revenue for the second Control Period. The Authority had noted that the average growth in total non-aeronautical revenues for the second Control Period as per DIAL's Tariff Model turned out to be 5.53%, wherein the projections do not include CPI inflation. Also, DIAL assumed Other Income to be nil for the second Control Period.

Table 61: Non Aeronautical Revenues projected by DIAL for the second Control Period

INR Crore	2014-15	2015-16	2016-17	2017-18	2018-19
Projected Non-Aero Revenues (incl. other income at nil)	1,061.65	1,123.11	1,184.41	1,235.37	1,317.67
Growth , y-o-y%	5.79%	5.46%	4.30%	6.66%	5.43%
Average growth p.a	5.53%				

19.12. The Authority had observed that actual non-aeronautical revenue varies significantly from the projections made by it for the first Control Period in its Delhi Tariff Order No. 03/2012-13. Further, the Authority noted that the average growth in actual non-aeronautical revenues for the first Control Period is 15.52% (refer para 19.10 above), whereas the average growth in the projections of the non-aeronautical revenues made by DIAL for the second Control Period is 5.53% (refer para 19.11 above) which worked out to be 9.25% (refer para 19.13.2 below). Due to the fluctuating trend in growth, the past growth of non-aeronautical revenue may not serve either as a benchmark or guide in making the non-aeronautical revenue forecast in the future. Hence, the Authority considered that it may not be appropriate to make accurate projections about the non-aeronautical revenues growth in the second Control Period.

19.13. Thus in view of above, the Authority proposed to consider DIAL projections for non-aeronautical revenues under each sub-head for the second Control Period with the following exceptions:

19.13.1. The Authority had applied CPI inflation rate of 6.6% (refer para 22.4 below) for each year in the second Control Period on all non-aeronautical revenue sub-heads other than contract-linked revenues. For the latter, the Authority proposed to consider revenues as projected by DIAL as per the contract agreements.

19.13.2. The Authority proposed to consider the actual revenue realized by DIAL for FY 2013-14 as the base for projections for the second Control Period. Accordingly, the average growth rate for non-aeronautical revenue projections for the second Control Period worked out to be 9.25% (refer Table 62).

19.14. The Authority also proposed to true-up the non-aeronautical revenue based on the actual non-aeronautical realized by DIAL during the second Control Period at the time of tariff determination for the third Control Period.

19.15. Further, while making the projection for non-aeronautical revenue, the Authority has noted a sub-head under the name of "Other Incomes", which captures revenue from Interest received from deposits with banks and other entities, profit on sale of Investments, Interest received on account of delayed payments, sale of other materials / scrap, profit on sale of depreciable assets, dividends, management fees, realised foreign exchange gain/loss and miscellaneous income. The Authority was of the view that this sub-head is contingent upon the internal cash flow management of DIAL and uncertain sources like foreign exchange / delay in payments etc. The Authority, for the time being, had projected this sub-head at 'nil' value for the second Control Period. However the Authority proposed to true up the "Other incomes" based on the actual values realized by DIAL during the second Control Period at the time of tariff determination for the third Control Period.

Cargo Revenues

19.16. As per DIAL submission, cargo revenue for DIAL had been segregated in three heads; (i) Space rental revenue (ii) revenue from demurrage and (iii) revenue from handling of cargo. Space rental revenue in DIAL projections had been projected on the basis of a flat growth rate of 7.5% per annum. Revenue from demurrage was projected to decrease at flat 10% per annum. Revenue from handling of cargo was projected to increase at the rate of cargo traffic growth.

19.17. The Authority had noted the indicated share among its two cargo service providers does not match with that of the figures available with the Authority. The Authority has further asked DIAL for details regarding the same. For the time being the Authority had accepted the submission of DIAL for its workings. The Authority considered an inflationary growth along with DIAL's growth drivers for projection of revenues from cargo space rental and handling of cargo. The Authority proposed to accept DIAL's submission of not applying the CPI-IW inflation on demurrage revenue and accordingly calculated the projected cargo revenue for DIAL.

19.18. While revenue from Into Plane (ITP) Service revenue was considered as Non Aeronautical revenue during the first control period, the Authority was of the view that ITP is an integral part of the Fuel Farm revenue and is directly linked to the same (Refer paras 20.27 to 20.28 below). Hence the Authority proposed to consider revenue form ITP service as aeronautical revenue. The Authority also proposed to consider revenue from CUTE counter charges as aeronautical revenues (Refer Paras 20.20 to 20.24 below).

19.19. Thus, using the approach described in paras above, the Authority had calculated the non-aeronautical revenues as below,

Table 62: Non Aeronautical Revenues proposed to be considered by the Authority in the second Control Period in Consultation Paper No. 16/2014-15

INR crore	2014-15	2015-16	2016-17	2017-18	2018-19
Air traffic related revenues					
Bridge-mounted equipment revenues	5.21	5.48	5.78	6.09	6.42
Ground handling revenues	66.44	80.93	85.27	89.85	109.44
Subtotal Air traffic related revenues	**71.65**	**86.41**	**91.05**	**95.94**	**115.85**

Passenger traffic related revenues					
In-flight kitchen revenues	35.46	35.46	39.54	44.09	49.16
Carpark (incl. entry ticket & left luggage fee)	10.29	10.97	11.69	12.46	13.28
Retail-Duty paid	83.12	94.53	107.51	122.28	139.07
Food & beverage	53.22	59.34	66.17	73.78	82.27
Lounges	22.95	25.59	28.53	31.81	35.47
Radio taxi	18.61	20.24	22.01	23.93	26.02
Other travel services	16.26	18.13	20.21	22.54	25.13
Subtotal Passenger traffic related revenues	**239.90**	**264.26**	**295.66**	**330.89**	**370.41**
International passenger traffic related revenues					
Retail-Duty free	280.98	319.57	363.46	413.37	470.14
Subtotal International passenger traffic related revenues	**280.98**	**319.57**	**363.46**	**413.37**	**470.14**
Contract linked revenues					
Advertisement	93.83	98.14	102.66	107.38	112.32
Forex	50.19	52.50	54.91	57.44	60.08
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
Transit hotel	2.23	2.87	2.96	3.06	3.15
Airport service charges	20.50	21.85	23.29	24.83	26.47
Bank ATM	14.63	14.63	14.63	14.63	14.63
Telecom	7.54	7.54	7.54	7.54	7.54
Penalties	0.20	0.20	0.20	0.20	0.20
Misc. others	1.90	1.90	1.90	1.90	1.90
Subtotal Contract linked revenues	**369.03**	**386.29**	**404.43**	**413.05**	**437.07**
Cargo revenues					
Concession fee – Brownfield	88.83	84.54	92.49	94.80	105.15
Concession fee – Greenfield	29.24	39.87	43.85	53.34	59.43
Subtotal Cargo revenues	**118.07**	**124.40**	**136.34**	**148.14**	**164.59**
Total	**1,079.64**	**1,180.93**	**1,290.94**	**1,401.39**	**1,558.06**

19.20. As mentioned in para 19.12 above, the past growth of non-aeronautical revenue may not serve either as a benchmark or guide in making the non-aeronautical revenue forecast in the future. Thus, the Authority proposed to provide a true-up of non-aeronautical revenues in the next Control Period based on the actuals for each sub-head during the second Control Period.

b Stakeholder Comments on Issues pertaining to Non Aeronautical Revenues

19.21. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders including IATA, VistaRa, APAO, CII, MIAL, Air India etc. in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No 16/2014-15 dated 28.01.2015. Comments with respect to Non Aeronautical Revenues are presented below.

19.22. On the matter of non-aeronautical revenue forecasts, IATA has commented as below,

"DIAL's revenue forecasts paint a business climate that is not justified by any observation. While passenger growth clearly indicates a further improving economic environment, commercial activities seem to be falling in real terms with most categories showing growths below the rate of inflation. Furthermore, on the cost side, while there seems to be limited competition when it comes to the airport renegotiating contracts with its suppliers, the same competition is suddenly more robust on the revenue part where the airport is the supplier. IATA is concerned that the entire commercial revenue plan is unsound and would require adjustments.

It is further noted that the airport is reporting reduced space rentals and assumes the situation would remain the same going forward. Even from a shareholder's perspective, it would be unacceptable for the airport management to simply reflect a subdued revenue forecast without providing a concrete strategy to reverse the situation."

19.23. IATA has further commented on the inclusion of CPI inflation in the projection of non-aeronautical revenues as below,

"The Authority's proposal to apply CPI to all non-aeronautical revenues (apart from those linked to contracts) is a tacit acknowledgement that DIAL had

simply forecasted unrealistic values below the rate of inflation. While the Authority's approach would correct to some extent the unrealistic non-aeronautical revenue forecast proposed by the airport, it is in IATA's view still insufficient. Commercial revenues should rise not only in line with inflation but will also be boosted by an increase in passenger numbers especially in a monopolistic market environment. AERA should adjust the forecast of non-aeronautical revenues above the CPI rate to account for the passenger growth factor."

19.24. On the same issue, FIA has presented a detailed analysis stating that,

"The Authority has considered an increase of mere 9.25% in 2nd Control Period, whereas average growth in the 1st Control Period works out to be 15.52% as reflected in table below Hence, the Authority has considered lower growth projections for non aeronautical revenues for 2nd Control Period.

It is submitted that the Authority should reasonably estimate or appoint a consultant to determine revenue from these services as it may not be appropriate to burden the airlines and passengers with higher tariff in this control period and provide relief for the same in subsequent period. 89. Contract linked revenues constitute 30% of projected Non aeronautical revenues and the Authority has considered DIAL submissions with respect to these revenues. The growth rate projected by DIAL in contract linked revenues (4.64%) is significantly lower than that assumed in other heads/overall growth rate rather this is lower than CPI inflation rate of 6.6%. It is submitted that the Authority should review these contracts including the revenue drivers to factor appropriate growth rate in the same and should put forward the said contracts for stakeholders consultation. 90. Non Aeronautical revenue is one of the major components for determining ARR, hence, the Authority should have evaluated it in detail and on line-by-line basis rather than broadly relying on projections and basis provided by DIAL. It is submitted that the Authority should conduct an independent study for determination of non-aeronautical revenues. FIA has also carried out sensitivity analysis to understand the impact of increasing cross *subsidization of non-aeronautical revenue. FIA's analysis indicated that for change in cross subsidization of non-aeronautical revenue from 30% to 50%, target revenue will reduce by 17%."*

19.25. On the matter of truing up on non-aeronautical revenues IATA has commented as below,

"IATA would like to express concern that truing up most of the revenues may result in a significantly reduced incentive for the airport to maximize its non-aeronautical revenues. The Authority should ensure that non-aeronautical revenue targets are realistic and challenging in the first place rather than accept an unchallenging target proposed by the airport just because truing up would take place. "

19.26. Regarding "Other Income" FIA commented as below,

"The Authority is of the view that 'Other Incomes' are contingent upon the internal cash flow management of DIAL and uncertain sources like foreign exchange / delay in payments etc. (@Para 19.18 of the Consultation Paper). Accordingly, per proposal 17.a.i of the Consultation Paper, the Authority has projected "other income " as nil for the time being. Other income during the I" Control Period aggregated to Rs.105 crores, with an average annual growth rate of 52.89% at an increasing trend. This trend clearly suggests that the DIAL would generate significant quantum of other income in the 2nd Control Period.

Hence, it is hereby submitted that the Authority should consider other incomes on the basis of past trends and cash flow management of the company for the computation of the aeronautical tariff.

It is submitted that at paragraph 6.44 of the Consultation Paper, the Authority has considered certain other incomes like sale of other materials / scrap - others, profit on sale of depreciable assets, management fees, miscellaneous income others and tender cost recovery, as part of non - aeronautical revenues. However, in paragraph 19.18 of the Consultation Pa per the Authority has considered other income as nil. Therefore, there is a contradiction between the *terms of paragraphs 6.44 and 19.18. The Authority may kindly clarify the reasons for considering the other income as nil when certain components of other income have been considered to be a part of non - aeronautical revenue."*

c DIAL's response to Stakeholder Comments on Issues pertaining to Non Aeronautical Revenues

19.27. Regarding IATA's comments highlighted in para19.22 above, DIAL responded as below,

"The growth forecasted by Authority was excessive in first control period and could not be achieved by DIAL.. Stretched targets which cannot be achieved are detrimental to finances of airport. Detailed rationale for the Non Aero forecast has already been submitted to Authority.

In current context the revenue for space rentals is based on the Contracts and the existing arrangements There are airlines which are expected to surrender areas in the near future including Nepal Airlines, MDLR Airlines, Aerosmith Airlines, Sahara Int'l Airport Pvt. Ltd.

We feel the Authority may need to consider only the real numbers and add inflation over and above to the X Factor so derived. This is the approach as envisaged in the SSA. "

19.28. Regarding IATA's comments on "Other Income", DIAL responded as below,

"In a hybrid till there is an automatic mechanism for ensure that DIAL maximizes its non-aeronautical revenue.

The growth forecast of the first control period was just double of the forecast of other airports and not achievable. This leads to the situation where airport become viable. As such the targets should be achievable targets.

As regards to other income, it includes interest income on surplus funds, interest on delayed payments and sale of scrap and degr(word not clear) assets, dividends etc. It is to be noted SSA provides that revenues from Revenue Share Assets are to be utilized for cross subsidization in no way, other income could be considered as revenue from revenue share assets."*

19.29. Regarding IATA's comments on non-aeronautical revenue projection, DIAL commented as below,

"DIAL has not been able to achieve excessively high growth rate considered by the Authority for the 1st control period and with no true up, it has resulted in huge loss to the company.

It may be noted that the average growth being considered for the 2nd control period is also very high."

d DIAL's own comments on Issues pertaining to Non Aeronautical Revenues

19.30. With respect to consideration of inflation in non-aeronautical revenue projection DIAL has stated that,

"AERA has added CPI to individual items and not allowed CPI-X as mandated in concession. In our view there must not be any addition of CPI on individual items. The X factor to be determined must be based on real numbers and inflation need to be added after X factor so determined. There must be a X factor determination and thereafter the CPI must be added to X factor so derived. This issue has been discussed in detail in principles of tariff determination."

19.31. With respect to considering Other Income as Non-Aeronautical Revenue for cross subsidization DIAL has commented that,

"The head —other incomes|| as the name suggests includes misc. revenues of DIAL, such as revenues arising from interest income on surplus funds, interest on delayed payments and sale of scrap and depreciable assets, dividends etc. which cannot be categorized as revenue from —Revenue Share Assets|| as defined under Schedule 1 of State Support Agreement. It is relevant to note that the definition is an exhaustive definition whose scope cannot be enlarged beyond what is provided therein the and therefore cannot be used for cross subsidization. AERA is requested to not true up other income."

19.32. Regarding the concern raised by the Authority in Para 19.17 above, DIAL has responded as under, *"We have not received any specific query regarding the indicted share of the two cargo service providers from Authority.*

It has to be appreciated that DIAL has minority interest of 26% in each of the two cargo joint venture entities. Hence DIAL does not influence the forecasts submitted by the joint ventures to AERA. While DIAL takes a holistic view of the cargo market at Delhi airport, the individual joint ventures, considering their soft touch regulatory approach, may take a divergent view based on their business strategy on capturing market share. The resultant consolidated numbers proposed by both joint ventures will thus not tally with the holistic view of DIAL.

If authority takes the last year's actuals as base and forecasts growth based on the actuals then it would discern that the total cargo handling forecasted by the concessionaires is much higher than the total growth expected in the sector."

e Authority's Examination of Stakeholder Comments on Issues pertaining to Non Aeronautical Revenues

19.33. The Authority has carefully considered the comments from IATA and FIA as well as DIAL's comments and response to these stakeholder's comments regarding the non-aeronautical revenues forecast for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

19.34. On the matter of methodology for projections of non-aeronautical revenues, the Authority has carefully examined the comments made by IATA and FIA. The Authority has observed that actual non-aeronautical revenue varies significantly from the projections made by it for the first Control Period in its Delhi Tariff Order No. 03/2012-13. The Authority believes that due to the fluctuating trend in growth in the first Control Period as observed in the Table 60 above , the past growth of non-aeronautical revenue may not serve either as a benchmark or guide in making the non-aeronautical revenue forecast in the future.

19.35. Thus, the Authority has projected passenger and ATM traffic growth at an actual 5 year CAGR. It must also be noted that the average CPI inflation forecast has been revised down from 6.6% to 5.1% for the next five year period, as mentioned in Table 71 and para 22.8 below. Applying the above growth drivers and using non-aeronautical revenue realised under the respective sub-head in FY 2013-14 as the base, the average growth rate for non-aeronautical revenue works outs to be 11.78%.

19.36. Further, as the Authority has pointed out, the realised non-aeronautical revenue in the past few years does not exhibit a clear trend, a true-up will be provided for the non-aeronautical revenues based on the actual realised non-aeronautical revenues, at the time of tariff determination in the third Control Period.

19.37. The Authority has noted FIA's comment with respect to Other Income. However, the Authority has decided to consider revenue realized by DIAL under this head (excluding income from dividend only) as non-aeronautical. Further, in the Authority's view, all components of "Other Income" should be accounted under aeronautical or non-aeronautical categories, in the future, as far as possible. Furthermore, these items are intermittent in nature and have no consistent driver on which this income can be projected. Thus, the Authority has projected this sub-head at 'nil' value for the second Control Period. However, the Authority has decided to true up the "Other incomes" based on the actual values realized by DIAL during the second Control Period at the time of tariff determination for the third Control Period.

19.38. Thus, the Authority has decided to consider the Non-Aeronautical Revenues for the second Control Period as below:

Table 63: Total Non-Aeronautical Revenues considered by the Authority in the second Control Period

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**

Passenger traffic related revenues					
In-flight kitchen revenues	35.46	35.46	41.01	47.44	54.87
Carpark (incl. entry ticket & left luggage fee)	10.14	10.66	11.20	11.77	12.37
Retail-Duty paid	86.22	101.71	120.00	141.57	167.02
Food & beverage	55.21	63.85	73.85	85.42	98.80
Lounges	23.80	27.53	31.84	36.83	42.60
Radio taxi	18.35	19.67	21.09	22.61	24.24
Other travel services	16.86	19.50	22.56	26.09	30.18
Subtotal Passenger traffic related revenues	**246.04**	**278.40**	**321.56**	**371.74**	**430.08**
International passenger traffic related revenues					
Retail-Duty free	291.46	343.85	405.66	478.58	564.61
Subtotal International passenger traffic related revenues	**291.46**	**343.85**	**405.66**	**478.58**	**564.61**
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
Transit hotel	2.23	2.87	2.96	3.06	3.15
Airport service charges	20.21	21.24	22.32	23.46	24.66
Bank ATM	14.63	14.63	14.63	14.63	14.63
Telecom	7.54	7.54	7.54	7.54	7.54
Penalties	0.20	0.20	0.20	0.20	0.20
Misc. others	1.90	1.90	1.90	1.90	1.90
Subtotal Contract linked revenues	**376.25**	**401.78**	**429.39**	**448.81**	**485.10**
Cargo revenues					
Concession fee - Brownfield	87.99	82.88	89.65	90.82	99.48
Concession fee - Greenfield	28.91	38.95	42.29	50.76	55.78
Cargo screening - Domestic	7.39	7.76	8.15	8.56	8.99
Cargo screening - Exports	16.04	17.31	18.67	20.14	21.73
Subtotal Cargo revenues	**140.34**	**146.90**	**158.77**	**170.29**	**185.98**
Total Non-Aeronautical Revenues	**1,126.16**	**1,258.37**	**1,408.06**	**1,567.65**	**1,785.09**

Decision No. 17 The Authority decides to adopt the following approach for consideration of treatment of Non Aeronautical Revenues towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:

17.a. To project "Other Income" as nil for the time being for the second Control Period

17.b. To true up the "Other Income" based on actual revenue realized by DIAL during the second Control Period at the time of tariff determination for the third Control Period (refer para 19.37).

17.c. To consider the non-aeronautical revenue for the second Control Period as projected and presented in Table 63.

17.d. To true-up the non-aeronautical revenue based on the actual non-aeronautical realized by DIAL during the second Control Period at the time of tariff determination for the third Control Period.

20. Treatment of Cargo, Ground Handling & Fuel throughput Revenues

a DIAL Submission on Treatment of Cargo, Ground Handling & Fuel throughput Revenues

20.1. DIAL submission dated 11.11.2013 on the treatment of Cargo, Ground Handling & Fuel throughput Revenues is given as below,

"In accordance with the provisions of SSA and OMDA, Cargo and Ground Handling are explicitly stated as Non-Aeronautical services and therefore would entail contribution to the extent of 30% of their respective earnings while determining the Aeronautical Charges.

While Schedule 5 of OMDA earmarks Fuel Farm Infrastructure as aeronautical services, treatment of fuel throughput charge has not been mentioned. Fuel Throughput charge is akin to royalty/profit share and thus should be treated as non-aeronautical. However the Authority has treated fuel throughput as aeronautical charge in the first control period. Without prejudice to our right to consider the fuel throughput as non-aeronautical, for the purpose of this filing, the fuel throughput charge has been considered as aeronautical charge."

20.2. DIAL's submission of Cargo revenues for the second Control Period is given as below,

"DIAL has given concession for Cargo Terminals to the following concessionaires as per the Operations, Management and Development Agreement (OMDA) signed between Airports Authority of India and Delhi International Airport Private Limited:

1. Celebi Delhi Cargo terminal Management India Pvt. Ltd. (CDCTMIPL)

2. Delhi Cargo Service Centre (DCSC)

These concessionaires provide cargo-handling service at Cargo Terminals at IGIA and give to DIAL

1. Revenue share from Cargo Handling and

2. Space rental

The revenue share % from both concessionaires is as below:

1. Celebi Delhi Cargo terminal Management India Pvt. Ltd. (CDCTMIPL): 36%

2. Delhi Cargo Service Centre (DCSC): 24%

Historical Cargo revenues of DIAL are as below:

INR Crore	*2011-12*	*2012-13*
Cargo Revenues from Concession (INR Crores)	*128.46*	*129.36*

A. Assumptions for forecast:

The Cargo forecast has been done below following assumptions:

1 Tonnage:

a. First year of the next control period, i.e., FY 2014-15 3.94% growth (half of the forecast of Mott) has been considered.

b. There has been a slowdown in growth of Cargo Volumes in last 2 years (negative by 5.56% and 1.52% respectively) and the same trend is seen in Q1 and Q2 of FY 2013-14. As such it is assumed that Cargo growth will remain in pressure. A similar trend has been noted in Domestic volume, hence in first year 2.75% growth (Half of Mott Forecast) is assumed.

c. Thereafter from 2015-16 onwards it is assumed that the Cargo Growth will be as per the growth forecasted by Mott McDonald

Traffic Forecast -Cargo	*2014-15 (% Growth)*	*2015-16 to 2018-19 (% Growth)*
International	*3.94%*	*7.88%*
Domestic	*2.75%*	*5.50%*

2 Market Share:

a. On International side, it is assumed that the market share of DCSC will gradually increase and market share of CDCTMIPL will decline in the next control period. It is to be noted that DCSC has a significantly lower revenue share of 24% than that of CDCTMIPL which is 36%.

b. On domestic side, market share of DCSC may remain constant at 75% during the next control period.

Market share	*2013-14*	*2014-15*	*2015-16*	*2016-17*	*2017-18*	*2018-19*

Celebi Market share						
International	*80%*	*70%*	*60%*	*60%*	*55%*	*55%*
Domestic	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
DCSC Market share						
International	*20%*	*30%*	*40%*	*40%*	*45%*	*45%*
Domestic	*75%*	*75%*	*75%*	*75%*	*75%*	*75%*

4. Demurrage:

Demurrage is expected to continue to fall as is seen in historic trend. Last two years have shown a negative trend in Import and Export both. It is expected to fall further by 10% year on year.

5. X-Ray Screening:

X-Ray screening income will increase at the growth rate of Export and Outbound Volumes. Hence the average tonnage growth is assumed during the next control period.

B. Forecast methodology:

1. We have extrapolated the total revenue of DIAL based on revenue share of respective service providers to arrive at the total cargo market.

2. This we have bifurcated amongst Handling and Demurrage revenues.

3. We have considered growth on various revenue items as Handling and Demurrage as per the assumptions mentioned above.

4. Thereafter we have divided the total market amongst two concessionaires as given above.

5. Based on revenue share percentage of the concessionaire, the total revenue of DIAL has been arrived.

C. Revenue Forecast:

An overview of the forecast for 1st April 2014 to 31st March 2019 is provided below.

INR Crores	*2013-14*	*2014-15*	*2015-16*	*2016-17*	*2017-18*	*2018-19*
Cargo Revenues	*123.92*	*122.68*	*124.52*	*130.23*	*134.98*	*142.21*

D. Rationale for Drop in Revenues:

Revenue to DIAL is expected to drop Y-o-Y from FY 12-13 till 2015-16 due to the following reasons:

a. Shift in market share from CDCTMIPL to DCSC with revenue share declining from 36% to 24%.

b. Demurrage is expected to continue to fall as seen in historic trend. This will be enabled by improved facilities of cargo handling.

c. Marginal growth in Tonnage due to global slowdown. In the last 2 years there has been negative growth in International and Domestic."

20.3. DIAL's submission dated 11.11.2013 regarding Ground Handling Revenues is given below,

"B. Ground handling (Bridge-mounted equipment- BME)

Providers of bridge-mounted equipment pay a fixed percentage of revenue as concession fee. The total concession fee payable is calculated by multiplying total revenue by the revenue share percentage. Total revenue consists of following ground handling services:

- *Ground power unit revenue;*
- *Pre air-conditioning unit revenue; and*
- *Potable water revenue.*

forecasts for each revenue stream are based on MOTT forecast of air traffic movements as well as assumptions in aircraft types and use of remote stands. Rates are assumed to remain unchanged in real terms.

Historical trend of BME revenues is as below: INR Crores 2011-12

INR Crores	*2011-12*	*2012-13*	*September 2013 (half year)*
Bridge-mounted equipment revenues	*4.43*	*5.96*	*3.18*

BME Assumptions:

- *Growth of BME business is linked with ATM growth.*

- *We have applied ATM growth rate of 5.37% (CAGR) as forecasted by MOTT.*
- *Apart from above there will not be any growth in this revenue stream from any other factor. There will not be any inflation-linked growth of Non Aeronautical revenues.*

Conclusion

Based on the aforesaid assumptions the forecast for the period starting from 2014-15 to 2018-19 is as below:

INR Crores	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Ground handling Bridge-mounted equipment	6.36	6.70	7.06	7.44	7.84	8.26

C. Ground handling revenues

This section is concerned with the forecast of the ground handling concession fees payable. These are based on concession contracts with ground handling providers, and are fixed until the end of concession term. There are currently four authorised Ground Handling service providers at the airport:

1 Cambata,

2 BWFS,

3 Air India-SATS and

4 Celebi.

These providers make two types of payments:

a. Rental or annual licence fees, which has been covered below land rental below; and

b. A concession fee expressed as a percentage of revenue.

Historical Revenue of ground handling has been as below:

INR Crores	*2012-13*	*September 2013 (half year)*
Revenue from Registered Handlers	*40.66*	*21.82*
3rd Party Ground Handlers	*16.22*	*7.97*
Total Ground handling revenues	*56.88*	*29.80*

The Ground handling revenue of 2013-14 (half year) includes revenue from third party ground handlers of Rs. 7.97 Crores. In future we expect that due to changes in ground handling policy this revenue will not accrue to us. As such the revenue is forecasted based on only registered ground handlers.

Ground Handling Forecast Assumptions. This forecast is based on:

- *The ATM forecast, sourced from MOTT.*
- *ATM Growth is assumed to be 5.37% (CAGR) as forecasted by MOTT*
- *We have assumed a decline in rates of 2% due to increased competition.*
- *As per the terms of contract the GH price increase is based on WPI. As per contractual term with GH we are eligible for an increase equivalent to WPI every 3 years.*

The current RBI forecast of WPI for next 5 years is 6.1%.

Accordingly we have considered an increase of 18.3% (6.1% X 3) for the year FY2016 and FY2019. This is based on forecast report of professional forecasters released by RBI.

RBI Forecast of WPI:

- *Extract from RBI Forecast (Results of the Survey of Professional Forecasters on Macroeconomic Indicators – 24th Round (Q1:2013-14).*

Source: rbidocs.rbi.org.in/rdocs/Publications/PDFs/01MSPF270713.pdf

Split between different aircraft types, based on the current split and it is assumed to remain unchanged;

- *No revenues have been considered for NACIL "Air India" Flights (Both International and Domestic) as they are being self-handled by Air India SATS Ground handling company. There is no revenue accruing to DIAL from above.*

- *Apart from above there will not be any growth in this revenue stream from any other factor. There will not be any inflation-linked growth of Non Aeronautical revenues.*

The current ground handling forecast has been based on historic ground handling revenues.

- *The forecasted revenues have been increased at the ATM growth rate of each year.*
- *We have taken the revenue of registered ground handlers for 6 months ending September 2013 and extrapolated the same to arrive at 2013-14 numbers.*
- *These are the base numbers on which we have forecasted future revenues.*

Conclusion:

Based on the aforesaid assumptions the forecast for the period starting from 2014-15 to 2018-19 is as below:

INR Crores	*2013-14*	*2014-15*	*2015-16*	*2016-17*	*2017-18*	*2018-19*
Ground handling revenues	*43.64*	*45.98*	*57.32*	*60.39*	*63.63*	*79.32*

"

20.4. DIAL's submission dated 11.11.2013 regarding Fuel Throughput Revenue is given as below,

"Fuel throughput revenues

This section is concerned with the forecast of the Fuel Throughput fee revenues.

Fuel farm:

There are two revenue streams from Fuel farm:

- *Rental or an annual licence fee, which has been covered below land rental; and*
- *A royalty income generally referred as volume-based concession fee.*

Historical trend of fuel throughput is as below:

INR Crores	*2012-13*	*September 2013 (half year)*
Fuel Throughput revenues	*119.73*	*66.53*

Fuel Throughput Assumptions:

- *We have assumed that fuel throughput will grow at the growth rate (CAGR) of air traffic movements (ATMs) i.e. 5.37% (as per Mott Study) and*
- *Airport operator fee will increase (As per contractual term) by WPI @ 6.1% as per the forecast report of professional forecasters released by RBI. (However we will request for true-up if actual rates are different from the rate forecasted by us due to change in WPI (from the WPI forecast given by RBI).*
- *Apart from above there is no growth expected due to any other factor including inflation*

Annual Average Percentage Change								
	Annual average percentage change over the next five years				Annual average percentage change over the next ten years			
	Mean	Median	Max	Min	Mean	Median	Max	Min
Real GDP	6.3	6.75	8.0	6.3	7.2	7.25	8.5	6.0
WPI Inflation	6.1	6.20	8.0	4.7	5.6	5.90	6.5	4.0
CPI-IW Inflation	7.7	7.50	10.0	6.0	6.8	6.50	8.5	4.5

RBI Forecast of WPI:

- *Extract from RBI Forecast (Results of the Survey of Professional Forecasters on Macroeconomic Indicators – 24th Round (Q1:2013-14)*

Source: rbidocs.rbi.org.in/rdocs/Publications/PDFs/01MSPF270713.pdf

We also foresee a trend among airlines to opt for better fuel-efficient aircrafts such as 787, A320, Q400 etc. to reduce their operational cost. This will have negative impact of 3% on total fuel throughput at IGIA. An overview of the forecast for Financial Year 2013-14 to 2018-19 is provided below.

INR Crores	*2013-14*	*2014-15*	*2015-16*	*2016-17*	*2017-18*	*2018-19*
Fuel throughput revenues	*133.06*	*144.29*	*156.47*	*169.67*	*183.99*	*199.52*

For the current tariff filing we have assumed the Fuel revenue as Aeronautical. However if due to any judicial pronouncement or any decision by AERAAT or by any other govt body the same is classified as Non Aero then we will amend our application accordingly."

20.5. DIAL's revised submission dated 23.07.2014 on cargo revenues is as below,

"The Cargo revenues stood at INR 140.74 Crores for FY14. The forecasted figures for FY15 -19 have been updated based on the actual numbers of FY14. In the earlier filing based on the half yearly numbers, we had forecasted the cargo revenue as follows:

In Crores	*2013-14*	*2014-15*	*2015-16*	*2016-17*	*2017-18*	*2018-19*
Earlier Submission	*123.92*	*122.68*	*124.52*	*130.23*	*134.98*	*142.21*
New Submission	*140.74*	*136.37*	*138.42*	*144.74*	*150.01*	*158.01*

"

20.6. DIAL's revised submission dated 23.07.2014 on ground handling revenues is as below,

"Bridge mount equipment fee:

Revised forecasted figures for FY15-19 have been updated based on the actual numbers of FY14, is as follows:

In Crores	*FY2014*	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*6.36*	*6.70*	*7.06*	*7.44*	*7.84*	*8.26*
New Submission	*4.94*	*5.21*	*5.48*	*5.78*	*6.09*	*6.42*

Ground handling revenues

We are revising the forecast based on the revised WPI forecast of RBI. Extract from RBI Forecast (Results of the Survey of Professional Forecasters on Macroeconomic Indicators – 28th Round (Q4:2013-14)Source:http://www.rbi.org.in/scripts/PublicationsView.aspx?id=15761) giving the latest forecast is as under:

Annual Average Percentage Change								
	Annual average percentage change over the next five years				*Annual average percentage change over the next ten years*			
	Mean	*Median*	*Max*	*Min*	*Mean*	*Median*	*Max*	*Min*
Real GDP	*6.50*	*6.50*	*7.5*	*5.9*	*7.2*	*7.2*	*8.0*	*6.0*
CPI- Inflation	*6.9*	*7.0*	*8.0*	*5.5*	*6.3*	*6.5*	*7.5*	*5.0*
WPI Inflation	*5.4*	*5.5*	*6.2*	*4.3*	*5.1*	*5.5*	*6.0*	*3.5*

Revised forecasted figures for FY15-19 have been updated based on the actual numbers of FY14, is as follows:

In Crores	*FY2014*	*FY2015*	*FY2016*	*FY2017*	*FY2018*	*FY2019*
Earlier Submission	*43.64*	*45.98*	*57.32*	*60.39*	*63.63*	*79.32*
New Submission	*44.64*	*47.04*	*58.03*	*61.14*	*64.42*	*79.48*

"

20.7. DIAL's revised submission dated 23.07.2014 on fuel farm revenues included revision on the account of revised inflation projections indicated by RBI's survey (to 6.9% in its 28th Round of Survey of Professional Forecasters on Macroeconomic Indicators). Assuming that the revised Order would be implemented with effect from 1st November, 2014, DIAL revised its fuel farm revenues to below,

"An overview of the forecast for Financial Year 2014-15 to 2018-19 is provided below.

INR Crores	*2014-15*	*2015-16*	*2016-17*	*2017-18*	*2018-19*
Fuel throughput revenues	*139*	*150*	*162*	*174*	*187*

"

b Authority's Examination of DIAL Submissions on Treatment of Cargo, Ground Handling & Fuel throughput Revenues

20.8. The Authority had carefully examined the submissions of DIAL with regard to treatment of Cargo, Ground Handling & Fuel throughput Revenues. The Authority had extensively dealt with the issue of treatment of revenue from Cargo, Ground Handling & Fuel throughput services in its Consultation Paper no 32 / 2011-12 dated 03.01.2012 as well as in its Delhi Tariff Order 03 / 2012-13.

20.9. Vide its Decision No. 24a-24c, with regard to treatment of cargo and ground handling revenue the Authority had stated:

20.9.1. If the service provider of the aeronautical services is the airport operator himself, then revenues accruing from these services to the airport operator would be treated as aeronautical revenue and in such a case, the costs incurred by the service provider, namely the airport operator would also be taken into account while determining the aeronautical tariffs;

20.9.2. If the provision of these services is outsourced to a third party including, as in the case of DIAL a JV, the third party becomes the service provider and comes within the ambit of regulation, including tariff determination. The airport operator, namely, DIAL would receive revenues from such third party concessionaire in the form such as revenue share, rent, dividend or royalties, etc. These revenues obtained from the third party by the airport operator (in the instant case DIAL), would be regarded as non-aero revenues at the hands of the airport operator; however, the costs, if any, in obtaining these revenues from the concessionaire would not be taken into account as a cost pass through as per the provisions of SSA/OMDA.

20.9.3. The Authority decided to treat the Cargo revenue for the period 01.04.2009 to 24.11.2009 as aeronautical, during which DIAL was carrying out the service itself. For the balance period of the Control Period the same had been considered as non-aeronautical.

20.10. However, based on Ministry of Civil Aviation's letter No.AV.24032/4/2012-AD, dated 09.03.2012, the Authority proposed to consider Cargo and Ground Handling services accruing to the airport operator as non-aeronautical revenues, regardless and irrespective of who is providing this service. However, the Authority proposed to continue to regard the services of Cargo and Ground handling as aeronautical service even though revenues may be considered non-aeronautical.

20.11. Refering to the Delhi Tariff Order 03/2012-13, where it had considered cargo screening service and revenue as aeronautical in nature, the Authority proposed to treat revenue accruing to DIAL from cargo screening as aeronautical revenue as cargo screening through X-ray Unit is linked with aircraft safety and operation as per requirement of sl.no 2 of Schedule 5 of OMDA.

20.12. As regards the projections of revenue from cargo for the second Control Period, the Authority has noted from DIAL submissions that it has entered into concession agreements with CDCTMIPL and DCSC to provide cargo-handling service at IGI Airport. Further, it has noted that DIAL receives revenue share of 36% and 24% respectively from cargo handling in addition to space rentals. The Authority has noted that DIAL received Rs. 128.46 crore, Rs. 129.36 crore and Rs. 140.74 crore in FY2011-12, FY2012-13 and FY2013-14, respectively, from cargo revenues. The above revenue is inclusive of cargo screening component. Thereafter, the Authority had sought Auditor's Certificates for revenue share from cargo JVCs as well as revenue from cargo screening charges separately.

20.13. The Authority was in receipt of the Auditor's Certificates regarding cargo revenues and considered the values certified by the Auditor for the same. The Authority was also in receipt of Auditor's Certificates regarding cargo assets in the books of DIAL between FY2006-07 to FY2010-11 and the Authority noted that there are no cargo assets in the books of DIAL as of FY 2010-11.

20.14. The Authority has also sought Auditor's Certificates for breakup of revenues generated from cargo operations in FY2013-14. This includes demurrage revenue, space revenues, handling revenues and other revenues as used in the Tariff Model for cargo revenue calculations.

20.15. The Authority had noted from DIAL submissions the basis considered by it for projection of the cargo revenues. The Authority had noted that the revenue projections are made by DIAL on the basis of various factors including traffic tonnage forecast from Mott McDonald, change in market share of CDCTMIPL vis-à-vis DCSC, 7.5% increase per year in space rentals for Cargo JVs, fall in demurrage revenues consistently by 10% per year, and increase in cargo screening income in the second

Control Period (Refer details in Para 20.2 above). The Authority had also noted the rationale for drop in cargo revenues submitted by DIAL. The Authority had sought explanation regarding these assumptions.

20.16. The Authority was in receipt of clarification regarding change in market share projections of the cargo JVs vide DIAL submission dated 10.07.2014 as below,

DIAL Response:

Initially DIAL handled Cargo operations from May 2006 till Nov 2009, there after DIAL decided to concession out existing terminal and additionally Greenfield cargo terminal as there is a mandate as per OMDA for DIAL to get the second operator on board in order to get competition at the Airport.

1. Bids for both the terminals were invited and post evaluation two terminal operators came on board.

2. CDCTMIPL bid for 36% revenue share for the existing terminal and DCSC bid for 24% revenue share for the greenfield terminal.

3. CDCTMIPL started Cargo operations in Nov 2009 and DCSC in May 2010, DCSC commenced only domestic operations. They also started the

construction of new international Terminal which was operationalized in FY 2012-13.

4. With the 2nd Cargo operator on board, it was known that some Airlines would shift from the existing terminal to the new terminal.

5. Year On Year DCSC is capturing market share of International operations and same trend is expected to follow in future also. It is expected at some point of time both the Cargo Operators would have equal market shares.

Based on above facts we have assumed the following shift in market share among the two operators will happen during 2nd Control period:

Market share	*2013-14*	*2014-15*	*2015-16*	*2016-17*	*2017-18*	*2018-19*
Celebi Market share						
International	*80%*	*70%*	*60%*	*50%*	*55%*	*55%*
Domestic	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
DCSC Market share						

International	*20%*	*30%*	*40%*	*40%*	*45%*	*45%*
Domestic	*75%*	*75%*	*75%*	*75%*	*75%*	*75%*

"

20.17. For the second Control Period, the Authority had considered the projections made by DIAL for cargo revenue except that, it has applied inflation to DIAL projections of cargo space rentals (excluding land licence fee from surrendered area) and cargo handling revenues as discussed in the para 19.13 above. Accordingly, the Authority proposed to consider the cargo revenues for the second Control Period as presented in Table 62.

20.18. Additionally, the Authority proposed to true up revenue from cargo realized by DIAL during the second Control Period at the time of determination of tariff for the third Control Period.

Authority's Examination of Ground handling revenues

20.19. As mentioned above, the Authority proposed to consider the revenue from Ground handling as non-aeronautical and sought Auditor's Certificates for break-up of revenues from Grounding Handling and revenues from BME for the first Control Period. The Authority was in receipt of the Auditor's Certificates for the same.

20.20. As regards the revenue from Common User Terminal Equipment (CUTE) counter charges levied by DIAL, the Authority vide Decision No. 20 of its Delhi Tariff Order 03 / 2012-13, had decided to treat the CUTE counter service as aeronautical service and revenues from it as aeronautical revenues.

20.21. The Authority in its Delhi Tariff Order 03/2012-13 had noted that as far as CUTE charges are concerned, the term CUTE is not as such defined either in the AERA Act or in SSA/OMDA. However, according to the definition (Section 2(a)(iv)) of the AERA Act, "Aeronautical Service" means any service provided for ground handling services relating to aircraft, passengers and cargo at airport. Common User Terminal Equipment is an integral part of service related to passengers. Hence the Authority has taken CUTE service as an aeronautical service which is required to be regulated. The Authority noted that while the CUTE Counter charges are being levied by DIAL on the airlines, the other CUTE charges are levied by the IT-JV formed by DIAL. The Authority advised DIAL to get these CUTE charges approved by the Authority.

20.22. The Authority had also observed from the AAI Ground Handling Regulations 2007, that "Passenger and Baggage Handling at the Airport Terminal" are treated as Ground Handling Services under Para 1.2 of Schedule 2 of the regulations. Since CUTE Counters are used for passenger and baggage handling at the Airport Terminal, the service so provided is a ground handling service, which is an aeronautical service. The Authority noted that the service offered through CUTE is not limited to receiving baggage and handing over the Boarding Card, also includes and other related service.

20.23. The Authority referred to the OMDA and found the mention of Check-in Concourse under Schedule 5 (Aeronautical services) of OMDA. The Authority was of the view that Check-in Counters would fall under Check-in Concourse and accordingly fall under Schedule 5. The Authority also found that DIAL in its classification of assets has categorized CUTE Counters as aeronautical asset. The Authority, thus, noted that DIAL has also considered CUTE Counter as an aeronautical asset. In line with the above, the Authority proposed to continue with its earlier decision to treat revenue from CUTE counter as aeronautical revenue.

20.24. The Authority proposed to consider ATM (domestic and international) as the main driver of revenue from Ground handling services and accordingly proposed to apply the growth projections for this driver on the base revenue for Ground handling (for FY 2013-14) along with inflationary growth to derive the projections for the second Control Period. Accordingly, the Authority proposed to consider the revenue from Ground handling for the second Control Period as presented in Table 62.

20.25. The Authority proposed to true up revenue from Ground handling realized by DIAL during the second Control Period at the time of determination of tariff for the third Control Period.

Authority's Examination of revenues from Fuel throughput

20.26. The Authority, in Decision no 24.d of its Delhi Tariff Order 03 / 2012 -13, had decided to treat the Fuel Throughput revenue as aeronautical revenue. The Authority proposed to continue its treatment of Fuel Throughput revenue as aeronautical revenue.

20.27. The Authority, in Decision no 22.a. of its Delhi Tariff Order 03 / 2012 -13, had decided to treat the concession revenue received by DIAL from the ITP service provider(s) as non-aeronautical revenue in the hands of DIAL. The Authority re-examined this issue and was of the view that ITP services are aeronautical services in terms of Section 2(a) of the AERA Act. Schedule 5 of OMDA also lists "Common hydrant infrastructure for aircraft fuelling services by authorized providers" under Aeronautical Services. Also there is no mention pertaining to fuel supply in schedule 6 relating to non-aeronautical services. The Authority further noted that supply of fuel to an aircraft can be done in two ways, (a) Independent Storage + Mobile supply (b) Storage with interpreted Common Fuel Hydrant + Into-plane Service fuel dispenser. The Into-plane service is used for end delivery of supplying fuel to the aircraft and thus forms an integral part of supply of fuel to the aircraft and is an aeronautical service.

20.28. However, the Authority noted that its reason for treating revenue as non-aeronautical despite considering the service as aeronautical was the fact that these services were concessioned out and were being provided by such concessionaires. The Authority notes from the letter from the Ministry of Civil Aviation No. AV.24032/04/2012-AD, dated 10.09.2012 that revenue from Cargo / Ground handling were to be considered as non-aeronautical regardless and irrespective of whether these services are provided by the airport operator himself or concessionaire (including JV) appointed by the airport operator. Hence, the revenue from ITP services in the hands of DIAL should be treated as aeronautical revenue. Based on the above, the Authority proposed to treat revenue from ITP services in the hands of DIAL as aeronautical revenue.

20.29. The Authority had sought Auditor Certificates for the breakup of Fuel Farm Revenues into 'Into Plane Revenue' and 'Fuel Throughput Fee Revenues' for each year of the first Control Period and was in receipt of the same.

20.30. The Authority had noted from the revised Tariff Model submitted by DIAL dated 23.07.2014 that DIAL had projected fuel throughput revenues for the second Control Period on the basis of FY2013-14 revenues, annual ATM growth projections, average WPI inflation rate of 5.4% (as per RBI forecast) and a -3% growth on account of likely adoption of better fuel-efficient aircrafts such as 787, A320, Q400 etc. by airlines. Considering the latest inflation as per the RBI forecast (refer para 22.9 below) and annual growth in ATM traffic, the Authority re-computed that fuel revenue projections as below,

Table 64: Fuel Throughput Revenues considered by the Authority for the second Control Period in Consultation Paper No. 16/2014-15

INR crore	2014-15	2015-16	2016-17	2017-18	2018-19
Fuel Farm - Throughput Charges	137.56	147.90	159.02	170.98	183.84
Revenue from ITP services	1.46	1.56	1.68	1.80	1.93

c Stakeholder Comments on Issues pertaining to Treatment of Cargo, Ground Handling and Fuel Throughput Revenues

20.31. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders including IATA, VistaRa, APAO, CII, MIAL, Air India etc. in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No 16/2014-15 dated 28.01.2015. Comments with respect treatment of Cargo, Ground Handling and Fuel Throughput Revenues are presented below.

20.32. Regarding treatment of cargo, ground handling and fuel throughput revenues, IATA commented as below,

"The proposal by the Authority to treat services for cargo and ground handling as aeronautical services but yet calculate the X-factor by treating revenues

derived from the same services as non-aeronautical revenue is both contradictory and confusing. Treating such revenues as non-aeronautical revenues for the purpose of tariff determination clearly violates the AERA Act and should not be allowed. We urge the Authority to keep faith with the AERA Act by treating revenues derived from cargo and ground handling services as aeronautical revenues. The Act must take precedent over any commercial agreement."

20.33. APAO commented on the treatment of into plane services as below,

"APAO would request Authority to consider into plane as non-aeronautical considering the fact that DIAL is getting only a concession fee for allowing Concessionaires to provide services within the Airport and DIAL is not providing any service to anyone in this regard. This Concession fee is similar to what airport operator receives from flight caterers or ground handlers for allowing them to provide services to customers including airlines within airport premises. ICAO's Policies on Charges for Airports and Air Navigation Services, appendix 3- Glossary of Terms defines Revenues from non aeronautical sources as referred above in earlier paragraph is most relevant in this case as well."

20.34. FICCI and Airline Operators Committee stated similar views reproduced below,

"The proposal by the authority to treat services for cargo and ground handling as aeronautical services but yet calculate the X-factor by treating revenues derived from the same services as non-aeronautical revenue is contradictory and confusing. Treating such revenues as non-aeronautical revenues for the purpose of tariff determination clearly violates the AERA Act. We urge the authority to redress this violation."

20.35. FIA has provided has provided detailed view on the matter commenting that,

"It is submitted that the Authority has considered the treatment of cargo and ground handling services on the basis of the MoCA's letters dated 09.03.2012 and 10.09.2012, wherein MoCA has stated that the cargo and ground handling services should be considered as non - aeronautical services. It is submitted

that Authority has not provided any analysis of the above letters of the MoCA. The Authority ought to have arrived at its own conclusion with respect to the cargo and ground handling services in terms of the AERA Act. It is further submitted that the Authority has taken a curious position stating that though the services are aeronautical, the revenues may be non - aeronautical. This approach of the Authority does not address the issue at hand. The services associated with the services should be considered in accordance with the nature of the revenue. These services are clearly 'Aeronautical Services' in terms of the AERA Act, 2008. Therefore, the revenue being realized from such services should be treated as aeronautical revenue in the hands of DIAL."

20.36. Further, FIA has carried out and presented analysis to demonstrate the impact of treating revenue from cargo and ground handling as aeronautical revenues rather than non-aeronautical. As per the analysis, it states, the target revenue will reduce by 10% by considering revenue from cargo and ground handling services as aeronautical revenue.

20.37. Regarding treatment of ITP, FIA has commented that,

"It is submitted that the Authority has considered the Into the Plane ("ITP") services as non - aeronautical in the Previous Order. However, in the Consultation Paper the Authority has considered ITP as aeronautical services. The Authority has relied on the MoCA letters dated 09.03.2012 and 10.09.2012 to contend that the nature of services remain same even when the services are provided by the third party. It is submitted that the Authority has cited only the fuel related services under ITP. There may be other instances which may qualify as ITP for instance in-flight catering. The Authority may consider other instances of ITP and provide views on the treatment of ITP with respect to the specific service. It is submitted that the Authority is considering a bundle of services under ITP and considering such services as aeronautical services. It is further submitted that the Authority ought to have illustrated separate instances of the services comprising the ITP and should have categorized the services as aeronautical or non- aeronautical as the case maybe."

20.38. MIAL commented on the matter of ITP treatment as below,

"ITP service is an aeronautical service under section 2(a)(vi) of the AERA Act i.e. any service provided for supply of fuel to the aircraft at the airport. At IGIA. DIAL has concessioned out the ITP service. ITP Charges have already been considered as 'aeronautical' and have been regulated and approved by Authority for the 1TP service providers i.e. Bharat Stars Services Private Limited and Indian Oil Skytanking Limited. DIAL, only receives certain part of the revenue received by these ITP service providers as a concession fee. Since, DIAL is not the direct service provider and the respective service providers are being regulated. the concession fee received by DIAL, from ITP services should be treated as Non-Aeronautical."

Similarly, while fuelling of an aircraft may be aeronautical service, which is provided by the oil companies and not by airport operators. concession fee. i.e FTC received by the airport operators from the oil companies is a non aeronautical revenue in the hands the airport operator."

20.39. Further, regarding ITP and CUTE, IATA commented that,

"As Into-Plane service is an aeronautical activity, IATA supports AERA's proposal to consider the revenue that the airport derives from it as aeronautical revenue.

As CUTE is an aeronautical service, we support AERA's proposal to consider it as aeronautical revenue."

20.40. VistaRA appreciated and welcomed the proposal to treat services for cargo, ground handling and fuel to aircraft services (including ITP services) as aeronautical services stating that,

"Classifying these services as aeronautical services will ensure that the process of rate revision for these services wig become more transparent and will give an opportunity for all stakeholders to present their views. That said, we would like clarity on concerns raised by IATA for not including revenue from these services for the calculation of X-Factor. IATA noted in its comments made on

the 18th February 2015 at the stakeholders meeting that this would violate the AERA act. We would encourage AERA to address this concern without changing its stance, on treating cargo, ground handing and fuel to aircraft services (including ITP services) as aeronautical services."

20.41. However, ASSOCHAM and CII have commented that cargo screening should be treated as non-aeronautical revenue.

20.42. ACI commented on the issue of classification of revenue such as cargo screening commenting that,

"We urge the AERA to avoid inconsistency in the classification of revenue items that is in contradiction with the concession agreement.

For example, Cargo Screen is currently proposed to be treated as Aeronautical Services. Please note that this item is not considered an aeronautical services under Schedule 5 and 6 of DIAL's Operation, Management and Development Agreement that clearly stipulates the classification for aeronautical and non-aeronautical activities."

20.43. APAO commented that it is absolutely clear from the Schedule 6 of the OMDA that any income accruing on account of cargo related activities is non-aeronautical in nature adding that,

"i. APAO, in principle, is of the view that there should be no violation of concession agreements and the entire tariff fixation should be as per provisions of concession agreement.

ii. Subject to above principle being adhered, APAO would like to highlight that AERA had considered Cargo Screening as Non Aero while calculating the Hypothetical RAB. If AERA decides to consider Cargo Screening revenues as aero then retrospective effect should be given by adding the cargo screening income in FY2008- 09 in the aeronautical income to be reckoned towards calculating Hypothetical RAB.

iii. Additionally, Ministry of Civil Aviation had confirmed in a communication to AERA that any revenues from cargo related business should be classified under non aeronautical head."

APAO has also drawn reference to the Ground Handling Policy as issued on 28th Sep, 2007 via AIC Sl. No. 7/2007" by DGCA, stating definition of Ground Handling and Security.

20.44. MIAL has commented on the matter of cargo screening as below,

> *"AERA has considered income from Cargo screening as income from aeronautical services. Cargo screening service is an integral part of cargo handling service and therefore should not be treated differently from cargo handling service The Authority, after taking into account provisions of Concession Agreements, had already decided in its earlier orders that while it will consider Cargo and Ground Handling services as aeronautical and will determine tariff for the same but for the purpose of cross subsidy, it will consider revenue from these services As non-aeronautical and therefore singling out one particular component of cargo activity and treating the same as aeronautical service is completely incorrect."*

20.45. Air India's comments regarding the CUTE service are as below,

> *"Kind reference is made to para 20,26, page 304 of the consultation paper where by the Authority advises DIAL to get the approval of the Authority for CUTE charges levied by the IT JV of DIAL in this regard, Air India has been representing AERA to bring the IT related CUTE service charges under its purview. Copies of our letters dated 31 July 2013 and 18th November 2013 are annexed for kind perusal and ready reference. (Annexure 1&2). While, Tariff Order 03/2012 regulated CUTE counter charges per departing flights @Rs.500/- for Domestic and Rs.1500/- for international flights, (fixed for the 1 control period without any escalation) the Order did not specify any charges for IT related CUTE services.*
> *The IT related services (CUTE, BRS and Gate Counter services) at IGI Airport are provided by Wipro Airport IT Services Limited (WAISL). The agreement between Air India and WAISL contained a clause to the effect that, quote, 'upon the*

constitution of the AERA, the rates for the Services may be revised/refixed by AERA and the Customer shall be liable to pay Charges in accordance with such rates as may be fixed by AERA. The charges may be varied from time to time during the Term of this Agreement by AERA. WAISL shall give Customer, written notice of any change in the charges by AERA and the new charges shall become effective on the date which is specified by AERA in that regard.' Unquote.(relevant portions of the agreement annexed as Annexure -3) Air India has been maintaining from the beginning that the IT related services at the IGI should be regulated by AERA. However, WAISL, did not get these charges approved by AERA and also have been demanding yearly increase. Air India has been objecting to such increases. It is now requested AERA to Regulate the tariff and pronounce the rates effective from the Ist Control Period."

20.46. On the issue of CUTE revenues, APAO has commented as below,

"1. Cute counter is only the rental income of counters.

2. ICAO's Policies on Charges for Airports and Air Navigation Services, appendix 3- Glossary of Terms defines Revenues from non aeronautical sources as:

"Any revenues received by an airport in consideration for the various commercial arrangements it makes in relation to the granting of concessions, the rental or leasing of premises and land and free zone operations, even though such arrangements may in fact apply to activities that may themselves be considered to be of an aeronautical character (for example, the concessions granted to oil companies to supply aviation fuel and lubricants and the rental of terminal building space or premises to aircraft operators)".

Since, Cute counter charges are in nature of rental income, they should be considered as Non Aeronautical charge."

20.47. On the issue of treatment of CUTE revenues, FIA has commented as under, *"It is submitted that the Authority has discussed the issue of Common User Terminal Equipment ("CUTE") Counter Services in Paragraph 20.26 and 20.27. The Authority had considered CUTE Counter Charges and CUTE Charges in the Previous Consultation Paper and the Previous Order. However, in the Consultation Paper, the Authority used the terms CUTE Counter Service and CUTE Terminal. The Authority has not clarified the difference between the CUTE Counter Service and the Cute Counter terminal. Therefore, it is difficult for FIA to ascertain the treatment of the CUTE Counter Services as well as the associated services which are a part of the same. It is submitted that the Authority has made a reference to other services related to CUTE. However, the Authority has not listed the services associated with CUTE. It is submitted that the list of associated services may be relevant to consider whether the CUTE services are aeronautical or non - aeronautical. Therefore, the Authority may kindly: (a) Clarify the difference between the CUTE Counter Service and the Cute Counter terminal; and (b) Provide the list of services associated with CUTE."*

20.48. Blue Dart highlighted its view with respect to cargo rentals in its letter to the Authority as a key stakeholder. Extracts of the letter have been reproduced below,

"

1. Blue Dart Aviation Limited (BDA) is the sole scheduled cargo airline in India and is allotted separate space for undertaking its air express operations in Delhi as per the successful model of express operations prevalent worldwide. An empty space is allotted to BDA, wherein the facility to handle air express operations is built at our own cost. As a scheduled cargo airline, space for operations is out of the ambit of AERA, though air cargo is considered part of aeronautical services, providing the airport operator the liberty to increase charges arbitrarily for the leased land, ramp space and structure built by us. The lease rentals in Delhi airport have been increased exorbitantly over the years. The airport operator has the liberty to further increase the lease rentals arbitrarily in *future. Our submission is to include even cargo space and land lease rentals into aeronautical services, which will enable AERA to have regular consultation meetings with the operators and users to fix the tariff.*

2. From the consultation Paper No. 16/2014-15, the average annual rental income of DIAL is between Rs. 1.8 crores to Rs. 2.0 crores from the sub lease of land. This translates to Rs. 4942 per square metre as rental charges. Whereas, the rental charged by DIAL for BDA is Rs. 20,035 per square meter, which has no comparison to its own levy of charges to other users.

3. As per the projection given by DIAL, the revenue from Commercial property development over the second control period is at 5.59% till 2018-19. The increase applicable on lease rental to BDA should also be maintained at 5.59% in future.

4. Cargo airlines do not find a place in the OMDA. Consequently, they can be asked to leave an airport in favour of a retailer who may give the airport operator a higher return on investment. The primary objective of building an airport is not to house retailers. It is important to recognize that cargo airlines must co-exist with business and commerce, and cannot be relegated to isolated airports. Cargo airlines provide the essential connectivity for economic development and are essential at major airports. There should also be no discrimination towards cargo airlines in the policies of civil aviation pertaining to operations and airports."

20.49. FICCI commented on the issue of considering cargo lease rentals as aeronautical, in line with Blue Dart's submission, as below,

"It has been suggested by the cargo players that the land lease rentals for cargo space paid by them should be treated as aeronautical and brought into the ambit of AERA. It will safeguard the interest of cargo players and ensure determination of tariffs after stakeholders' consultations.

It has been witnessed that cargo players are allotted an empty space, wherein the facility to handle air express operations is built at their own cost. As a *scheduled cargo airline, space for operations is out of the ambit of AERA, though air cargo is considered part of aeronautical services, providing the airport operator the liberty to increase charges arbitrarily for the leased land, ramp space and structure built by them. Our submission is to include even cargo space and land lease rentals into aeronautical services, which will enable AERA to have regular consultation meetings with the operators and users to fix the tariff."*

d DIAL's response to Stakeholder Comments on Issues pertaining to Treatment of Cargo, Ground Handling and Fuel Throughput Revenues

20.50. DIAL has stated that it agrees with APAO's comments regarding ITP and cargo screening and elaborated its response as stated in para 20.61 below and para 20.62 below.

20.51. In response to APAO's comments regarding considering CUTE counter charges as aeronautical DIAL stated as below,

"The Authority's approach must be in sync with the principles laid down in the SSA. Schedule 1 of the SSA provides that: Consistency: Pricing decisions in each regulatory review period will be undertaken according to a consistent approach in terms of underlying principles. Accordingly, the treatment of CUTE counter charges must be consistent — The AERA cannot treat these services as aeronautical for the purpose of regulation and simultaneously treat the revenue from them as non-aeronautical for the purpose of determining HRAB under the same process of tariff determination."

20.52. In response to ASSOCHAM's comment on cargo screening and calling it sovereign risk, DIAL has commented as below,

"Any stand of Authority which is against the concession agreement is the biggest risk for a regulated sector. In case of DIAL, where the concession agreements have been signed by the Government of India, any non-adherence to any term mentioned therein amounts to the sovereign risk.

Enforceability of the concession agreements is non-negotiable. Any non-adherence tarnishes the image of the country in the minds of domestic and foreigninvestors.

Treatment of revenue share not being pass through for building block calculation of Tax, cargo screening classification as non-aero and enforcement of CPI-x methodology are well defined in the concession agreements and should be considered the way they are defined in the said agreement."

20.53. In response to IATA's comment with respect to ITP, DIAL has responded as below,

"The into-plane service is an aeronautical activity and the same was accepted by the Authority in first control period. We request the Authority to maintain the same position and treat into-plane service as a Non Aeronautical activity. The Authority is to maintain a consistent approach while determining tariff to ensure regulatory certainty. The Authority must therefore apply the same settled principles and rationale while determining tariff for subsequent control periods.

Evidence: AERA's stand in first control period, Order number 03 of 2012-13."

20.54. In response to IATA's comment with respect to CUTE counter charges, DIAL has responded that CUTE services are used for passenger check in. It has drawn reference to the Ground Handling Policy and stated as in para 20.63 below. It has added that,

"Ground handling services are non-aeronautical and revenues accruing from these services are non aeronautical revenues. Hence the revenue generated from CUTE services, is revenue accruing from ground handling function and is to be treated as Non-Aeronautical as per provisions of the concession agreement.

MoCA issued a directive in this regard to the Authority stating that:

"5. "It s seen that Cargo and Ground Handling services are being treated as aeronautical services as per Section 2(d) of the AERA Art (Para 402 of Consultation Paper). However, as per the provision of OMDA and SSA, cargo

and ground handling services are categorized as non-aeronautical arid the revenues accruing [rom these services may be treated as non aeronautical revenue."

MoCA issued another directive in this regard on 10th September 2012 clarifying as follows:

"This Ministry had already, in the context of ICI Airport, Delhi, clarified to AERA vide letter dated 9.3.2012 that revenues from Cargo and Ground Handling services accruing to the airport operator should be categorized as non-aeronautical revenues as provided under the OMDA. This categorization is regardless and irrespective of whether these services are provided by the airport operator himself or through concessionaires (including JV appointed by the airport operator)."

With ground handling being, considered as non-aero for determination of X Factor, any resultant revenues from the check in services should he treated as non-aero revenues only.

In view of the above, revenues from CUTE services, being Ground Handling Services, is non-aeronautical revenue and is outside the scope and ambit of regulation. The Authority does not have jurisdiction to determine charges for non-aeronautical services, which is a 'no go' area for the Authority.

Evidence: We have already submitted the new ground handling policy to Authority in our response to the Consultation Paper."

20.55. In response to FICCI's comments regarding the cargo lease rentals and inclusion of cargo airlines in the OMDA, DIAL responded as under,

"The OMDA creates a distinction between Aeronautical and Non-Aeronautical Services [Ret Schedule 5 for Aeronautical Services and Schedule 6 for Non-Aeronautical Services]. Under OMDA, only the tariffs for Aeronautical Services are subject to regulation. Airport operators/ DIAL are/ is free to determine tariffs for Non-Aeronautical Services [Ref: Clauses 121 and 12.2 of the OMDA]. The Tariff Determination had to maintain the distinction between these services in accordance with the mandate of OMDA.

The OMDA treats ground handling and cargo charges under the Non-Aeronautical category. The tariff for these two is to be determined by the Airport operator/ DIAL, without regulatory interference.

Schedule 6 of the OMDA describes services which shall be treated as Non-Aeronautical Services:

"3. Cargo Handling

Cargo terminals

6. Ground handling services."

Classifying cargo and ground handling services in the aeronautical category, there will be an error of classification. The classification is not based on any intelligible basis and is contrary to the specific provisions of the OMDA. In Harshendra Choubisa vs. State of Rajasthan (2002) 6 Scc 393, the Supreme Court held that:

"If any classification has to be done in this regard, it should be based on a scientific study but not on a broad generalisation."

The suggestion classification of the cargo and ground handling services is contrary to and falls foul of the principles laid down by the Supreme Court. Such classification is irrational."

20.56. In addition to the above, DIAL has further emphasised on the Section 13 of the AERA Act.

20.57. With respect to CII's comment regarding cargo screening, DIAL has provided rationale as in para 20.62 below and stated that,

"We agree to the contention of CII.

We thank the authority in treating cargo and ground handling services as non aeronautical. However the cargo screening services which are the integral part of cargo services cannot be treated as aeronautical services. The Authority has to treat the revenue from cargo screening activities as non-aeronautical revenue only.

Cargo handling is treated as a non-aeronautical service under Schedule 6 of OMDA which is a binding contract) a Concession Agreement with a sovereign *government, under which contractual rights have accrued. In recognition of the same, MoCA had taken a decision dated 09.03.2012 (in accordance with the Concession Agreement) that revenue from cargo and ground handling accrued to the airport operator would be categorized as non-aeronautical.*

Cargo services include cargo screening which falls in the category/ class of 'cargo'. Even if the screening of cargo helps in ensuring security, ultimately it is one of the functions of cargo handling service. Further, since cargo screening is part of cargo services, revenues (from cargo screening) have to be treated as non-aeronautical in line with MoCA's policy decision (already communicated to AERA).

It is also pertinent to note that in accordance with Schedule 6 of OMDA, all facilities established for the activities listed in Part I thereof, which includes cargo screening services, have to be treated as Non-Aeronautical Services. Hence any revenue generated from such assets and facilities is the revenue from Non-Aeronautical Assets

The above fact also has, been supported by the new ground handling policy."

20.58. DIAL's response on this matter was also covered in Section 9 (Cargo screening in HRAB).

20.59. In response to VistaRa's and Air India's comments regarding CUTE charges, DIAL responded elaborating on the same rationale as mentioned in the 20.54 above and response to other stakeholders on this matter, above.

20.60. In response to MIAL's comments on treatment of cargo and ground handling, cargo screening and ITP services, DIAL has provided the rationale mentioned in paras 20.61 below to 20.63 below"

e DIAL's own comments on Issues pertaining to Treatment of Cargo, Ground Handling and Fuel Throughput Revenues

20.61. On the matter of treat fuel throughput and into plane services as aeronautical, DIAL has responded as below, *"We shall like to clarify that fuel throughput charges is akin to profit sharing and this revenue is not on account of infrastructure and as such cannot be classified as aeronautical under the terms of concession.*

Into Plane Services

The Into-plane service is a non-aeronautical activity and this issue was well settled in first control period. We request the Authority to maintain the same position and treat Into-plane service as a Non Aeronautical activity.

Authority's attention is invited on the following pre bid queries of DIAL:

428	*Query: 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?*	*Response: 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.*

It is relevant to note the response of AAI to the pre bid query as to what all constitutes Aeronautical income and the following was the clarification provided in response thereto: The above goes on to show that only income arising from the below activities was proposed to be treated as aeronautical income of DIAL:

1 Landing

2 Parking

3 Housing

4 Facilitation component of PSF

All the other incomes were Non Aeronautical income."

It is also relevant to the note the response to the below query which amply clarifies that the activity of hydrant refuelling was carried out at the airport even before DIAL was awarded the concession of the IGI Airport.

63	*Query: How many stands are provided with hydrant refueling*	*Response: 9 in contact stands in the International apron. 12 remote stands in the International apron. 6 cargo stands in the cargo apron*

This goes on to show that though the hydrant refuelling was also being done at the airport before the award of concession but this activity was not included in the list of activities whose income would have to be treated as Aeronautical Income. In view thereof, it should be treated as a non aeronautical activity and consequently the income arising therefrom should be treated as Non Aeronautical income."

20.62. On the issue of treatment of revenue from cargo screening as aeronautical revenue, DIAL has drawn reference to the "new proposed Ground Handling Policy as issued on 28th Sep, 2007 via AIC Sl. No. 7/2007" by DGCA, stating definition of Ground Handling and Security. In addition it has stated the following,

"MoCA Directive:

It is also relevant to note that MoCA had taken a decision dated 09.03.2012 (in accordance with the Concession Agreement) that revenue from cargo and ground handling accrued to the airport operator would be categorized as non-aeronautical.

Cargo services include cargo screening which falls in the category/ class of 'cargo' even if the purpose of cargo screening is security related. Since cargo screening is part of cargo services, revenues (from cargo screening) have to be treated as non-aeronautical in line with MoCA's policy decision (already communicated to AERA). It is pertinent to note that when the revenues from Cargo have to be treated as non-aeronautical and cargo screening is part of cargo operations, naturally the revenues from cargo operations have to be treated as non-aeronautical revenues in all its fairness.

Pre Bid query:

In addition, it is also relevant to note the response of AAI to the pre bid query as to what all constitutes Aeronautical Income and AAI provided the below *clarification to DIAL. The above goes on to show that only income arising from the below activities was proposed to be treated as aeronautical income of DIAL:*

9 Landing

10 Parking

11 Housing

12 Facilitation component of PSF

All the other incomes including those arising from Cargo Handling Services were Non Aeronautical income."

319	Query: What are the current charges (X-ray, warehousing, handling, demurrage, etc.) for different categories of cargo? Please provide the percentage mix of different categories of cargo for the past 5 years. What is the reason for the high percentage of demurrage revenue in total cargo revenue?	Response: The x-ray charges levied by AAI up to 31-3-2005 was Rs. 1.50 per kg. Subject to a minimum of Rs. 100 per consignment. AAI Board has approved the rationalization of x-ray charges on account of 100% x-ray screening of export cargo @ 0.75 per kg, w.e.f. 01-04-2005. The existing charges for warehouse, handling demurrage etc. are provided in the Data Pack CD 3. The percentage mix of different categories of cargo in the last five years is also provided in the Data Pack CD 3. Because of high dwell time of import cargo importers pay more demurrage charges for the consignments which are cleared beyond the free period of 05 working days. As per Survey conducted during July 2004 at IGIA-Cargo, the average dwell time of import cargo works out to 7.2 days and of export cargo is 2.5 days. The reasons for high dwell time are due to Customs procedures and agents/ importers readiness to clear their cargo.

The response to the above query reveals that the prior to the award of the concession of the IGI Airport to DIAL, cargo screening activity was being undertaken by the AAI and was therefore not part of aeronautical income.

It is also pertinent to note the response of AAI to another pre-bid query on the entities which were engaged in providing ground handling services.

360	Query: Please clarify how	Response: As per existing ground handling

	many companies are currently allowed to provide the following ground handling services (self and/or third parties) at IGI Airport and who are they? *- Ground Handling of Passengers* *- Ground Handling of Cargo* *- Ramp Operations* *- Aircraft cleaning service* *- Inflight Catering Services*	*regulations of Jan 2000, there are only three ground handling agencies i.e. Air India, Indian Airlines, AAI and any other handling agency licensed by AAI. M/s Cambatta Aviation are also providing ground handling services to few of the airlines on payment of 11% of the gross turnover. Other small agencies who are involved in providing* *Ancillary Services are there only for an interim period till the airline can make its own arrangements or AAI is in a position to appoint Ground handling agencies.*

It is relevant to note the response of AAI to the pre bid query as to what all constitutes Aeronautical income and the below clarification was provided in response thereto by the AAI. This above goes on to show that only income arising from the below activities was proposed to be treated as aeronautical income of DIAL:

1 Landing

2 Parking

3 Housing

4 Facilitation component of PSF

All the other incomes which are not derived from the activities specified herein such as that arising from Ground handling are Non Aeronautical income.

Concession Agreement:

Further, Cargo handling is treated as a non-aeronautical service under

Schedule 6 Part I of OMDA which is the Concession Agreement based on which DIAL was, inter alia, granted the concession to operate, maintain, finance, modernize the IGI Airport. We request the Authority need to take cognizance of the above."

20.63. On the matter of treatment of revenue from CUTE as aeronautical, DIAL commented as below, *"Common User Terminal Equipment ("CUTE") are used as a facility for passenger check-in. As per the Ground Policy issued by GOI Circular No. 07/2007 of 28th September, 2007 the passenger check in services at the airport are in the nature of Ground Handling Service. Hence the revenue generated from CUTE services is a revenue accruing from ground handling function and needs to treated as Non Aeronautical as per provisions of concession agreement.*

For reference the relevant portion of the Ground Handling Policy is reproduced hereunder:

ANNEXURE B

TRAFFIC HANDLING

1. Terminal Services

1.1 Handling documents and load control

1.2 Passengers and baggage handling at the airport terminals

1.3 Cargo handling services at the airport terminals

1.4 Mail handling services at the airport terminal

1.5 Traffic services at the airport terminals including passenger check-in

It is also relevant to note the clarification issued by MoCA in this regard vide its letter dated 10th September 2012.

"2. This Ministry had already, in the context of IGI Airport, Delhi, clarified to AERA vide letter dated 9.3.2012 that revenues from Cargo and Ground handling services accruing to the airport operator should be categorized as non-aeronautical revenues as provided under the OMDA. This categorization is regardless and irrespective of whether these services are provided by the airport operator himself o, through concessionaires (including JV appointed by the airport operator). The same clarification holds good even for CSI Airport, Mumbai as OMDAs of both the airports are identical.

3. This issues with the approval of Minister of Civil Aviation."

We therefore request the Authority to consider the Cute Charges as non-Aeronautical."

f Authority's Examination of Stakeholder Comments on Issues pertaining to Treatment of Cargo, Ground Handling and Fuel Throughput Revenues Forecast

20.64. The Authority has carefully considered the comments from the various stakeholders as well as DIAL's comments and response to the stakeholder's comments regarding the non-aeronautical revenues forecast for the second Control Period in respect of the IGI Airport, Delhi. The Authority's examination and decisions in this regard have been presented below.

20.65. As regards the treatment of revenues from CUTE charges and cargo screening, the Authority has noted comments from FIA, APAO, ASSOCHAM, CII, Air India, MIAL and ACI. The Authority has decided to treat both revenues as non-aeronautical revenue as discussed in para 6.110 above.

20.66. However, as discussed in 6.109-6.112 above, the Authority shall commission an independent study for the allocation of IT JV assets and expenses on account of CUTE services. Hence, for the time being, the Authority shall consider CUTE revenues and CUTE counter revenues as aeronautical revenues. Based on the result of the above mentioned study, the Authority shall true up both revenue streams.

20.67. With respect to treatment of ITP revenues, the Authority has noted comments from IATA, MIAL and FIA. The Authority has carefully examined that comments and re-iterates its rationale and proposal on this matter stated in the Consultation Paper No. 16/2014-15 and para 6.107 above, and decides to treat the revenue from ITP services in the hands of DIAL as aeronautical revenue.

Decision No. 18 Regarding treatment of cargo, ground handling and fuel concessions to be considered for the second Control Period, based on the material before it and its analysis, the Authority has decided:

18.a. To commission an independent study to examine the issue of allocation of assets, services, revenues and costs generated in the IT JV into aeronautical and non-aeronautical more closely. The Authority would accordingly take into account this report at the time of determination of tariff for the third Control Period and true up for the Second Control Period

18.b. To consider revenues from cargo including cargo screening as non-aeronautical in the second Control Period.

18.c. To consider revenues from ITP as well as fuel throughput as aeronautical revenue in the second Control Period.

18.d. To consider CUTE service and CUTE counter revenue as aeronautical for the time being

18.e. To consider revenue from Ground Handling as non –aeronautical for the 2nd Control Period

21. Traffic Forecast

a DIAL Submission on Traffic Forecast

21.1. DIAL's revised submission on traffic based on the Mott McDonald study (submitted by it at the time of aeronautical tariff determination for the first Control Period), dated 23.07.2014 and availability of the actual traffic in full year FY2013-14 is as below,

"Following is the actual traffic for 2013-14

Passenger Traffic:

Details of actual reported UDF paying passengers during FY2013-14 is as follows:

Passengers (in Million)	*Departing Passengers*	*Arriving Passengers*	*Total Passengers*
Domestic - Short haul	*0.74*	*0.72*	*1.46*
Domestic - Long haul	*9.37*	*9.35*	*18.72*
Domestic subtotal	*10.11*	*10.07*	*20.18*
International – Short haul	*0.53*	*0.55*	*1.08*
International – Medium haul	*2.17*	*2.10*	*4.27*
International – Long haul	*2.14*	*2.09*	*4.23*
International subtotal	*4.84*	*4.74*	*9.58*
Total Passengers	*14.95*	*14.81*	*29.76*

Air Traffic Movement (ATM):

Following are details of ATM reported during FY2013-14:

Aircraft Category	*A*	*B*	*C*	*D*	*E*	*F*	*Total*
Domestic							
Cargo			*165*	*1,188*			*1,353*
Full Service		*1,423*	*42,090*		*2,237*		*45,750*
Low Cost		*247*	*58,820*		*519*		*59,586*
Non-Schedule	*2,053*	*4,619*	*537*	*80*	*131*		*7,420*
International							
Cargo		*2*	*8*	*266*	*1,465*		*1,741*
Full Service	*69*	*499*	*12,067*	*2,387*	*14,796*	*470*	*30,288*
Low Cost		*1*	*4,290*				*4,291*
Non-Schedule	*81*	*445*	*1,000*	*520*	*1,082*	*10*	*3,138*

Grand Total	*2,203*	*7,236*	*118,977*	*4,441*	*20,230*	*480*	*153,567*

From the above reported details of ATMs following is the ATM which was billed on fixed rate of Rs. 10,700 per ATM:

Aircraft Category	*A*	*B*	*C*	*D*	*E*	*F*	*Total*
Domestic							
Cargo							
Full Service		*1,423*	*4,556*				*5,979*
Low Cost		*247*	*3,694*				*3,941*
Non-Schedule	*1,981*	*4,618*	*411*	*80*	*131*		*7,221*
International							
Cargo							
Full Service			*1*				*1*
Low Cost	*53*	*184*	*7*	*3*			*247*
Non-Schedule							
Grand Total	*2,034*	*6,472*	*8,669*	*83*	*131*		*17,389*

MToW:

Following are details of MToW reported during FY2013-14:

Average of Below 100MT:

Airline Type	*Aircraft Category*					
	A	*B*	*C*	*D*	*E*	*F*
Domestic						
Cargo			*57*	*100*		
Full Service			*77*		*100*	
Low Cost			*74*		*64*	
Non-Schedule	*38*	*45*	*48*			
International						
Cargo		*100*	*82*	*100*	*100*	
Full Service	*100*	*99*	*79*	*99*	*100*	*100*
Low Cost		*30*	*77*			
Non-Schedule	*43*	*49*	*59*	*98*	*100*	*100*

Average of Above 100MT:

Airline Type	*Aircraft Category*					
	A	*B*	*C*	*D*	*E*	*F*
Domestic						

Cargo				*8*		
Full Service					*178*	
Low Cost						
Non-Schedule						
International						
Cargo		*186*	*47*	*108*	*203*	
Full Service	*82*	*154*	*0*	*74*	*183*	*343*
Low Cost						
Non-Schedule	*6*	*58*	*11*	*76*	*237*	*292*

"

b Authority's Examination of DIAL Submissions on Traffic Forecast

21.2. The Authority had carefully examined the submissions of DIAL with regard to the actual traffic in the first Control Period and its traffic forecast for the second Control Period. The Authority had noted DIAL' submission that the actual passenger traffic broadly follows the low case of Mott McDonald traffic forecast study (2006). This study was commissioned by DIAL to determine traffic forecasts at IGI Airport, Delhi and served as the basis of Master Planning required under the OMDA.

21.3. The Authority had sought auditor's certificates for the traffic numbers submitted by it for the entire first Control Period with break-up of passenger growth by domestic and international and short haul long haul and medium haul traffic; and for ATM growth traffic by domestic and international and below 100 MT, above 100 MT traffic. The Authority was in receipt of the explanation from DIAL that prior to the application of UDF, DIAL did not record passenger traffic based on hauls and thus this information is available only for FY2012-13 and FY2013-14. The Authority was in receipt of Auditor's Certificate for the same. The Authority was also in receipt of the ATM traffic break-up for FY2011-12, FY2012-13 and FY2013-14 which is based on the UDF paid passengers only.

21.4. The Authority has noted DIAL's submissions regarding traffic projections for the second Control Period for both passenger and ATM segments. It has noted that these are based on low case scenario of the Mott McDonald study.

21.5. The Authority proposed to consider the traffic projections considered by DIAL and provide 100% correction (truing up) of the traffic in the next Control Period based on the actual traffic realised in the second Control Period. These projections are as per the tables below.

Table 65: Passenger traffic considered by the Authority for the second Control Period (in Crores) in Consultation Paper No. 16/2014-15

Passenger Traffic (in crore)	2014-15	2015-16	2016-17	2017-18	2018-19
Domestic arrivals SH	0.075	0.079	0.082	0.086	0.090
Domestic arrivals LH	0.978	1.023	1.070	1.119	1.171
Total Domestic Arrivals (A)	**1.053**	**1.102**	**1.153**	**1.206**	**1.261**
International arrivals SH	0.058	0.060	0.063	0.066	0.069
International arrivals MH	0.220	0.230	0.240	0.251	0.263
International arrivals LH	0.219	0.229	0.239	0.250	0.262
Total International Arrivals (B)	**0.496**	**0.519**	**0.542**	**0.567**	**0.594**
Domestic departures SH	0.077	0.081	0.085	0.089	0.093
Domestic departures LH	0.980	1.025	1.072	1.122	1.173
Total Domestic Departures (C)	**1.058**	**1.106**	**1.157**	**1.210**	**1.266**
International departures SH	0.055	0.058	0.061	0.063	0.066
International departures MH	0.227	0.237	0.248	0.260	0.272
International departures LH	0.224	0.234	0.245	0.256	0.268
Total International Departures (D)	**0.506**	**0.530**	**0.554**	**0.579**	**0.606**
Total Passenger (A + B + C + D)	**3.113**	**3.257**	**3.406**	**3.562**	**3.727**

Table 66: ATM considered by the Authority for the second Control Period in Consultation Paper No. 16/2014-15

ATM	2014-15	2015-16	2016-17	2017-18	2018-19
Domestic	205,029	216,757	229,155	242,263	256,120
International	81,769	85,260	88,901	92,697	96,655
Total ATM	**286,798**	**302,017**	**318,056**	**334,960**	**352,775**

c Stakeholder Comments on Issues pertaining to Traffic Forecast

21.6. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders including IATA, VistaRa, APAO, CII, MIAL, Air India etc. in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No 16/2014-15 dated 28.01.2015. Comments with respect to traffic forecast are presented below.

21.7. VistaRa presented the following views on traffic.

"The proposal by the Authority (AERA) to consider DIAL's traffic forecast for the second control period of 4.6% is undesirable. DIAL has acknowledged that it has based its traffic forecast on the low growth scenario in Mott McDonald study. With the recent decline in oil prices - which contribute to roughly 50% of an airline's operating cost - and air fares having declined constantly since 2011 (Brian Pearce. Chief Economist - IATA) demand for air travel is expected to surge again. The Indian aviation sector, in particular, has been growing strongly in recent months, with three new airlines having started operations, including most recently, Vistara. Based on media reports, another 6 new airlines are expected to follow suit. According to IATA, in 2014, the Indian domestic aviation market has witnessed a growth of 8% (RPKs) vs 2013, which is higher than the global domestic growth of 5.4%. IATA partly credits market simulation by local carriers for this growth. Based on Airport Council International data, Indian air traffic grew by 6.2% last year, which is again significantly higher than the 4.6% growth projected by DIAL.

With global air travel registering the strongest growth since 2010, a lower case estimation of growth is not an equitable variable to use for computation of charges for the second control period. Thus, we believe if air traffic growth were to be revised to a more realistic forecast, airport charges could be further revised downwards. This would lead to further market simulation, and eventually, the increased traffic will lead to higher revenue for the airport."

21.8. APAI presented similar views commenting that,

"The passenger growth considered by DIAL is not in line with the growth projected by the Ministry of Civil Aviation in the draft Civil Aviation Policy. It is less than half of what the Govt. has projected and this will completely change the entire working presented by DIAL."

21.9. Airlines Operators Committee also presented similar views, stating that,

"We are of the view that the proposed traffic forecast of 4.6% growth in passenger traffic annually is understated. The poorer performance in 2012-13 and possibly lower than expected performance in traffic in 2013-14 does not

suffocate future expectations for growth. On the contrary, this underperformance in the aviation market may suggest that there is potential for underserved or latent demand, meaning that growth in subsequent years may be above trend. This is especially the case when charges at Delhi airport were to drop significantly in this second control period.

IATA's long term passenger forecast over the next five years for India projects a CAGR of 8.23%. As pointed out by Mott MacDonald's, Delhi and surrounding areas have consistently outpaced India in population expansion, economic growth and improvement in living standards; therefore given the continued stronger performance in underlying demand drivers it would be expected for Delhi to have higher traffic growth compared to India as a whole.

The underlying drivers underpinning the demand for air transport remain strong. Mott MacDonald baseline growth forecast of 8.5% for all passenger traffic up to 2026 is based on underlying demand drivers. No evidence has been presented to warrant downward revisions Li underlying demand drivers. "

21.10. IATA presented its response to the proposal on traffic as below,

"IATA is of the view that the proposed traffic forecast of 4.6% growth inpassenger traffic annually is understated.

The poorer performance in 2012-13 and possibly lower than expected performance in traffic in 2013-14 does not reduce future expectations for growth. On the contrary, this underperformance in the aviation market may suggest that there is potential for underserved or latent demand, meaning that growth in subsequent years may be above trend. This is especially the case if charges at Delhi airport were to drop significantly in this second control period.

IATA's long term passenger forecast over the next five years for India

projects a CAGR of 8.2%. As pointed out by Mott MacDonald, Delhi and surrounding areas have consistently outpaced India in population expansion, economic growth and improvement in living standards;

therefore given the continued stronger performance in underlying demand drivers it would be expected for Delhi to have higher traffic growth compared to India as a whole.

The underlying drivers underpinning the demand for air transport remain strong. Mott MacDonald's baseline growth forecast of 8.5% for all passenger traffic up to 2026 is based on underlying demand drivers. No evidence has been presented to warrant downward revisions in underlying demand drivers."

21.11. FIA too provided a similar view stating that,

"It is submitted that, a similar study was considered by the Authority to forecast the traffic projections for the 1st Control Period. As compared to the actual traffic, projected traffic was lower for the four years considered, with an efficiency of 95%. However, during the FY 2012-13 and FY 2013-14, the efficiency turns out to be 91%. Considering 95% accuracy during the previous control period, forecast error has resulted in higher tariffs by 5.26% during the 1st Control Period.

It must be emphasized here that DIAL engaged Mott to conduct the traffic study and the Authority had used this study to benchmark the traffic projections of DIAL which is a clear case of conflict of interest. This implies that Mott traffic projections cannot be considered to be an independent study. Also, the Mott study has been conducted 9 years ago and there have been significant changes in the macro environment of the aviation sector and the country which would have impacted the assumptions of the said study. Hence, the Authority should commission an independent study considering the current state of the economy. Also, the Authority should adopt middle case traffic projections instead of low case projections as earlier considered for 1st Control Period."

d DIAL's response to Stakeholder Comments on Issues pertaining to Traffic Forecast

21.12. With respect to Vistara's comments, DIAL responded as below, *"The traffic forecast considered by DIAL is based on a study / traffic forecast prepared by Mott MacDonald Group Ltd., providing an estimate of future demand for air transport at Delhi airport from 2006 to 2036. The forecast has proved to be 95% accurate since 2006 as confirmed by the past few years' actual data. The low case forecast of the Mott MacDonald traffic forecast of 2006 have been used. The low case forecast has proved to be 95% accurate"*

21.13. DIAL has in response to Vistara's and APAI's comments, also provided a table comparing actual pax traffic to projected traffic (low case) during the years from FY2009-10 to FY2012-13, adding that,

"Accordingly, the 5 year CAGR of the forecast by Mott MacDonald has been used. The report for traffic forecast of Delhi Airport, prepared by Mott MacDonald has been submitted to the Authority."

21.14. With respect to AOC's comments, DIAL has responded as below in addition to providing a table comparing actual pax traffic to projected traffic (low case) during the years from FY2009-10 to FY2012-13,

"The traffic forecast considered by DIAL is based on a study / traffic forecast prepared by Mott MacDonald Group Ltd., providing an estimate of future demand for air transport at Delhi airport from 2006 to 2036. The forecast has proved to be 95% accurate since 2006 as confirmed by the past few years' actual data.

As forecasted, the pace of growth slowed down in 2012-2013, which is attributable to the following significant developments in Indian aviation:

- *The slowdown of the Indian economy;*
- *Government policy which includes items such as bilateral capacity limits;*
- *The manner in which airlines in India has developed - there have been failures resulting in consolidation of Indian carriers, the continued growth of low cost airlines, and decline in overall traffic. Developments*

such as the grounding of Kingfisher Airlines have a significant negative impact on traffic performance.

- *Challenges of global economic environment such as competitive pressures that Indian airlines in particular have had to face;*
- *The weakened global economic environment and a challenging market for Indian Airlines, particularly due to the large Middle East Gulf carriers.*

As a result there was a decline of 4.22% in traffic in 2012-2013. This decline will take time to recover and in these circumstances, the low case forecast of the Mott MacDonald traffic forecast of 2006 have been used. The Low case forecast has proved to be 95% accurate"

e DIAL's own comments on Issues pertaining to Traffic Forecast

21.15. DIAL stated that it agrees with the Traffic proposed by the Authority in the Consultation Paper, which is based on DIAL's own forecast.

f Authority's Examination of Stakeholder Comments on Issues pertaining to Traffic Forecast

21.16. The Authority has carefully considered the comments from Vistara, AOC, APAI, FIA and IATA as well as DIAL's comments and response to these stakeholder's comments regarding the passenger traffic and air traffic movement forecast for the second Control Period. The Authority has taken due consideration of the fact that the economic environment has improved compared with the first Control Period implying better prospects for air travel.

21.17. The Authority has had reference to the actual traffic realised at the IGI Airport, Delhi in the first Control Period and noted that the CAGR of passenger traffic is 10.05% and of ATM traffic is 5.99% as below:

Table 67: Actual traffic realized by DIAL at IGI Airport from AAI

Passenger	FY09	FY10	FY11	FY12	FY13	FY14	5 Year CAGR
International PAX	7769313	8314211	9275775	10750009	11566102	12681309	10.30%
Domestic PAX	15074102	17810484	20667113	25131956	22802309	24195677	9.93%
Total PAX	**22843415**	**26124695**	**29942888**	**35881965**	**34368411**	**36876986**	**10.05%**

ATM	FY09	FY10	FY11	FY12	FY13	FY14	5 Year CAGR
International	59495	63438	74758	76937	80402	86191	7.70%
Domestic	157896	165789	180791	218554	200311	204581	5.32%
Total	**217391**	**229227**	**255549**	**295491**	**280713**	**290772**	**5.99%**

21.18. As the CAGR of the actual growth rate realised by DIAL is much higher than the DIAL projection for the second Control Period, the Authority is of the view that the growth rate for the second Control Period should reflect the recent trend. Thus, the Authority decides to consider the CAGR of passenger and ATM traffic at DIAL as the growth rate for projection of Non-Aeronautical revenues for the second Control Period. In the Authority's view, it will also help in a more realistic projection of Non-Aeronautical revenues.

21.19. However, for the purpose of estimation of UDF, the Authority had sought information on billable passengers at the IGI Airport, Delhi. The Authority is in receipt of an auditor's certificate in this regard. The numbers have been reproduced below,

"Passenger numbers in million

Particulars	*From April 09, 2012 to May 14, 2012 (a)*	*Form May 15, 2012 to March 21, 2013 (b)*	*Total For the F.Y 2012-13 (c= a +b)*	*For the F.Y 2013-14 (d)*	*For the F.Y 2014-15 (e)*
Departure	*2.17*	*12*	*14.17*	*14.95*	*16.3*
Arrival	*2.16**	*11.96*	*14.12*	*14.81*	*16.09*
Total	*4.33*	*23.96*	*28.29*	*29.76*	*32.39***
Compund Annual Growth Rate					*7.00%*

**UDF billing on both departure and arrival passengers commenced w.e.f from May 15, 2012. Upto May 14, 2012 the company has collected PSF from embarking passengers and arrival passengers information is not maintained separately. Hence, for the period April 01, 2012 to May 14, 2012, the arrival passengers are calculated based on the billable passenger ratio for the period May 15, 2012 to March 21, 2013.*

***As represented by the Company, during the year 2014-15, Jet Airways and Air India has approached DIAL for Credit Note against the excess passengers billed by DIAL based on the erroneous data provided by the respective airlines. However DIAL has requested for Certificate from a Chartered Accountant with respect to the same. Pending receipt of Certificate from the Chartered Accountant, DIAL has made provision against the claim of Jet Airways and Air India and Passenger number for 2014-15 as stated above is after reducing 0.18 Million passengers with respect to the said provision."*

21.20. Accordingly, the Authority has projected traffic for the purpose of estimating UDF at the CAGR of billable passenger traffic of 7% as per their submission, for the second Control Period.

21.21. Thus, based on a 7 % growth rate of billable passenger traffic, the Authority decides to consider the following passenger traffic figures for projection of aeronautical revenues over the second Control Period:

Table 68: Passenger traffic considered by the Authority for the second Control Period (in Crores)

Passenger Traffic (in crore)	2014-15	2015-16	2016-17	2017-18	2018-19
Domestic arrivals SH	0.077	0.082	0.088	0.094	0.101
Domestic arrivals LH	1.000	1.070	1.145	1.226	1.311
Total Domestic Arrivals (A)	1.077	1.153	1.234	1.320	1.412
International arrivals SH	0.059	0.063	0.067	0.072	0.077
International arrivals MH	0.225	0.240	0.257	0.275	0.295
International arrivals LH	0.224	0.239	0.256	0.274	0.293
Total International Arrivals (B)	0.507	0.543	0.581	0.621	0.665
Domestic departures SH	0.08	0.08	0.09	0.10	0.10
Domestic departures LH	1.00	1.07	1.15	1.23	1.31
Total Domestic Departures (C)	1.08	1.16	1.24	1.33	1.42
International departures SH	0.06	0.06	0.06	0.07	0.07
International departures MH	0.23	0.25	0.27	0.28	0.30
International departures LH	0.23	0.25	0.26	0.28	0.30
Total International Departures (D)	0.52	0.55	0.59	0.63	0.68
Total Passenger (A + B + C + D)	3.18	3.41	3.65	3.90	4.17

Table 69: ATM considered by the Authority for the second Control Period

ATM	2014-15	2015-16	2016-17	2017-18	2018-19
Domestic	205,553	217,865	230,916	244,747	259,408
International	83,117	88,096	93,373	98,966	104,894
Total ATM	**288,670**	**305,961**	**324,289**	**343,713**	**364,302**

21.22. The Authority reiterates its view expressed earlier in the Consultation Paper No. 16/2014-15 on the requirement of reconciliation of passenger as well as ATM data between AAI and DIAL from 2011-12 onward, with DIAL submission, and also put together a system for reconciliation of traffic numbers reported by them.

21.23. The Authority will true-up the passenger and ATM traffic based on actual numbers realized during the second Control Period at the time of tariff determination for the third Control Period.

Decision No. 19 Regarding traffic forecast to be considered for the second Control Period, based on the material before it and its analysis, the Authority has decided:

19.a. **To consider the passenger and ATM traffic as per the Table 68 and Table 69 respectively for the second Control Period.**

19.b. **To true-up the passenger and ATM traffic based on actual numbers realized during the second Control Period at the time of tariff determination for the third Control Period.**

22. Inflation

a. DIAL Submission on Inflation

22.1. DIAL's revised submission dated 23.07.2014 referred to the RBI Forecast (Results of the Survey of Professional Forecasters on Macroeconomic Indicators – 28th Round (Q4:2013-14, Source:http://www.rbi.org.in/scripts/PublicationsView.aspx?id=15761) giving the latest forecast is as under:

"

Annual Average Percentage Change								
	Annual average percentage change over the next five years				*Annual average percentage change over the next ten years*			
	Mean	*Median*	*Max*	*Min*	*Mean*	*Median*	*Max*	*Min*
Real GDP	*6.5*	*6.5*	*7.5*	*5.9*	*7.2*	*7.2*	*8.0*	*6.0*
CPI- Inflation	*6.9*	*7.0*	*8.0*	*5.5*	*6.3*	*6.5*	*7.5*	*5.0*
WPI Inflation	*5.4*	*5.5*	*6.2*	*4.3*	*5.1*	*5.5*	*6.0*	*3.5*

"

b. Authority's Examination of DIAL Submissions on Inflation

22.2. The Authority examined the submissions made by DIAL on inflation to be considered for the second Control Period and noted that noted that DIAL has submitted RBI Forecast for WPI and CPI-IW (Results of the Survey of Professional Forecasters on Macroeconomic Indicators – 24th Round (Q1:2013-14) and 28th Round (Q4: 2013-14)[4].

22.3. The Authority noted that the latest RBI forecasts as per the Results of the Survey of Professional Forecasters on Macroeconomic Indicators – 30th Round has been posted by RBI on 30.09.2014 on its website[5] as reproduced below.

Table 70: Inflation forecast – RBI Survey of Professional Forecasters on Macroeconomic Indicators – 30th Round

Annual Average Percentage Change		
	Annual average percentage change over the next five years	Annual average percentage change over the next ten years

[4] (http://rbi.org.in/scripts/QuarterlyPublications.aspx?head=Survey%20of%20Professional%20Forecasters)
[5] ((http://rbi.org.in/scripts/QuarterlyPublications.aspx?head=Survey%20of%20Professional%20Forecasters))

	Mean	Median	Max	Min	Mean	Median	Max	Min
Real GDP	6.8	6.8	7.5	6.0	7.5	7.5	9.0	6.5
CPI inflation	6.6	6.5	7.5	5.0	5.9	6.0	7.0	5.0
WPI	5.2	5.1	6.0	4.0	4.8	5.0	5.5	3.5

22.4. Hence, the Authority proposed to follow CPI inflation forecast of 6.6% (Annual average percentage over the next 5 years) and WPI inflation forecast of 5.2% (Annual average percentage over the next 5 years) for the second Control Period for appropriate year on year tariff rate increase, wherever required, as well as for projection of various building blocks of the ARR.

c. Stakeholder Comments on Issues pertaining to Inflation

22.5. No stakeholders have commented on the matter.

d. DIAL's response to Stakeholder Comments on Issues pertaining to Inflation

22.6. No stakeholders have commented on the matter.

e. DIAL's own comments on Issues pertaining to Inflation

22.7. DIAL has agreed to the authority's forecast on inflation

f. Authority's Examination of Stakeholder Comments on Issues pertaining to Inflation

22.8. The Authority has noted that inflation forecasts have been revised further down in the 35th Round of the Survey of Professional Forecasters on Macroeconomic Indicators dated 04.08.2015 posted on the RBI's website[6]. The average CPI inflation forecast has been revised down to 5.1% and the average WPI inflation forecast has been revised to 3.6%, for the next 5 years. The revised inflation is as below,

Table 71: Inflation forecast – RBI Survey of Professional Forecasters on Macroeconomic Indicators – 35th Round

Annual Average Percentage Change								
	Annual average percentage change over the next five years				Annual average percentage change over the next ten years			
	Mean	Median	Max	Min	Mean	Median	Max	Min
Real GVA	8.0	8.0	10.0	7.0	8.3	8.4	10.0	7.0
CPI Combined	5.1	5.0	6.0	4.0	4.9	5.0	6.2	4.0
WPI	3.6	3.7	5.0	2.0	3.5	3.5	5.0	2.6

6 https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=16422

22.9. Thus the Authority decides to follow CPI inflation forecast of 5.1% (Annual average percentage over the next 5 years) and WPI inflation forecast of 3.6% (Annual average percentage over the next 5 years) for the second Control Period for appropriate year on year tariff rate increase, wherever required, as well as for projection of various building blocks of the ARR.

Decision No. 20 Regarding the matter of Inflation, based on the material before it and its analysis, the Authority has decided:

20.a. **To follow the CPI inflation forecast of 5.1% and WPI forecast of 3.6% for the next five years of the second Control Period for determination of various building blocks, wherever required.**

23. Quality of Service

a DIAL Submission on Quality of Service

23.1. DIAL had not made any submission related to Quality of Service.

b Authority's Examination on Quality of Service

23.2. The Authority in its Order No 03/2012-13 dated 24.04.2014 had decided, as specified by the Government, to monitor the performance standards as laid down in the OMDA. The Authority had noted that OMDA provides for liquidated damages to be paid by DIAL to AAI, should the quality of service not be achieved by DIAL in line with requirements under OMDA. The Authority had decided that for the first control period it will not impose rebate mechanism in addition to the liquidated damages mechanism in OMDA.

23.3. The Authority had made reference to section 13.1 (ii) of the AERA Act and Chapter X of OMDA and would like to be advised by the AAI on the performance standards maintained by DIAL during the first Control Period and on any liquidated damages levied by AAI on DIAL. The Authority was not in receipt of any such information from AAI. In absence of the same, the Authority made reference to media reports as well as ACI website, which state that Delhi has been consistently adjudged the second best airport in the world for its service quality among the airports handling 25-40 million passengers per annum (MPPA), by Airports Council International in 2011, 2012 and 2013 (ASQ Awards). Based on the information available to it, the Authority finds that the ASQ rating awarded to DIAL for FY 2011-12 and FY 2012-13 are 4.83 and 4.84 respectively. The Authority noted the provisions under OMDA require DIAL to *"...achieve a rating of 3.75 in the IATA/ACI AETRA passenger survey or greater and maintains the same throughout the Term."*

23.4. The Authority was thus, unable to consider any adjustments towards determination of aeronautical tariff on account of service quality maintained by DIAL during the first Control Period.

23.5. The Authority also proposed to continue with its earlier decision to monitor the performance standards as laid down in the OMDA for the second Control Period and not to impose the rebate mechanism in addition to the provision of liquidated damages in the OMDA.

23.6. Regarding the matter of Quality of Service based on the material before it and its analysis, the Authority proposed:

23.6.1. As specified by the government, to monitor the performance standards as laid down in the OMDA for the second Control Period

23.6.2. To not impose rebate mechanism in addition to the provision of liquidated damages in the OMDA.

c Stakeholder Comments on Issues pertaining to Quality of Service

23.7. AOC has commented on the issue of quality of service as stated below,

"There should not be any further delay in implementation of performance measures and implementation should take place immediately to require the airport to deliver the requisite service levels."

23.8. CII's response to the quality of service is a stated below,

"There should not be any further delay in implementation of performance measures and implementation should take place immediately to require the airport to deliver the requisite service levels."

23.9. FIA's comments on Authority's take on quality of service are as follows,

"Service quality should be monitored and true up to be made as per the ratings received 49, Clause 9.1.3(c) of OMDA stipulates that in the event DIAL fails to maintain the rating stipulated under OMDA which is 3.75 in the present case for two successive quarterly surveys, DIAL is liable to pay a penalty to AAI. Therefore, OMDA stipulates a mechanism to review the ratings and imposes penalty on default. In view of the same, it is submitted that with respect to the 2nd Control Period, the Authority may consider the provisions of OMDA and provide for true ups based on the ratings of the Airport. Further, the Authority may consider the impact of the liquidated damages, if any, imposed on DIAL and DIAL compensate the stakeholders/ consumers, in the event any liquidated damages are levied on DIAL under the terms of OMDA. The Authority should

ensure that the quality of services should be maintained by DIAL. Further, the Authority should ensure that details pertaining to the service quality in the past and the projections of savings or reduction of losses should be should be made available to the stakeholders. Further, the Authority should ensure that DIAL should achieve the projections. The financial impact of failure of."

23.10. IATA's comments on the monitoring of performance level and quality of service are as stated below,

"The current measures are qualitative (customer perception) rather than quantitative (based on actual measurements of performance). We urge the Authority to broaden the base of indicators for service performance by adding quantitative measures as well. Examples of these quantitative measures are available on other regulatory determinations such as for Heathrow Airport and Dublin Airport.

- *The setting of such measures should be done via a consultation with all stakeholders.*

23.11. IATA's comments to Authority's proposal to impose rebate mechanism are as stated below,

"Once the indicators for measuring quality of service are increased, the Authority should then consider imposing service quality targets. If such targets are not met, then a rebate mechanism should apply.

- *The process for determining the quantitative measures and their targets should be completed without further delay."*

d DIAL's response to Stakeholder Comments on Issues pertaining to Quality of Service

23.12. DIAL has not responded to AOC's comments

23.13. DIAL has not responded to CII's comments

23.14. DIAL has not responded to FIA's comments

23.15. DIAL's response to IATA's comments on quality of service are as below

"The quality of service are already defined in detail in the concession agreement. We agree to the Authority's proposal to monitor the quality as per the concession agreement."

"The quality of service are already defined in detail in the concession agreement. The current standards are already monitored by the concessioning Authority"

e DIAL's own comments on Issues pertaining to Quality of Service

23.16. DIAL has agreed to the Authority's stand of monitoring Quality based on the terms of concession agreement.

f Authority's Examination of Stakeholder Comments on Issues pertaining to Quality of Service

23.17. The Authority has carefully considered the comments from AOC, CII, FIA and IATA as well as DIAL's response to these stakeholder's comments regarding the Quality of Service in respect of the IGI Airport, Delhi. The Authority agrees that there should be constant monitoring of the performance standards at the airport; it is a statutory function entrusted to the Authority.

23.18. The Authority proposes to devise a methodology for collecting feedback on the service quality of various airports in the country and incorporating the same in its tariff determination process. The service quality at IGI airport will be monitored based on the above said note, once the same is issued.

23.19. However the Authority would also like to clarify that its decision is exclusive of the decision under the performance clause of the OMDA, whereby DIAL may be liable for liquidated damages.

Decision No. 21 Regarding the quality of service, the Authority has decided to issue a note on the methodology for monitoring service quality at all airports under its purview, including IGI Airport, Delhi. The service quality will be monitored in line with this note, for subsequent periods, upon issuance of the note.

24. Sensitivity Analysis

24.1. As per the Base Model submitted by DIAL, the X Factor submitted was (-) 42.64926%, considering the date of implementation of new tariff as 01.11.2014. The Authority had analysed DIAL submissions on each of the regulatory building block and presented its analysis in its Consultation Paper No 16/2014-15 dated 28.01.2015.

24.2. The following table shows the individual impact of each adjustments made by the Authority in the Consultation Paper No 16/2014-15 along with the corresponding X factor for these changes. These changes had resulted in a cumulative X-Factor of (+) 78.24% where a positive value of X Factor represents a decrease in the Aeronautical tariffs.

Table 72: Sensitivity Analysis against the X-factor submitted by DIAL and the proposals made by the Authority in the Consultation Paper No. 16/2014-15

Sensitivity 1: Impact on X Factor Considering Into Plane Revenues as Aero Revenues	
As per DIAL Base Model	(-)42.65%
X Factor Considering Cargo Screening & Into Plane Revenues as Aero Revenues	(-)41.65%
Sensitivity 2: Impact on X Factor Considering 0% Return on RSD	
As per DIAL Base Model	(-)42.65%
X Factor Considering 0% Return on RSD	(-)21.39%
Sensitivity 3: Impact on X Factor with correction in HRAB	
As per DIAL Base Model	(-)42.65%
X Factor Considering correction in X Factor	(-)35.87%
Sensitivity 4: Impact on X Factor Considering Cost of Equity as 16%	
As per DIAL Base Model	(-)42.65%
X Factor Considering Cost of Equity as 16%	(-)20.09%
Sensitivity 5: Impact on X Factor Disallowing Annual Escalation in Cost of Debt	
As per DIAL Base Model	(-)42.65%
X Factor Disallowing Annual Escalation in Cost of Debt of 25 BPS	(-)41.84%
Sensitivity 6: Impact on X Factor Considering AERA's Approach for Building Block True up	
As per DIAL Base Model	(-)42.65%
X Factor Considering AERA's Approach for Building Block True up	(-)12.87%
Sensitivity 7: Impact on X Factor Considering FY2013-14 as Efficient Operating Expense and Projecting Expenses for the Second Control Period at 8%	
As per DIAL Base Model	(-)42.65%
X Factor Considering FY2013-14 as Efficient Operating Expense and Projecting Expenses for the Second Control Period at 8%	(-)36.60%
Sensitivity 8: Impact on X Factor Considering FY2013-14 Revenues as Base Values and Projecting	

Sensitivity 1: Impact on X Factor Considering Into Plane Revenues as Aero Revenues	
Non Aero Revenues for the Second Control Period	
As per DIAL Base Model	(-)42.65%
X Factor Considering FY2013-14 Revenues as Base Values and Projecting Non Aero Revenues for the Second Control Period	(-)39.74%
Sensitivity 9: Impact on X Factor Considering the Value of CPI at 6.6 %	
As per DIAL Base Model	(-)42.65%
X Factor Considering the Value of CPI at 6.6 %	(-)39.58%
Sensitivity 10: Impact on X Factor Considering Date of Implementation of New Tariff as 01.02.2015	
As per DIAL Base Model	(-)42.65%
X Factor Considering Date of Implementation of New Tariff as 01.02.2015	(-)46.09%
Sensitivity 11: Impact on X Factor Correcting for Model Errors & Linkages	
As per DIAL Base Model	(-)42.65%
X Factor Correcting for Model Errors & Linkages	(-)42.69%
Sensitivity 12: Impact on X Factor Adjusting for Opening Gross block and Accumulated Depreciation Based on Updated DF adjustment and Capex Addition	
As per DIAL Base Model	(-)42.65%
X Factor Adjusting for Opening Gross block and Accumulated Depreciation Based on Updated DF adjustment and Capex Addition	(-)31.24%
Sensitivity 13: Impact on X Factor Adjusting CPI on Target Revenue and Projected Revenue Both	
As per DIAL Base Model	(-)42.65%
Impact on X Factor Adjusting CPI on Target Revenue and Projected Revenue Both	+1.48%
Sensitivity 14: Impact on X Factor Adjusting for Return on Internal Accrual	
As per DIAL Base Model	(-)42.65%
Impact on X Factor Adjusting for Return on Internal Accrual	(-)43.57%
Sensitivity 15: Impact on X Factor Capping the Rate of Interest on New Debt to the Value of WACC	
As per DIAL Base Model	(-)42.65%
X Factor Capping the Rate of Interest on New Debt to the Value of WACC	(-)42.65%
Sensitivity 16: Impact on X Factor Accounting for the Impact of CPI to DIAL's Cargo Projections	
As per DIAL Base Model	(-)42.65%
on X Factor Accounting for the Impact of CPI to DIAL's Cargo Projections	(-)42.24%
Sensitivity 17: Impact on X Factor adjusting for Correcting for Audited Values	
As per DIAL Base Model	(-)42.65%
X Factor adjusting for Correcting for Audited Values	(-)33.37%
Sensitivity 18: Impact on X Factor Considering AAI Revenue Share as an Expense in Calculating Aero Financials	
As per DIAL Base Model	(-)42.65%
X Factor Considering AAI Revenue Share as an Expense in Calculating Aero Financials	(-)10.16%

Sensitivity 1: Impact on X Factor Considering Into Plane Revenues as Aero Revenues	
Sensitivity 19: Impact on X Factor adjusting for ECB and Foreign exchange	
As per DIAL Base Model	(-)42.65%
X Factor Considering AAI Revenue Share as an Expense in Calculating Aero Financials	(-)35.86%
Sensitivity 20: Impact on X Factor adjusting for CPI in Capex Addition	
As per DIAL Base Model	(-)42.65%
X Factor adjusting for CPI in Capex Addition	(-)42.65%
Sensitivity 21: Impact on X Factor considering Airport Operator Fee as 3% Percentage of Aero Revenue	
As per DIAL Base Model	(-)42.65%
X Factor considering Airport Operator Fee as 3% Percentage of Aero Revenue	(-)41.61%
Sensitivity 22: Impact on X Factor adjusting for upfront fee in Equity Share Capital	
As per DIAL Base Model	(-)42.65%
X Factor adjusting for upfront fee in Equity Share Capital	(-)42.05%
Cumulative Impact on X Factor adjusting for Correcting for Audited Values	
As per DIAL Base Model	(-)42.65%
X Factor adjusting for Correcting for Audited Values	+78.24%

24.3. The following chart shows the cumulative impact of all adjustments made by the Authority in the Consultation Paper No 16/2014-15 along with the corresponding X factor for these changes.

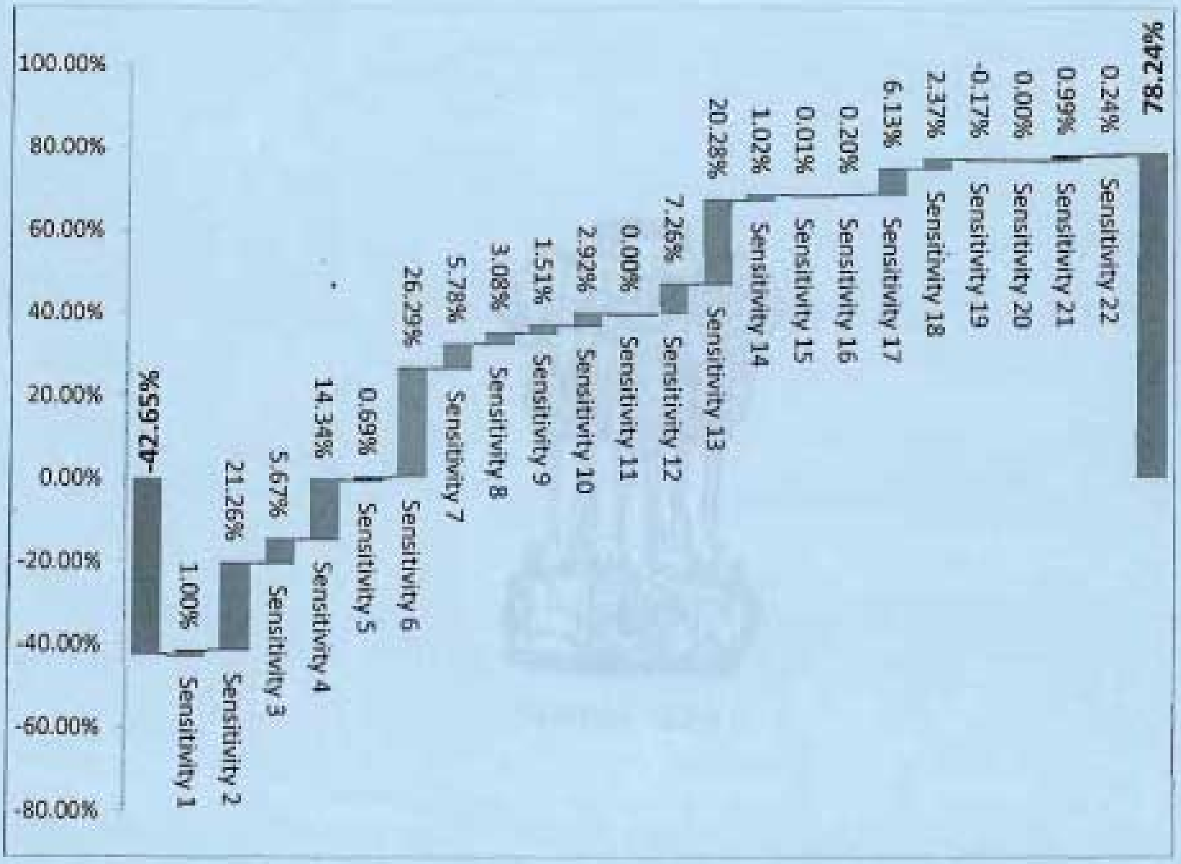


Figure 1: Chart represents the cumulative impact of each sensitivity on the final X Factor

24.4. Taking into account the impact of the above sensitivities, the Authority had calculated the Target Revenue as follows in its Consultation Paper No 16/2014-15 dated 28.01.2015.

Table 73: Calculation of Target Revenue and projected aeronautical revenue based on date of implementation of new tariff as 01.02.2015 as per the Consultation Paper No. 16/2014-15

In Crore	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
RAB	6,945.16	6,553.93	6,213.78	5,872.59	5,541.57
WACC	9.99%	9.99%	9.99%	9.99%	9.99%
Return on RAB	693.55	654.48	620.52	586.44	553.39
Operations and Maintenance Expenses	752.68	798.10	805.52	867.13	939.36
Depreciation	536.82	508.67	513.21	519.36	524.33
Tax	0.00	0.00	0.00	0.00	0.00
Target Revenue	1,983.05	1,961.25	1,939.24	1,972.93	2,017.08
Non-aeronautical Revenue	1,079.64	1,180.93	1,290.94	1,401.39	1,558.06
Cross-Subsidization @ 30%	323.89	354.28	387.28	420.42	467.42
True up	-188.96				

In Crore	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Net Target Revenue	1,470.19	1,606.97	1,551.96	1,552.51	1,549.66
NPV Target Revenue as on 01.02.2015	1,591.56	1,581.68	1,388.84	1,263.19	1,146.39
Sum of NPV of Target Revenue for 2nd Control Period					6,971.66
Projected Aeronautical Revenue to match Target Revenue					
FTC Revenue	137.56	147.90	159.02	170.98	183.84
ITP Revenue	1.46	1.56	1.68	1.80	1.93
CUTE counter	12.27	13.72	15.34	17.15	19.18
Cargo Screening Rev	23.43	25.07	26.82	28.70	30.71
Revenue from aeronautical charges (LPH and UDF)	2,382.80	867.86	966.87	1,077.27	1,200.37
Total Aeronautical Revenue	2,557.53	1,056.11	1,169.73	1,295.90	1,436.03
NPV of Aeronautical Revenue as on 01.02.2015	2,768.65	1,039.49	1,046.79	1,054.40	1,062.33
Sum of NPV of Aeronautical Revenue for 2nd Control Period					6,971.66

24.5. After considering comments on each building block from the various stakeholders, the Authority has re-evaluated some of its decisions. The decisions of the Authority and the updated approach for each of the building blocks has been detailed out in the relevant sections presented above.

24.6. The following table shows the impact of each of these changes on the X- Factor from the value of (+) 78.24% considered by the Authority during the Consultation Stage to the final value of (+) 96.08% where a positive value of X Factor represents a decrease in aeronautical tariffs.

Table 74: Factors resulting in changes in the X-Factor from (+) 78.24% as considered by the Authority in Consultation Paper No 16/2014-15 to (+) 96.08% as considered under this Order

Sr. No.	Factors Impacting X Factor	Revised X-Factor
	Final X-Factor as considered in the Consultation Paper No 16/2014-15 dated 28.01.2015	(+) 78.24%
1.	True Up Value	(+) 76.36%
2.	Traffic Growth at Actual 5 year CAGR	(+) 82.18%
3.	CPI Update as per latest RBI forecast	(+) 79.71%
4.	Opex Growth Update	(+) 79.44%
5.	UDF Specific Growth at Actual Rate	(+) 78.73%
6.	New Implementation Date (1st January 2016)	(+) 97.00%
7.	Cargo Screening as Non Aero	(+) 97.00%
	Final X-Factor	**(+) 96.08%**

24.7. The chart below shows the cumulative impact of each of the above factors on the final X-Factor decided by the Authority in this Order.

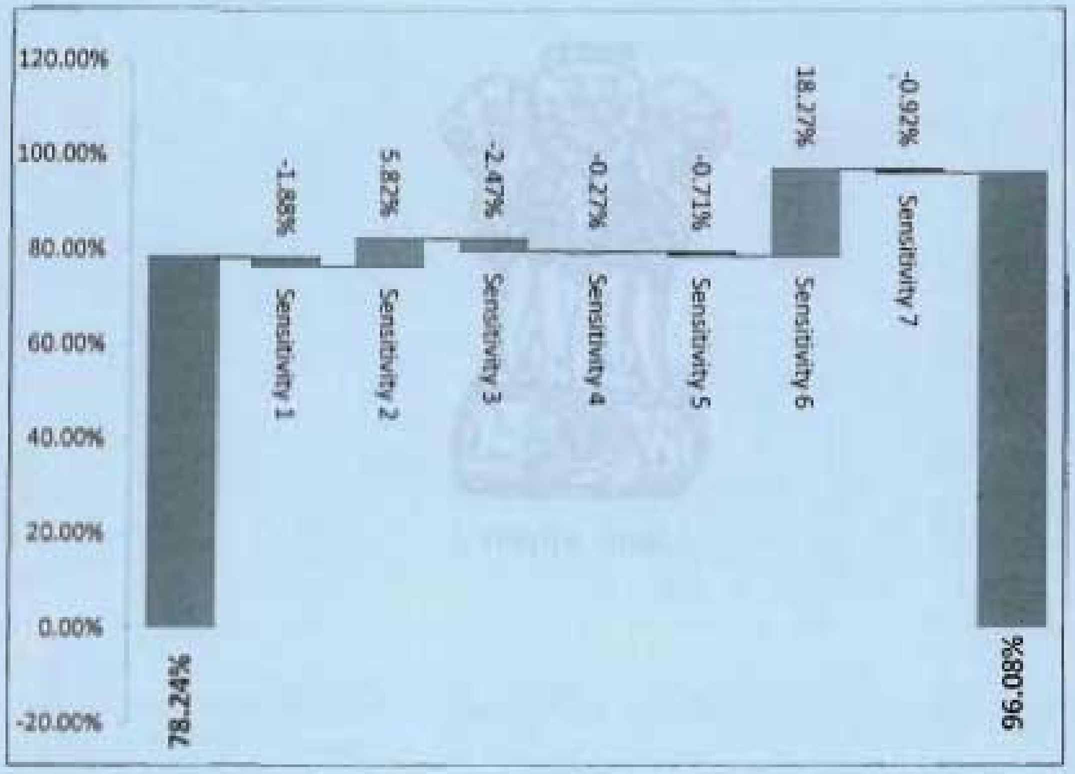


Figure 2: Cumulative Impact of each factor resulting in change in X factor from the Consultation Paper No 16/2014-15 to the Order

24.8. For the final value of X-Factor, the Authority has calculated each building block and the cumulative Target Revenue for the next Control Period as follows:

Table 75: Calculation of Target Revenue and projected aeronautical revenue based on date of implementation of new tariff as 01.01.2016

Rs. Crores	2014-15	2015-16	2016-17	2017-18	2018-19
RAB	6896.21	6502.51	6158.50	5811.08	5471.22
WACC	9.97%	9.97%	9.97%	9.97%	9.97%
Return on RAB	687.27	648.04	613.75	579.13	545.26
Operating Expenses	749.69	805.92	840.49	834.68	900.57
Depreciation	539.31	510.89	515.23	521.07	525.56
Target Revenue	**1976.28**	**1964.85**	**1969.48**	**1934.88**	**1971.39**
Non Aero Total	1,126.16	1,258.37	1,408.06	1,567.65	1,785.09
Non Aero Subsidization	337.85	377.51	422.42	470.29	535.53

True up	36.33				
Net Target Revenue	**1,674.76**	**1,587.34**	**1,547.06**	**1,464.59**	**1,435.86**
NPV Target	**1,977.67**	**1,704.57**	**1,510.75**	**1,300.60**	**1,159.53**
Aeronautical Revenues					
Revenue from Fuel Throughput Charges	137.20	142.89	154.55	167.15	180.79
Into plane Revenues	1.46	1.58	1.71	1.84	1.99
Revenue from CUTE Counter Charges	12.23	13.63	15.18	16.91	18.83
Landing, Parking, Housing, and User Development Fee	2,838.95	2,342.27	316.59	353.59	395.01
Net Projected revenue	**2,989.85**	**2,500.37**	**488.02**	**539.50**	**596.62**
Discount Rate	1.18	1.07	0.98	0.89	0.81
NPV Target	**1,977.67**	**1,704.57**	**1,510.75**	**1,300.60**	**1,159.53**
NPV Projected	**3,530.62**	**2,685.03**	**476.57**	**479.09**	**481.80**

25. Tariff Structure/ Rate Card

a DIAL Submission on Tariff Structure/ Rate Card

25.1. DIAL's revised submission was based on the assumption that the tariff period would start from April 1st 2014 and end on March 31st 2019 and that the new tariff would be in force from 1st November 2014.

"Based on the assumptions discussed in our earlier submission and current revision, the target revenues for the 5 year in the control period are as under:

INR Crores	*FY 2015*	*FY 2016*	*FY 2017*	*FY 2018*	*FY 2019*
Return on Aero RAB	*1,426*	*1,298*	*1,194*	*1,098*	*1,013*
Aero Operating expenses	*913*	*962*	*1104*	*1151*	*1164*
Aero Depreciation	*935*	*828*	*758*	*757*	*672*
Aero Corporate Tax	*250*	*711*	*891*	*1129*	*1413*
True - up adjustment for previous control period	*2,244*				
Target revenue	*5,768*	*3798*	*3947*	*4135*	*4262*
Non Aero – Subsidization	*318*	*337*	*355*	*371*	*396*
Net Target revenue	*5450*	*3461*	*3592*	*3764*	*3866*
Projected revenue	*3308*	*4166*	*4365*	*4573*	*4791*
Discount factor	*0.85*	*0.72*	*0.62*	*0.52*	*0.45*
NPV of Target revenue	*13050*				
NPV of Projected revenue	*13050*				
One Time X Factor Increase	*42.6%*				
Step Up X Factor Increase	*12.1%*	*12.1%*	*12.1%*	*12.1%*	*12.1%*
CPI Increase	*7.7%*	*7.7%*	*7.7%*	*7.7%*	*7.7%*

"

25.2. As per the SSA, the X factor is the average equalization factor of the discounted target and projected aeronautical revenues over the regulatory period. The X factor could be a onetime increase or a step up increase.

25.3. The X factor was calculated as an average percentage increase as of 1st Nov 2014 by discounting the above target revenue with the WACC. This X factor worked out to be:

25.3.1. One Time Increase: One-time increase of 42.6% and additional CPI of 7.7% YoY

25.3.2. Step Up Increase: Step Up increase of 12.1% and additional CPI of 7.7% YoY

25.3.3. Inflation had not been factored in these forecasts. DIAL had assumed the Authority will provide inflation over and above the X factor.

25.4. As regards the Annual Tariff Proposal, DIAL submitted that the assumption was that the new tariff rates would be implemented from 1st November, 2014. However based on the final date of implementation the X factor may undergo a change.

25.5. DIAL also said that after the approval of MYTP, DIAL would submit a detailed pricing proposal to achieve the average increase which may be a combination of various aeronautical charges including UDF.

b Authority's Examination of DIAL Submissions on Tariff Structure/ Rate Card

25.6. The Authority noted that DIAL has not submitted the Annual Tariff Proposal. The Authority has also noted that DIAL has requested to submit the detailed pricing proposal after approval of MYTP.

25.7. The Authority noted that DIAL has proposed an X factor of negative (-) 42.6%, in its revised submission dated 23.07.2014. Whereas based on the Authority's examination of DIAL's submissions, the Authority has worked out an X factor of (+) 78.24%. Accordingly the Authority found that the existing aeronautical tariffs at IGI Airport, Delhi will need to be reduced by such an extent.

25.8. The Authority also noted that the X factor will need to be updated based on:

25.8.1. The Authority's consideration of stakeholder responses to its proposals in this Consultation Paper

25.8.2. Information received from DIAL on various building blocks as highlighted in respective sections

25.8.3. The Authority's treatment of monetization of land by DIAL during the first Control Period and proposed monetization over the second Control Period

25.9. The Authority noted that the second Control Period estimated X-factor to be (+) 78.24 %), which is arrived considering the date of tariff implementation effective from 01.02.2015. The X–factor (+78.24%) as per proposal means reduction in existing tariff (the tariff as of 31.03.2014, presently being continued) with effect from 01.02.2015. In other words, positive X factor implies a required reduction in aeronautical tariff from the date considered for such implementation of tariff. The Authority further noted that the aeronautical revenue already collected as per present tariff till the actual date of implementation of revised tariff will be more than what is due to DIAL as per determination of ARR. The calculations of Target Revenue and ARR projection in the Consultation Paper were based on considering the date of tariff implementation for the second Control Period as 01.02.2015.

25.10. Regarding the matter of Tariff Structure/ Rate Card the Authority proposed:

25.10.1. To consider the X factor in respect of the aeronautical tariffs for the second Control Period (01.04.2014 - 31.03.2019) for the IGI Airport, Delhi at (+78.24%) based on Authority's computation discussed above, provided that the revised tariff is made effective from 01.02.2015.

25.10.2. To bring the above X-factor into effect in respect of aeronautical tariffs at IGI Airport and expects DIAL to submit the tariff card addressing the same.

c Stakeholder Comments on Issues pertaining to Tariff Structure / Rate Card

25.11. AOC's comments on the issue of tariff structure and rate card are as stated

"We note that DIAL will be submitting its proposed tariff rate card subsequently. This new tariff rate card should take inputs from airlines and we request DIAL to reach out to airport users to obtain these inputs for consideration. "

25.12. IATA comments on the issue of tariff structure and rate card are as stated

"We request to Authority to adjust the X factor taking into account the comments made by IATA in this submission document.

We note that DIAL will be submitting its proposed tariff rate card subsequently. This new tariff rate card should take inputs from airlines and we request DIAL to reach out to airport users to obtain these inputs for consideration. "

d DIAL's response to Stakeholder Comments on Issues pertaining to Traffic Forecast

25.13. DIAL's response to IATA's submissions on the matter are as follows

"We shall request the Authority to revise the X Factor based on our response to the current consultation"

"DIAL will submit its rate card as part of ATP."

e DIAL's own comments on Issues pertaining to Tariff Structure/ Rate Card

25.14. DIAL has not commented on the issue of rate card

f Authority's Examination of Stakeholder Comments on Issues pertaining to Tariff Structure/ Rate Card

25.15. The Authority has noted the comments from IATA and AOC with respect to the tariff structure/rate card. The Authority re-computed the X-factor based on the decisions mentioned and elaborated under each of the building blocks in the chapters above. Accordingly, the X-factor works out to be (+) 96.08%. This X–factor implies a reduction in the existing tariff (the tariff as of 31.03.2014, presently being continued) with effect from 01.01.2016. In other words, a positive X factor implies a required reduction in aeronautical tariff from the date considered for such implementation of tariff.

25.16. The Authority would like to mention that the X-factor of +96.08% is based on date of implementation of new tariffs on 01.01.2016 that is, almost one year and nine months into the second Control Period. This in turn means that DIAL would have over-recovered during the forgone period of the 2nd Control period (01.04.2014 – 01.01.2016) and accordingly the reduction in tariff for the balance period (01.01.2016 – 31.03.2019) has to account for such over-recovery. The decrease in X factor would have been relatively muted, had the change in tariff been implemented at the start of the Control Period. It was a similar case during the first Control Period when the tariffs were implemented from 15.05.2012 (taking into account the under-recovery during the foregone period of almost three years of the first Control Period i.e. 04.04.2009 to 15.05.2012). Therefore, such sharp increases and decreases in applicable tariff needs to be seen in the context of foregone and balance periods of the respective Control Period based on date of implementation of tariff in that Control Period.

25.17. The Authority, at an earlier stage, had sought the Tariff Card from DIAL vide its email dated 13.08.2015 based on the provisional X-factor of +94.41%. DIAL, in its response vide letter dated 14.08.2015, had expressed issues, which would impact DIAL on account of such X-factor and did not share the Tariff Card.

25.18. The Authority has considered the aspect of viability of the airport and detailed it in the next chapter. Based on the outcome of the examination detailed there in, the resultant X-Factor has been indicated. Accordingly, an indicative tariff card has been attached along with the order based on the X-Factor as discussed in Decision 23.b below.

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, Delhi.**

22.b. **To indicate the tariff as per the tariff card attached along with this order, based on the X-Factor as discussed in Decision 23.b below.**

26. Viability of IGI Airport, Delhi

26.1. The Airport Authority of India (AAI), vide their letter No. AAI/MC/DIAL-25/MYTO/2014-15 dated 31.12.2014 and DIAL vide their letter No. DIAL/2014-15/Fin-Acc/6029 dated 06.01.2015 have written to the Ministry of Civil Aviation regarding AERA's proposed approach to be adopted for the second Control Period. The Ministry of Civil Aviation vide their letter No. AV.24011/06/2012-AD dated 15.01.2015 has stated the issues raised in these two letters and directed AERA to look into these matters in the light of the provisions of the AERA Act 2008 and State Support Agreement entered into by the GOI, to ensure sufficient cash flow of airport operations, debt services etc. and ensure viability of the airport, while determining the aeronautical tariff for the second Control Period for IGI Airport, Delhi.

26.2. The various issues raised by the DIAL have already been addressed in the respective sections of this Consultation Paper (Airport Operator Fee, Foreign exchange fluctuation, RAB, Adjustment of RAB on account of DF, Efficiency study for Operation and Maintenance Expenses, True-up of non-aeronautical revenue, Interest on account of DF securitization loan, Other Income, Asset allocation, Water supply and Property tax). The methodology followed throughout the Consultation Paper is in line with the provision of the AERA Act, Concession Agreements (SSA and OMDA) and based on this the Authority's decisions, the Aggregate Revenue Requirement due to DIAL for Aeronautical Services has been estimated. The due ARR estimated for Aeronautical Services is based on principles, provisions, facts and standard accounting policy. The Authority notes that DIAL would need to avail Rs. 410 crores as additional loan for meeting part of additional capital expenditure during the second Control Period.

26.3. As per SSA clause 3.1.1, the upfront fee and the annual fee paid/payable by the JVC to AAI under OMDA shall not be included as part of cost for provision of aeronautical services and no pass-through work be available in relation to the same. Moreover, as per OMDA clause 11.1.2.1, JVC shall pay to AAI an annual fee at 45.99% of the revenue for the said year for each year during the term of the concession as per open competitive bidding. Hence, the Authority is of the view that shortfall in cash flow or debt servicing, if any, needed by DIAL should be addressed by AAI as well as the Government as the concession has been granted at a quote of 45.99% Revenue Share. The Authority has arrived at the Aggregate Revenue Requirement based on the principles laid down in the AERA Act and SSA and has provided for the same.

a Stakeholder Comments on Issues pertaining to Viability

26.4. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders including IATA, Vistara, APAO, CII, MIAL, Air India etc. in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No 16/2014-15 dated 28.01.2015. Comments with respect viability of the airport are presented below.

26.5. IATA has commented as below on the matter of viability,

> *"IATA is in full agreement with the Authority's view. The industry should not have to pay higher airport charges because of viability issues of IGI airport caused by payment of an unprecedentedly high annual fee to AAI.*
>
> *While the annual fee is undoubtedly very high, for the private sector investor to agree to such a high annual fee, it could have envisaged receiving good returns from monetization of the 240 acres of land provided almost for free under the concession for commercial purposes. DIAL should look into actively monetizing the land to reap benefits and support the overall airport business."*

26.6. On the matter of viability, ACI has commented as below,

> *"As a result of the many proposals considered in the Consultation Paper, we note that the resulting impact will be an aggregate reduction of approximately 78% in airport charges. ACI feels that this could potentially test the viability of the airport, as the reduction could potentially mean that the operator is not enjoying a reasonable rate of return.*
>
> *According to an independent airport charges benchmarking analysis conducted by Leigh Fisher[1] in May 2012 on DIAL's AERA-approved charges. The results demonstrated that the majority of passengers using DIAL are domestic*

passengers and airport charges for both short-haul and long-haul are considered to be "very low" and "low" according to the analysis.

We submit that the level of airport charges needs to be sufficient to cover the cost to operate the airport plus the long term capital investment required to meet the current and anticipated demand. The level and structure of airport charges should be related to the full economic costs of airport operations, including a reasonable return on assets at a sufficient level and the development of appropriate reserves to deal with unforeseen adverse circumstances.

The regulator is charged with the responsibility to consider and balance the interests of various stakeholders in the airport sector for the sustainable development of the industry. DIAL is a significant contributor to the economic growth of the region which Delhi Airport serves, hence the financial health of DIAL should also be considered in light of the wider economic impact to the region:

According to the "Economic Impact Study of Delhi Airport" conducted by the National Council of Applied Economic Research in 2010[2]

- *Delhi airport's services directly and indirectly contribute INR 120.1 billion in income to the national GDP, representing 5.51% Delhi's GDP and 0.183% of national GDP*
- *In terms of employment, Delhi airport's operation directly and indirectly generates over 516 thousand jobs in a year, representing 8.47% of Delhi's employment and 0.110% of national employment.*

We urge that in determining the tariff for DIAL in the second control period, the financial sustainability of DIAL should be carefully weighed and a reasonable return should be granted given its significant economic contribution to Delhi and to India.

Any regulatory involvement must be tailored to the specific circumstances of the sector, and must reflect the macro dynamics of the industry. We are *cautious that the current proposals may not address the core challenges faced by the industry, and exacerbated regulatory risk for future private investors.*

The Indian airport industry is facing in particular two key macro trends. On the one side the privatization of airports has led to very strong traffic growth resulting with the creation of over 1 million jobs[3]*, an improved country's image and instilled efficiency in the overall processes and system.*

On the other hand, the airports are at the mercy of the regulator for ensuring their sustainability. We are of the view that the current proposals in the Consultation Paper fail to abide with the relevant project agreements signed by the Government of India and its representatives in four major areas (as discussed in the next section), this could result in turmoil for future privatization processes.

ACI believes the regulator should take fully into consideration the views of the airports. The credibility of the regulator will come into question if it takes a unilateral approach to decision making as suggested in this consultation process, which involves unilateral decision making on a range of issues which are of strategic and utmost importance to the airport operator. It is incumbent upon the regulator to ensure that there is a reasonable degree of balancing act reflected in its decision-making.

Globally, the trend is moving towards deregulation. For instance, in London, Stansted airport has been removed from specific economic regulation and Gatwick airport's regulatory framework has been relaxed. In India, on the contrary, heavy-handed regulation continues to apply. The ACI urges AERA to avoid micro-management. Any regulatory intervention should be kept at a minimum and need to be cost-effective, the direct and indirect cost of regulation should not outweigh its benefits.

All businesses must plan for the future if they are to grow, and airports if anything exemplify this. Facilities which take time to deliver must be put in place to cater for demand which can materialize much more rapidly. While in the past it may have been acceptable to deliver infrastructure long after *demand initially began to manifest itself, in today's environment airports are obliged to provide the right product at the right time. Considering the future capital requirements of DIAL in light with the current proposals in the Consultation Paper, the entire master planning exercise will be in vain due to absence of the much needed cash required and could result in a situation where demand outshoots supply."*

26.7. On the issue of economic viability, APAO has commented as below,

"At the outset, APAO respectfully states that the CP will put question marks on the very survival of the airport (i.e. DIAL). AERA act mandates AERA (Authority) to ensure economic viability of the Airports under Section 13 (1) (a) of the AERA Act. It reads as follows: "to determine the tariff for the Aeronautical services taking into consideration: (iv) economic and viable operation of major airports" Authority in its various consultations leading to current tariff methodology has laid down that it will ensure:

1. Economic viability of airports

2. Make the investment attractive

3. There will be ability to pay dividend

4. There will be appreciation in value of investment

The following is the analysis of consultation paper i.e. Consultation Paper No. 3/2009-10 dated 26th February, 2010 on Regulatory Philosophy and Approach in Economic Regulation of Airports and Air Navigation Services (which had same provisions as in White paper no. 01 /2009-10 dated 22nd December, 2009 on Regulatory Objectives and Philosophy in Economic Regulation of Airports and Air Navigation Services). In para 3.3 (Page 15) of the consultation paper no.03/ 2009-10 dated 26th February, 2010, following has been laid down under Regulatory Objectives & Principles : 3.3 It is worthwhile here to bring out again that the Act was enacted to achieve the following objectives:

"The basic objectives of AERA are to create a level playing field and foster healthy competition amongst all major airports (government owned, PPP –

based, Private), encourage investment in airport facilities, regulation of tariffs of aeronautical services, protection of reasonable interests of users, operation of efficient, economic and viable airports." As such what was envisaged was an Efficient Airport having Economic and Viable Operations. Para 3.3 (page 15) of the consultation paper reiterates the mandate under AERA Act as under: The Act provides for the Authority to take into consideration the following factors while determining tariffs for aeronautical services in respect of major airports: (a) The capital expenditure incurred and timely investment in improvement of airport facilities; (b) The service provided, its quality and other relevant factors; (c) The cost for improving efficiency; (d) Economic and viable operation of major airports; (e) Revenue received from services other than aeronautical services; (f) The concession offered by the Central Government in any agreement or memorandum of understanding or otherwise; (g) Any other factor that may be relevant for the purposes of the Act. As such Authority while fixing tariff was to ensure

1. economic and viable operation of airport and

2. adherence to concession agreement:

Authority had mentioned that it wanted to maintain investor confidence in following manner: 3.7 The Authority will operationalise these broader regulatory objectives through the following three key parameters:

a) Viable operations of airports in terms of maintaining investor confidence of a fair rate of return on „net investment"2 in those airports. For this purpose it will attempt to incentivise efficient airport investment and operations while ensuring their fair remuneration.

b) Specification of a framework and qualitative and quantitative parameters to ensure that the quality of service provided at airports while determining tariffs is consistent with the net investment in those airports and the user expectations.

c) Ensuring efficiency, adequacy and consistency in provision of air navigation services by encouraging efficient and appropriate investment through a fair rate of return.

As such it was envisaged that Authority will ensure that investor confidence is maintained by allowing a fair rate of return. As regards to WACC authority had laid down as under: A. Weighted Average Cost of Capital 3.9 In simple terms, the cost of capital represents the level of return investors require to make investments viable. Given the available sources of finance the cost of capital, generally, represents a combination of:

- *The interest paid on debt in the form of banks loans, bonds and other lending mechanisms; <u>and</u>*
- *an expectation of a return on equity, invested in the business, to investors in return for an expectation of dividend payments and an expectation of an increase in the value of the shares.*

As such what was envisaged was a return which leads to dividends and increase in value of shares. The concession agreement of DIAL (SSA page 3) also lays down as under: (E) "In consideration of the JVC having entered into OMDA and to enhance the smooth functioning and viability of the JVC, in addition to the obligations of the AAI under the OMDA, the GOI is agreeable to provide some support to the JVC. "

As such it is clear that AERA Act and also the concession agreement mandates AERA to ensure economic viability. This needs to be ensured by the Authority while determining aeronautical tariffs."

26.8. Reproducing Table 41 on Authority's computation of equity to be considered towards WACC in respect of DIAL in the second Control Period, of the Consultation Paper No. 16/2014-15, APAO has further commented that,

"The above table shows that DIAL"s reserve and surplus (based on AERA"s opex and non-aero numbers which are practically difficult to achieve) will be (-) 3062 Crores. As such:

1. AERA Act's mandate that economic viability will be achieved is being violated

2. The provision of concession agreement to ensure economic viability is being violated.

3. Investor confidence is shaken as entire net worth of company is getting eroded.

4. There will be no dividend to the investor even after 10 years of investment.

5. There will be no appreciation of amount invested.

This raises the very basic question as to why investor should invest in airports in India."

26.9. ASSOCHAM has commented on this matter as below,

"As per the statue under which AERA has been created, it is mandated to ensure the economic viability of the airport. But with the proposals in question will lead to a situation for the company, where its entire net worth will be washed out in next couple of years. Hence, there is a deviation from the statutory function of AERA and AERA has to ensure the viability of the airport. The authority must also take a long-term view on regulation. In the Indian scenario, airport supply has always lagged demand, causing severe constraints in service quality and therefore, adequate capacity planning should be seen as a welcome change. These capacity additions should be supported by adequate revenue. This will ensure that, in the long-run, Indian airports sufficiently meet the demand, which is in the interest of passengers and the aviation industry at large."

26.10. CII has stated the following on this matter,

"Background: The estimated loss to DIAL in second control period (based on the current tariff proposal 2682 crore of accumulated losses will be there as per AERA's own estimates which wipes off the entire net worth of company. This mean that DIAL will not remain a going concern at end of this control period. This is serious issue and need to be addressed immediately.

CII request: This is a bad regulatory outcome and viability of DIAL need to be ensured as otherwise the entire PPP will go for a toss."

26.11. Fraport, a stakeholder in DIAL, commented on the viability as below,

> *"It should be noted that India's country risk profile and airport sector specific risk are considered to be comparatively high compared with other markets. As a result any proposed cost of equity needs to reflect these elevated risk profiles in order to attract investment.*
>
> *According to the concession agreements, the airport tariffs shall generate sufficient revenue to cover efficient operating costs, obtain the return of capital over the project life and achieve a reasonable return on Investment.*
>
> *Our Investment DIAL has been based on this premise.*
>
> *The actual tariff proposal will not ensure economic viability as mandated under the concession agreements and also the AERA act. Based on the numbers in the Consultation Paper, DIAL is expected to incur losses in excess of INR 3,000 Crores during the second control period.*
>
> *As under the current tariff proposal, the net worth of DIAL would erode in its entirety, which presents a point of extreme concern for us regarding our Investment in DIAL as well as for potential future Investments in India.*
>
> *It is our firm view that the tariffs must honour the principles as laid down in the concession agreements and ensure viable Operations of DIAL as well as a reasonable return on Investment for the investors.*
>
> *This is a very important issue not only for us but for all private airport Operators and Investors. Unless satisfactorily addressed, investors in airport and other large scale infrastructure projects may be deterred from putting their money into India.*
>
> *It is estimated that India will be the third largest aviation market in the world in the next decade. This continuing growth will certainly require further major Investments in the future, most of them are expected to be contributed by the private sector. In order to attract private investors, the regulator must ensure viable Operations of the regulated entities."*

b DIAL's response to Stakeholder Comments on Issues pertaining to Viability

26.12. DIAL has not responded specifically to APAO and IATA's comments though it has reproduced the same in its submissions. It has responded to ASSOCHAM's comments as below,

"As referred in the clause 13(iv) of the AERA act, it has to ensure the sustainability and viability of the airport. The extract is produced as below from the AERA Act:

(ii) the service provided, its quality and other relevant factors;

(ria) the cost for improving efficiency;

(xv) economic and viable operation of major airports

But with current proposals, AERA has deviated from its function to ensure the viability of the airport. As such this is in violation of the AERA act"

26.13. In response to CII's comments, DIAL responded as below,

"DIAL has got a negative return for last 8 years and there seems to be no possibility of any return during next 5 years well.

From the numbers of the CP, it is a clear that the entire net worth of DIAL will be eroded:

Reserves and Surplus brought forward	*(969.86)*	*(909.21)*	*(1,601.88)*	*(2,178.14)*	*(2,682.78)*

"

26.14. DIAL responded to Fraport's comments as below,

"The matter is Sub Judice However we reiterate our earlier submission in this regard to show how flawed the study has been.

The cost of equity of 16% as proposed by the AREA for determinantion of aeronautical tariffs, underestimates the riskiness of the PPP Airports in India. Calculations show that IRR of other infrastructure sectors as power (IRR 15.5%) is much higher than that for airports (IRR = 4.0%). The diminishing returns for investors in airport companies are thus lower than those for investors in electricity generating or transmitting companies. The tariff determination with *a 16% return on equity makes the airport unviable as seen in both control periods and review of the same needs to be done to ensure economic viability of airport. Various lacunas in the study done by AERA are being reiterated herewith:*

The Authority has used the study undertaken by NIPFP for its approach on Cost of Equity based on which it has proposed a cost of equity of 16%. The computation of cost of equity proposed to be adopted by the Authority, based on the study of NIPEP suffers from various lacunae and infirmities. We are reiterating our earlier submission on this subject. We bring following to the attention of the Authority:

1.1 Risk free rate- flaws in Methodology

1.2. Selection of Betas

1.3. Equity Risk Premium

1.4. Levering and Dc-levering methodology based on market value of equity!

1.5. Indicative Cost of Equity at time of bidding.

1.6. Other issues

1.6.1. Comparative Risk of airports vis-a-vis other sectors.

1.6.2 Residual value of assets at end of concession

1.6.3 Expectation of investors

1.6.4 Stabilization of interest cost not confirmed."

c DIAL's own on comments on Issues pertaining to Viability

26.15. DIAL in its response to the Authority's proposals regarding various elements of the building block above has referred to viability of the airport / DIAL. However, it has not provided comments on viability separately.

d Authority's Examination of Stakeholder Comments on Issues pertaining to Viability

26.16. The Authority has noted the comments regarding viability of Delhi airport by IATA, ACI, APAO, ASSOCHAM, Fraport and CII. The Authority is also in receipt of a letter from MoCA (letter No. AV.24011/06/2012-AD dated 15.01.2015). The Authority has duly analysed the comments from the stakeholders including those of MoCA.

26.17. The Authority has undertaken the determination of aeronautical tariff in respect of Delhi Airport in line with the principles outlined in Chapter 3 above, which have had reference to provisions under the AERA Act 2008 and provisions under SSA/OMDA entered into by the Government of India. During the process of determination, DIAL has submitted requests in respect of various elements of the building block (namely, Airport Operator Fee, Foreign exchange fluctuation, RAB, Adjustment of RAB on account of DF, Efficiency study for Operation and Maintenance Expenses, True-up of non-aeronautical revenue, Interest on account of DF securitization loan, Other Income, Asset allocation, Water supply and Property tax). While the Authority had already addressed such issues in the respective sections of the Consultation Paper No. 16/2014-15, it has reviewed its proposals in view of the stakeholder comments (as applicable) as well as DIAL comments on the Consultation Paper No. 16/2014-15. Accordingly, the Authority has finalised its decisions and estimated the Aggregate Revenue Requirement for DIAL for the second Control Period. The due ARR estimated for DIAL is based on principles presented in para 3 above, facts submitted to the Authority, analysis undertaken by the Authority and applicable standard Accounting Policy.

26.18. Based on the above determination of Aggregate Revenue Requirement, the Authority has determined an X-factor of +96.08% (in case the tariff is implemented on 01.01.2016). The Authority is in receipt of DIAL's submission dated 14.08.2015 in response to provisional X-factor of 94.4% that there will be a severe impact on viability of DIAL based on the X-factor of +96.08% on the aeronautical tariffs as per this Tariff Order. DIAL also highlighted through its submission to the Authority that "*commitment of GOI Support in the State Support (SSA) Agreement which, inter-alia, provides a protection of Base Airport Charges for DIAL, with year on year permitted increase of 10% of Base Airport Charges under schedule 6 read with schedule 8 of SSA*".

26.19. The Authority is cognizant of the fact that as per the Chapter III of the AERA Act 2008, the Authority is required "to determine the tariff for the aeronautical services taking into consideration – the economic and viable operations of major airports". The Authority is of the view that FRoR (actual cost of finance and 16% equity return) is the reflection of viability and the Authority's determination of aeronautical tariff is as per methodology, principles and provision enshrined in AERA act as well as concession agreements (OMDA & SSA). However, in the Authority's view meeting liabilities or obligations like operating expenses, interest payments, and tax payments are imperative for sustainability of any business. These have been duly considered by the Authority in line with the principles presented in para 3 above in the determination of Aggregate Revenue Requirement. The ARR resulting from such considerations has been granted to DIAL and accordingly the X-factor of +96.08% has been determined. The Authority has also noted submissions from DIAL about its ability to meet operating expenses on certain heads namely, property tax, maintenance expenses and water bills and the Authority has provided for use of working capital loan by DIAL in respect of such expenses (refer para 17.121 above).

26.20. The Authority has further analysed the submissions of DIAL regarding Base Airport Charges as provided under SSA / OMDA. The Authority has had reference to Schedule 6 and Schedule 8 of SSA. Clause 2 of Schedule 6 of SSA is reproduced below:

"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 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."

26.21. The above clause and the submission from DIAL requesting for a year on year permitted increase of 10% of Base Airport Charges has been analysed by the Authority during the determination of aeronautical tariff for the first Control Period. The Authority had presented its analysis on this issue in paras 30 to 38 of Consultation Paper No 32 / 2011-12 dated 03.01.2012 as well as in paras 25.1 to 25.5 of Delhi Tariff Order 03 / 2012-13 dated 20.04.2012. The Authority had decided that *"there was no warrant in Schedule 6 of SSA for an automatic year on year increase of 10% in airport charges from the commencement of fourth year onwards."* The Authority does not find any fresh argument from DIAL and accordingly, is not persuaded to reconsider its decision.

26.22. As presented in para 26.19 above, the Authority has duly considered the obligations and liabilities of DIAL in its determination of ARR. This ARR is made available to DIAL through aeronautical tariffs determined by the Authority. The Authority further notes that as per the provisions of OMDA and SSA, 45.99% of pre-tax Gross Revenues (as defined in the OMDA) are to be shared by DIAL with AAI. Further in line with the provisions of OMDA and SSA, this revenue share is not a cost pass-through and accordingly the Authority has not considered revenue share as an expense in the determination of aeronautical tariffs, except for calculation of corporate taxes pertaining to aeronautical services (which in Authority's view would be a notional figure in case revenue share is not considered as an expense while calculating the tax liability). The issue of revenue share of 45.99% is as per the OMDA and SSA signed between DIAL and the Government of India and is beyond the Authority's purview.

26.23. Further as discussed in para 25.16 above, the revised tariffs for the second Control Period have not been implemented till date. Therefore, DIAL has continued to levy tariffs approved by the Authority for the first Control Period and has thus recovered more than the actual ARR permitted for the period. This over-recovery has led to a steep decline in the ARR for the remaining portion of the second control period (01.01.2016 to 01.04.2019), which has therefore resulted in the steep increase in the X-factor and the reduction in tariffs. The Authority has also noted that, as per OMDA, the airport operator is responsible to bring in additional capital to fund his operations and capital additions.

Vide its letter dated 14.08.2015, DIAL has submitted that such an X-Factor will lead to a steep downgrade of ratings and a situation of default in servicing the debt. The Authority infers that such a scenario will impact DIAL's ability to raise additional capital. DIAL has also submitted that it may not be able to generate sufficient funds to pay for salaries, statutory dues or for meeting operating expenses. The Authority is also in receipt of submission from DIAL dated 14.08.2015 that such an X-factor will *"lead to a severe cash drain for DIAL and breach the lenders covenants and will impinge the interest and debt servicing ability of DIAL"*. DIAL further stated that *"the paucity of funds will also compromise the safety and security of airport which can lead to dangerous consequences"*. In order to address such concerns of DIAL Authority considered various option including additional ARR as interim relief to DIAL.

26.24. The Authority recognizes the need for an airport operator to have sufficient cash to ensure provision of quality services to its passengers and other users. Based on DIAL's other submissions and the values and considerations provided in the financial model submitted by DIAL, the Authority has made a representative calculation of the estimated cash inflows and outflows likely to incurred by DIAL as an entity, as follows:

26.24.1. Cash Outflows for DIAL consist of: Cash required for Rupee Term Loan (RTL) repayment, External Commercial Borrowings (ECB repayment), new capital expenditure to be incurred and actual VRS payment outflow over each year of the second Control period. This has been represented in the table below:

Table 76: Estimated Cash outflows for DIAL, as an Entity, during the Second Control Period

Cash Outflows to DIAL (Rs. Cr.)	FY 15	FY 16	FY 17	FY 18	FY 19	Total
RTL Debt Principal Repayment	24.48	24.48	80.36	213.06	296.88	639.27
ECB Debt Principal Repayment	210.94	214.92	236.91	250.91	242.95	1,156.64
Capex to be Incurred	209.10	191.31	192.40	215.83	226.86	1,035.49
VRS Payments to be made (Not included in Opex)	18.72	18.26	17.61	17.07	16.48	88.12

Cash Outflows to DIAL (Rs. Cr.)	FY 15	FY 16	FY 17	FY 18	FY 19	Total
Total Cash Outflow Projected	463.25	448.97	527.27	696.87	783.16	2,919.52
Total Cash Outflow Projected without ECB Repayment	252.30	234.05	290.36	445.95	540.21	1,762.88

26.24.2. Cash inflows consist of: Profits, Non cash depreciation added back, New Debt to be raised for Capital Expenditure (As calculated from DIAL's submission). This has been represented in the table below:

Table 77: Estimated Cash Inflows to DIAL, as an Entity, during the Second Control Period at the X Factor of 96.08%

Cash Inflows to DIAL (Rs. Cr.)	FY 15	FY 16	FY 17	FY 18	FY 19	Total
Profit After Tax*	291.46	95.75	(916.45)	(773.92)	(659.48)	**(1,962.64)**
Depreciation Add back	599.40	568.72	574.08	581.09	586.65	**2,909.94**
New Debt Projected to be raised for Capex funding**	-	-	197.93	165.07	47.70	**410.70**
Total Cash Inflow	890.86	664.47	(144.44)	(27.76)	(25.13)	**1,358.00**

* - PAT has been calculated for DIAL, as an entity, based on projected revenues, projected operating and maintenance expenses, projected interest on actual debt projected, depreciation and tax liabilities. In the above calculation of cash inflows, the Authority has not made projections of items such as other income on account of uncertainties associated with it.

** For the calculation of new debt raised during calculation of Cash Flow Deficit calculation, the Authority has decided to consider the value of new debt considered in the Consultation Paper No 16/2014-15 dated 28.01.2015, Rs. 410.70 Crore.

26.25. The Authority notes that the above estimation is a projection and the actuals may differ from these estimates. The Authority has estimated a cash outflow requirements for DIAL to be Rs. 2,919.52 crores to cover its liabilities for the second Control Period (as represented in Table 76). The Authority has also noted that DIAL has restructured its ECB through a corporate bond issue and thereby postponed the repayment of its ECBs from the second Control Period to the third Control Period which will reduce the cash outflow requirement for DIAL during the second Control Period. Therefore, the Authority has observed that the cash outflow required by DIAL for the second Control period would amount to Rs. 1,762.88 Crores (as represented in Table 76). Considering the estimated cash inflows of Rs 1,358.00

Crores, DIAL is likely to face a cumulative cash deficit of Rs. 404.88 Crores over the second Control Period as follows:

Table 78: Annual Cash Deficit for DIAL over the Second Control Period at X Factor of 96.08%

Cash Outflows to DIAL (Rs. Cr.)	FY 15	FY 16	FY 17	FY 18	FY 19	Total
Total Cash Inflow	890.86	664.47	(144.44)	(27.76)	(25.13)	1,358.00
Total Cash Outflow Projected without ECB Repayment	252.30	234.05	290.36	445.95	540.21	1,762.88
Net Cash Deficit with No ECB principal Repayments considered	638.56	430.42	-434.80	-473.71	-565.34	-404.88

26.26. The Authority notes that there are alternative approaches through which such deficit of Rs. 404.88 Crores can be covered:

26.26.1. Shareholders of DIAL bring in additional equity of such amount

26.26.2. DIAL raises additional Term loan / Working Capital loan etc

26.26.3. The Authority grants an additional ARR to cover for such deficit and recovers this additional ARR at the next opportunity of tariff determination

26.27. The Authority infers from DIAL's submission in para 26.13 above that it may not be prudent to expect the shareholders to bring in additional equity as its net worth will be eroded on account of such X-factor. As regards the second option, i.e. raising additional debt, is concerned the Authority has noted from DIAL's submission dated 14.08.2015 that it expects *"a steep downgrade of ratings and a situation of default in servicing the debt including international bond investors... a domino impact on ... lending scenario"*. However, since the operator will have no cash flow problems there should be no difficulty in raising the debt as planned. Accordingly, the Authority has considered the planned new debt raised to the extent of Rs. 410.70 crores (raised to fund capital investment).

26.28. Thus, the Authority has taken a view that it will provide an additional ARR to DIAL to cover for its estimated cash deficit over the entire five-year period of FY 2014-15 to FY 2018-19, which will be recovered from DIAL at the next opportunity of tariff determination. The Authority notes that out of the quantum granted through ARR, DIAL will have to share 45.99% with AAI and will retain only 54.01% of the granted quantum. The Authority has taken this into account, and has accordingly decided to grant DIAL an additional ARR of Rs. 691.50 Crores as on 01.01.2016. The improved cash inflow position for DIAL can be seen in the table below:

Table 79: Estimated Annual Cash Deficit for DIAL over the Second Control Period with additional ARR

Cash Outflows to DIAL (Rs. Cr.)	FY 15	FY 16	FY 17	FY 18	FY 19	Total
PAT	291.46	116.51	(800.11)	(648.39)	(517.23)	**(1,557.76)**
Depreciation Add back	599.40	568.72	574.08	581.09	586.65	**2,909.94**
New Debt Projected to be raised for Capex funding	-	-	197.93	165.07	47.70	**410.70**
Total Cash Inflow	890.86	685.23	(28.10)	97.77	117.12	**1,762.88**
Total Cash Outflow Projected without ECB Repayment	252.30	234.05	290.36	445.95	540.21	1,762.88
Net Cash Deficit with No ECB Repayments considered	**638.56**	**451.18**	**-318.46**	**-348.18**	**-423.09**	**0.00**

26.29. The Authority notes that at the current WACC, this would amount to Rs. 941.54 Crores for true up (claw back) as on 01.04.2019 in addition to the true-ups to be considered on other elements of regulatory building blocks as presented in the respective decisions of the Authority. This would correspond to an effective X-Factor of (+) 89.40% as on 01.01.2016.

26.30. While the above interim measure of granting an additional ARR would address the short-term viability of DIAL, the Authority recognizes the need for measures to ensure long term viability of DIAL. The Authority would urge DIAL to work towards reducing its operating and maintenance costs and look towards further monetization of land leased to it by Government of India. The Authority has also sought directions from MOCA/AAI to define the mechanism for treatment of revenues / deposits from such monetization, which shall be considered in the next control period. The Authority also urges DIAL to maintain the quality of service at Delhi Airport as prescribed under OMDA / SSA.

26.31. One of the views on the issue of cash deficit for DIAL is that DIAL will be able to undertake necessary measures such as further monetisation of land, other incomes etc., to meet the cash requirements during the second Control Period. However, keeping in view the submissions from DIAL (refer paras 26.18 above) and the fact that IGI Delhi Airport is a major international airport and it is necessary to maintain safe and secure operations of the airport, the Authority has come forward to address this cash shortage as an interim measure, to be recovered in the third Control Period.

26.32. The Authority has decided to conduct a review of this order in the fourth year of the second Control Period.

26.33. The Authority has determined an X Factor of +96.08% as on the date of implementation of 01.01.2016 for the tariff order. However, based on the interim measure to help DIAL meet its estimated cash deficit of Rs 404.88 crs, the Authority has decided to allow the X-Factor of +89.40% to DIAL. However there is an Order from Hon'ble High Court permitting DIAL to charge the tariff applicable for the first Control Period till AERAAT decides on the appeals filed by DIAL and the Hon'ble High Court has indicated a timeframe for AERAAT to dispose the appeals. The Authority has appealed against this Order of Hon'ble High Court (Refer 2.2 above to 2.4 above). Depending upon the outcome of the legal process, the date of implementation of this Tariff Order will be decided.

26.34. The Authority notes that for every month of delay in implementation, there will be further reduction in the X-Factor and the corresponding cash deficit would also have to be reworked and accordingly, a new tariff card would have to be implemented. Currently, the tariff card has been prepared and attached as of 01.01.2016, after providing for estimated cash deficit.

Decision No. 23 Regarding the Tariff Structure & Viability of IGI Airport, Delhi to be considered for the second Control Period, based on the material before it and its analysis, the Authority has decided:

23.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, Delhi.

23.b. To consider an X factor of +89.40% (with date of implementation of tariff as 01.01.2016) in respect of the aeronautical tariffs for the second Control Period (01.04.2014 - 31.03.2019) for the IGI Airport Delhi, instead of the determined X-Factor of +96.08% on account of the interim measure adopted by the Authority to grant an additional ARR of Rs. 691.50 Crores as on 01.01.2016 to help DIAL meet its cash deficit over the second Control Period.

23.c. To true up (claw back) the additional ARR of Rs. 691.50 Crores, as on 01.01.2016 granted by the Authority to DIAL, at its future value as on 01.04.2019 (based on the applicable WACC), at the time of determination of aeronautical tariff for the third Control Period.

27. Summary of Decisions

Decision No. 1 Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order regarding the Principles for Determination of Aeronautical Tariff in respect of IGI Airport, Delhi: 61

1.a. *The Authority decides to consider the principles of SSA and OMDA as discussed in paras 3.6 to 3.9 of this Order for determination of aeronautical tariff in respect of IGI Airport, Delhi.......................................61*

1.b. *To consider the expenditure projected to be incurred by DIAL towards creation of security related fixed assets during the second Control Period (currently estimated at Rs. 93.11 crore) towards computation of RAB in respect of IGI Airport, Delhi, based on MOCA's Order AV 13024/03/2011-AS (Pt.I) dated 18.02.2014. ....61*

1.c. *To consider expenses pertaining to inline baggage screening for the first Control Period, which were not allowed by the Authority at that stage, under the true-up exercise based on MOCA's Order AV 13024/03/2011-AS (Pt.I) dated 18.02.2014. Further consider the projections made by DIAL towards expenses pertaining to inline baggage screening for the second Control Period towards determination of Target Revenue for the second Control Period..61*

1.d. *As and when the Central Government comes up with the SOP / Guidelines pertaining to the Rule no 88 A of the Aircraft Rules, 1937, wherein the expression "expenditure on aviation security" is clarified, the Authority decides to consider such clarification for an appropriate treatment to capital expenditure and operating expenditure incurred by DIAL on account of security related requirements. 61*

1.e. *After issuance of the Order in respect of Normative Approach for determination of Building Blocks, DIAL will be covered under the normative approach to the extent the Authority decides it to be applicable. 61*

Decision No. 2Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order regarding the Control Period, ... 65

The Authority decides to consider the second Control Period as 01.04.2014 to 31.03.2019. 65

Decision No. 3Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order regarding the Development Fee and its adjustment to RAB, ... 77

3.a. *The Authority decides to consider DF funding of RAB such that fund available to DIAL on account of DF for investment in a year (including any DF apportioned towards CWIP in the previous year brought-forward to the given year) would be apportioned over expenditure incurred on the aeronautical assets capitalized in the given year and the expenditure incurred on aeronautical CWIP in the given year as per the scheme indicated in Paras 8.62 to 8.71 of the Order No 32 / 2012-13 dated 15.01.2013. While the fund apportioned to the expenditure incurred on the aeronautical assets capitalized in a year would be adjusted from RAB in the given year, that amount which is apportioned to expenditure incurred on aeronautical CWIP is proposed to be carried over to the subsequent years for adjustment from RAB in those years. 77*

3.b. *Accordingly, the Authority decides to adjust DF of Rs. 3241.37 crore (out of the allowed DF of Rs. 3415.35 crore by the Authority in respect of IGI Airport, Delhi) from the capitalizations made by DIAL till FY 2012-13. ......77*

3.c. *The Authority decides to adjust the balance amount of DF of Rs. 173.98 crore from the RAB of DIAL when the "New ATC block" is capitalized by DIAL in its books.* 77

3.d. *Based on the above, the Authority decides to consider the adjustments in RAB in respect of IGI Airport, Delhi on account of DF as per Table 8 above.* 77

Decision No. 4The Authority decides to adopt the following approach for consideration of true-up for the first Control Period, towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:.................. 150

4.a. *To true-up RAB along with Depreciation based on actual date of capitalization of assets during the first Control Period towards determination of tariff for the second Control Period as elaborated in Table 24*....................150

4.b. *To consider the Return on RAB based on actual date of capitalization of assets, as detailed in Table 21*....................150

4.c. *To adjust RAB on account of DF based as presented in Table 8* 150

4.d. *To consider allocation of assets of 89.25% and 10.75% towards aeronautical and non-aeronautical assets respectively for the first Control Period as per ICWAI report*....................150

4.e. *To not consider foreign exchange fluctuations in the determination of RAB and depreciation in the first Control Period (refer para 8.24)* 150

4.f. *To not true-up WACC of 10.33%, which was considered by it in its Delhi Tariff Order No. 03 / 2012-13* 150

4.g. *To consider inline baggage screening expenses incurred by DIAL during the first Control Period towards determination of aeronautical tariff and hence include it as part of the operating expenses being considered for true-up.* 150

4.h. *To consider the same ratios for allocation of operating expenses into aeronautical and non-aeronautical components as considered by it in its*

Delhi Tariff Order 03 / 2012-13 except VRS which will be allocated at the rate of manpower allocation. 150

4.i. *To consider revenue accruing to DIAL from ITP service providers as aeronautical revenue in the first Control Period..150*

4.j. *To consider revenue accruing to DIAL from Cargo and Ground Handling and for the first Control Period as non-aeronautical revenue. 150*

4.k. *To commission an independent study on the allocation of costs and assets of the IT JV into appropriate aeronautical and non-aeronautical portion. 151*

4.l. *To consider revenues from CUTE counter charges as aeronautical revenue in the first Control Period, subject to outcome of the independent Study on IT-JV. 151*

4.m. *To consider 3% of aeronautical revenues of DIAL as aeronautical component of Airport Operator Fee in the first Control Period. 151*

4.n. *To consider revenue realized by DIAL under the head "Other Income" (excluding incomes discussed as under para 6.106) during the first Control Period towards cross-subsidization under the current exercise...............151*

4.o. *To true-up non-aeronautical revenue for the first Control Period as discussed in para 6.114 above. 151*

4.p. *To true-up corporate taxes based on actual taxes paid by DIAL during the first Control Period and accordingly consider "nil" taxes for the first Control Period towards determination of aeronautical tariff for the second Control Period. 151*

4.q. *On balance, to consider true-up of Rs. 36.33 crore as on 01.04.2014 (under-recovery by DIAL in the first Control Period) towards determination of aeronautical tariff for the second Control Period 151*

4.r. *To add the above true-up in the ARR to be considered for determination of aeronautical tariff for the second Control Period 151*

Decision No. 5Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order regarding the Allocation of Assets, the Authority has decided:................ 166

5.a. To consider allocation of assets of 89.25% and 10.75% towards aeronautical and non-aeronautical assets respectively for the first Control Period and for the second Control Period 166

5.b. To true-up the allocation of asset into aeronautical and non-aeronautical component for the second Control Period as per the results of AAI's study on asset addition and its allocation for the second Control Period 166

Decision No. 6Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order regarding the Opening Regulatory Asset Base, the Authority has decided to: 182

6.a. To consider an Opening RAB of Rs. 7,120.79 crore (refer Table 37), which includes opening value of HRAB at Rs. 357.38 crore and the carry over RAB from RAB true up of Rs. 15.18 Cr...182

6.b. To reconcile the scope considered under the allowable project cost of Rs. 12,502.86 crore and the costs incurred by DIAL for this scope as elaborated in Consultation Paper No 16/2014-15 dated 28.01.2015.........................182

Decision No. 7Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order, the Authority decides the following regarding the Hypothetical Asset Base .. 193

7.a. To continue with its determination of Hypothetical RAB at Rs. 467.00 crores as on 31.03.2009 as was considered in Delhi Tariff Order 03 / 2012-13...193

7.b. To adopt the year-wise average depreciation rate for aeronautical assets for the second Control Period as rate of depreciation for HRAB in the second Control Period 193

7.c. *To accordingly consider an Opening Hypothetical RAB of Rs. 357.38 crore as on 01.04.2014* 193

Decision No. 8Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order regarding the Additions to Regulatory Asset Base **203**

8.a. *The Authority decides to consider the additions to RAB as presented in Table 34 towards determination of aeronautical tariff for 2nd Control Period.* 203

8.b. *Based on the Interim Order from the Hon'ble High Court of Delhi, the Authority decides to include capital expenditure of Rs. 91.94 crore on account of assets for security-related infrastructure for consideration towards RAB in the second Control Period. The Authority decides to review the same based on final outcome of the legal proceedings of the appeal by DIAL in this regard and the SOP / Guidelines issued by the Central Government in this regard.* 203

8.c. *The Authority decides to true-up the projected additions to RAB (refer Table 34 and Table 37) based on actual audited values of these additions over the second Control Period towards determination of aeronautical tariff for the third Control Period* 203

Decision No. 9Based on stakeholder comments and the analysis done by the Authority in the Consultation Paper No 16/2014-15 dated 28.01.2015 and this Order, the following regarding the Regulatory Asset Base for the Second Control Period **207**

9.a. *The Authority decides to consider the Regulatory Asset Base and Return on RAB as per Table 37 for the purpose of determination of aeronautical tariff for second Control Period.* 207

9.b. *To true-up the Regulatory Asset Base and Return on RAB for second Control Period at the time of determination of aeronautical tariff for third Control Period based on actual additions to RAB and actual depreciation* *during the second Control Period as per actual date of capitalization of the assets.......207*

9.c. *The Authority decides to adjust the balance amount of DF of Rs. 173.98 crore from the RAB of DIAL when the "New ATC block" is capitalized by DIAL in its books. 207*

Decision No. 10 The Authority decides to adopt the following approach for consideration of cost of debt towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi: 224

10.a. *To not consider the reinstatement of ECB loan on account of foreign exchange fluctuation (refer para 8.24 above) and hence to consider Rs. 1,964.70 crore as the opening balance of ECB loan as on 01.04.2014 .....224*

10.b. *To consider the cost of debt for Rupee Term loan over the second Control Period at 11.38% 224*

10.c. *To adopt the weighted average cost of debt as per Table 40 for determination of weighted average cost of capital for the second Control Period. 224*

10.d. *To true-up the cost of debt for Rupee Term Loan for the second Control Period based on evidential submissions along with suitable auditor certificates by DIAL at the time of determination of aeronautical tariff for the third Control Period subject to a ceiling of overall increase of 50 basis points 224*

Decision No. 11 The Authority decides to adopt the following approach for consideration of cost of equity towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:.................. 239

11.a. *To adopt return on equity (post tax cost of equity) as 16% for the purpose of calculation of WACC.......239*

11.b. *To consider RSD already raised by DIAL (at Rs. 1,471.51 crore) as a means of finance at zero cost. 239*

11.c. *To review and appropriately consider the additional RSD, if any, and applicable cost thereof, if any, to be raised by DIAL during the second*

Control Period after receipt of views from MOCA / AAI (Refer para 14.41 below)..........239

11.d. *To commission a fresh study to determine cost of equity applicable in respect of IGI Airport, Delhi at an appropriate time*..........239

Decision No. 12 The Authority decides to adopt the following approach for consideration of land monetization towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:..........263

12.a. *To treat the revenues from monetization of land based on the mechanism prescribed by AAI/MOCA on land monetization in case of DIAL (refer para 14.20)*..........263

12.b. *To not consider at present, the revenues realized by DIAL from Commercial Property Development (CPD) during the first Control Period to the tune of Rs. 390.05 crore, as well as the projected revenue from CPD in the second Control Period to the tune of Rs. 549.24 crore; towards determination of aeronautical tariff in respect of IGI Airport, Delhi, pending the receipt of views of AAI/ MoCA.*..........263

Decision No. 13 The Authority decides to adopt the following approach for consideration of WACC towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:..........279

13.a. *To consider WACC of 9.97% for the second Control Period as detailed in Table 46.*..........279

13.b. *To consider interest on working capital based on evidence on the nature, quantum and cost of loan (refer para 17.121)*..........279

13.c. *To not consider the impact of foreign exchange fluctuations determination for the first control period as discussed in para 8.24*..........279

13.d. *To consider true up of the impact of foreign exchange fluctuations for the second control period subject to the complete true up of WACC*..........279

13.e. *Not to true-up WACC for the second Control Period at the time of determination of aeronautical tariffs for the third Control Period except for the elements mentioned below:*..........279

i. New debt subject to the ceiling on cost of debt for Rupee Term Loan of actuals as of 01.04.2014 plus 50 basis points..279

ii. New RSD (in addition to Rs. 1,471.51 crore already considered by the Authority as a means of finance while determining DF) 279

iii. Fresh paid-up equity (in addition to Rs. 2,300.00 crore already considered by the Authority (after removing upfront fee of Rs. 150 crore from the paid-up equity of Rs. 2,450 crore) as a means of finance while determining DF) 279

iv. Funds from Reserves and Surplus on actuals, if positive, during the second Control Period 279

Decision No. 14 The Authority decides to adopt the following approach for consideration of Depreciation towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi: 293

14.a. To consider depreciation rates as per the useful life of assets specified in the Companies Act 2013 for the second Control Period except for assets pertaining to runway, taxiway and apron, which are to be considered at useful life of 30 years. 293

14.b. To adjust the depreciation reflected in the books of DIAL for elements presented in para 16.6 above. 293

14.c. To consider allocation ratio for depreciation into aeronautical and non-aeronautical components 293

14.d. To consider the recommendations from the Study commissioned to determine appropriate rates of depreciation 293

14.e. To consider the depreciation for the second Control Period as presented in Table 50 above. 293

14.f. To true up the difference between the projected depreciation (calculated presently considering that such asset has been commissioned/ disposed-of half way through the Tariff Year) and actual depreciation for the Tariff year by adjusting such difference at the end of the Control Period..........293

Decision No. 15 The Authority decides to adopt the following approach for consideration of operating expenses towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi:.................. 397

15.a. To consider the cost allocation for the second Control Period as in Table 53 which is as per its Delhi Tariff Order No. 03/2012-13 for all sub-heads except VRS payment to AAI and Airport Operator Fee. 397

15.b. To consider the allocation of VRS payment to AAI at the rate of manpower allocation while projecting aeronautical expenses for the second Control Period. 397

15.c. To consider 3% of aeronautical revenues of DIAL as aeronautical component of Airport Operator Fee in the second Control Period 397

15.d. To commission an independent study to examine the issue of allocation of assets, services, revenues and expenses generated in the IT JV into aeronautical and non-aeronautical more closely. Based on the outcome of the study, proper treatment will be given to the revenues and costs. 397

15.e. To consider actual costs incurred by DIAL for FY 2012-13 as the efficient operation and maintenance costs for IGI Airport, Delhi based on ICWAI study on efficient Operation and Maintenance cost.................................397

15.f. To consider actual costs for FY 2013-14 as the base for projection of operation and maintenance costs for the second Control Period.............397

15.g. To adopt an average growth rate of 7.0% (based on inflation of 5.1% per annum and headroom in real growth of 1.9%) for projection of the operation and maintenance costs for the second Control Period except for manpower costs for which the Authority decides to consider a growth rate of 10% while Repair & Maintenance expenses shall be considered at 9%. 397

15.h. To consider the inline baggage screening expenses incurred by DIAL towards security related requirements for determination of aeronautical tariff. Further, to bring to the attention and information of MoCA the *inclusion of these elements of expenses of security, as the same is presently determined and monitored by MoCA.* 397

15.i. *To commission an independent study to assess the efficient operating costs of IGI Airport, Delhi for the second Control Period and to true-up the operating & maintenance costs, based on the findings of the study, at the time of determination of tariff for the third Control Period.* 398

Decision No. 16 The Authority decides to adopt the following approach for consideration of taxation towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi: **411**

16.a. *To consider the operator as a legal corporate entity and treat its revenue share as an operating expense for the purpose of estimation of corporate taxes in respect of DIAL for the second Control Period.* 411

16.b. *To forecast the corporate tax payable on aeronautical earnings in the second Control Period as per Table 59.* 411

16.c. *To true up the forecast figures of tax on aeronautical earnings of the 2nd Control Period as per the actuals at the time of determination of aeronautical tariff for the third Control Period.* 411

Decision No. 17 The Authority decides to adopt the following approach for consideration of treatment of Non Aeronautical Revenues towards determination of tariffs for aeronautical services provided by DIAL at IGI Airport, Delhi: **450**

17.a. *To project "Other Income" as nil for the time being for the second Control Period* 450

17.b. *To true up the "Other Income" based on actual revenue realized by DIAL during the second Control Period at the time of tariff determination for the third Control Period (refer para 19.37).* 450

17.c. *To consider the non-aeronautical revenue for the second Control Period as projected and presented in Table 63.* 450

17.d. *To true-up the non-aeronautical revenue based on the actual non-aeronautical realized by DIAL during the second Control Period at the time of tariff determination for the third Control Period.* 450

Decision No. 18 Regarding treatment of cargo, ground handling and fuel concessions to be considered for the second Control Period, based on the material before it and its analysis, the Authority has decided: **487**

18.a. *To commission an independent study to examine the issue of allocation of assets, services, revenues and costs generated in the IT JV into aeronautical and non-aeronautical more closely. The Authority would accordingly take into account this report at the time of determination of tariff for the third Control Period and true up for the Second Control Period* 487

18.b. *To consider revenues from cargo including cargo screening as non-aeronautical in the second Control Period.* 487

18.c. *To consider revenues from ITP as well as fuel throughput as aeronautical revenue in the second Control Period.* 487

18.d. *To consider CUTE service and CUTE counter revenue as aeronautical for the time being* 487

18.e. *To consider revenue from Ground Handling as non –aeronautical for the 2nd Control Period* 487

Decision No. 19 Regarding traffic forecast to be considered for the second Control Period, based on the material before it and its analysis, the Authority has decided: **499**

19.a. *To consider the passenger and ATM traffic as per the Table 68 and Table 69 respectively for the second Control Period* 499

19.b. *To true-up the passenger and ATM traffic based on actual numbers realized during the second Control Period at the time of tariff determination for the third Control Period.* 499

Decision No. 20 **Regarding the matter of Inflation, based on the material before it and its analysis, the Authority has decided: 502**

20.a. To follow the CPI inflation forecast of 5.1% and WPI forecast of 3.6% for the next five years of the second Control Period for determination of various building blocks, wherever required. 502

Decision No. 21 **Regarding the quality of service, the Authority has decided to issue a note on the methodology for monitoring service quality at all airports under its purview, including IGI Airport, Delhi. The service quality will be monitored in line with this note, for subsequent periods, upon issuance of the note. 506**

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: 518**

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, Delhi. 518

22.b. To indicate the tariff as per the tariff card attached along with this order, based on the X-Factor as discussed in Decision 23.b below 518

Decision No. 23 **Regarding the Tariff Structure & Viability of IGI Airport, Delhi to be considered for the second Control Period, based on the material before it and its analysis, the Authority has decided: 538**

23.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, Delhi. 538

23.b. *To consider an X factor of +89.40% (with date of implementation of tariff as 01.01.2016) in respect of the aeronautical tariffs for the second Control Period (01.04.2014 - 31.03.2019) for the IGI Airport Delhi, instead of the determined X-Factor of +96.08% on account of the interim measure adopted by the Authority to grant an additional ARR of Rs. 691.50 Crores as on 01.01.2016 to help DIAL meet its cash deficit over the second Control Period. 538*

23.c. *To true up (claw back) the additional ARR of Rs. 691.50 Crores, as on 01.01.2016 granted by the Authority to DIAL, at its future value as on 01.04.2019 (based on the applicable WACC), at the time of determination of aeronautical tariff for the third Control Period......................................538*

28. 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. The UDF rates indicated in the tariff card are also approved as per the section 13(1)(b) read with rule 89 of the Aircraft Act, 1937. The rates approved herein are the ceiling rates, exclusive of taxes if any.

28.2. With regards to implementation of this Order, the Authority notes that the Hon'ble High Court has permitted DIAL to charge the tariff applicable for the first Control Period till AERAAT decides on the appeals filed by DIAL and the Hon'ble High Court has indicated a timeframe for AERAAT to dispose the appeals. The Authority has appealed against this Order of Hon'ble High Court and depending upon the outcome of the legal process, the date of implementation of this Tariff Order will be decided.

By the Order of and in the Name of the Authority

(Joy Kuriakose)
Deputy Chief, AERA

To,

Delhi International Airport (P) limited
New Udaan Bhawan,
Opp. Terminal 3, IGI Airport,
New Delhi 110037
(Through: Shri. I. Prabhakara Rao, Chief Executive Officer)

29. List of Tables & Figures

Table 1: Allowable project cost, means of funding the project, and the funding gap as per Delhi Tariff Order No. 3/2012-13 66

Table 2: Calculation of balance DF as per Consultation Paper No 32 / 2012-13.......... 67

Table 3: DIAL submission on DF securitization.......... 68

Table 4: DIAL submission on reconciliation between the DF securitization and DF adjustments in its books.......... 68

Table 5: Securitization of DF by DIAL as considered by the Authority in Consultation Paper No. 16/2014-15 68

Table 6: DF considered towards Adjustment of RAB by the Authority in respect of DIAL in Consultation Paper No. 16/2014-15.......... 69

Table 7: Securitization of DF by DIAL as considered by the Authority in its final Order 75

Table 8: DF considered towards Adjustment of RAB by the Authority in respect of DIAL.. 76

Table 9: Additions to RAB as considered by the Authority for the 1st Control Period as per Delhi Tariff Order 03/2012-13 and actual aero additions submitted by DIAL during FY12, FY13, and FY14.......... 81

Table 10: Assets considered by the Authority in Delhi Tariff Order 03 / 2012-13 for the first Control Period based on actuals till FY 2010-11.......... 81

Table 11: Re-computation of RAB for FY 2010-11 in Consultation Paper No. 16/2014-15 . 82

Table 12: RAB and Return on RAB as per audited financial statements of DIAL considered by the Authority for the 1st Control Period in Consultation Paper No. 16/2014-15 85

Table 13: Operating & Maintenance Expenses noted by the Authority from financial statements / auditor certificates of DIAL for the 1st Control Period 87

Table 14: Operating & Maintenance Expenses considered by the Authority towards truing-up for the 1st Control Period in Consultation Paper No. 16/2014-15 93

Table 15: Adjustment to Aero Depreciation for RAB calculation in Consultation Paper No. 16/2014-15 94

Table 16: Non-Aeronautical Revenues considered by the Authority in its Delhi Tariff Order No. 03/2012-13 96

Table 17: DIAL's submission of Other Income for the first control period 97

Table 18: Non-Aeronautical Revenues considered by the Authority for 1st Control Period for true-up in Consultation Paper No. 16/2014-15 101

Table 19: Target Revenues considered by the Authority for 1st Control Period in Consultation Paper No. 16/2014-15 102

Table 20: True-up considered by the Authority for the 1st Control Period in Consultation Paper No. 16/2014-15 102

Table 21: RAB and Return on RAB considered by the Authority for the 1st Control Period 140

Table 22: Non-Aeronautical Revenues considered by the Authority for 1st Control Period for true-up 145

Table 23: Operating & Maintenance Expenses considered by the Authority towards truing-up for the 1st Control Period as per discussion in para 6.1 above and 6.2 above 148

Table 24: True-up considered by the Authority for the 1st Control Period as per discussion in para 6.1 above and 6.2 above 148

Table 25: Comparison of Asset Allocation into aeronautical and non-aeronautical assets submitted by DIAL 153

Table 26: Asset allocation ratio as per Leigh Fischer report dated 11.11.2014 154

Table 27: AS 11 adjustments in the books of DIAL as noted by the Authority 168

Table 28: Hypothetical RAB determined by the Authority in its Delhi Tariff Order 03/2012-13 183

Table 29: HRAB and Depreciation on HRAB till the end of the first Control Period in Consultation Paper No. 16/2014-15 184

Table 30: HRAB and Depreciation on HRAB for Second Control Period in Consultation Paper No. 16/2014-15 185

Table 31: HRAB and Depreciation on HRAB for Second Control Period as considered by the Authority 192

Table 32: Summary of capital expenditure (inflation adjusted values in INR crore) proposed by DIAL for second Control Period 195

Table 33: Summary of estimated capital expenditure considered by the Authority as indicative cost for second Control Period 195

Table 34: Summary of estimated capital expenditure considered by the Authority as indicative cost for second Control Period 202

Table 35: RAB computed by DIAL for the second Control Period as per Tariff Model (23.07.2014) 204

Table 36: RAB and Return on RAB considered by Authority considered for the second Control Period in Consultation Paper No. 16/2014-15 204

Table 37: RAB and Return on RAB considered by Authority to be considered for the second Control Period 206

Table 38: Cost of Debt as considered by the Authority for second Control Period in Consultation Paper No. 16/2014-15 209

Table 39: Outstanding Balance of ECB and Rupee Term Loans considered by the Authority for FY2013-14 to FY2018-19 in Consultation Paper No. 16/2014-15 209

Table 40: Cost of Debt for ECB and Rupee Term Loans considered by the Authority for FY2013-14 to FY2018-19 223

Table 41: Outstanding Balance of ECB and Rupee Term Loans considered by the Authority for FY2013-14 to FY2018-19 223

Table 42: Revenue from Commercial Property Development (CPD) realized by DIAL during the first Control Period ... 241

Table 43: Revenue from Commercial Property Development (CPD) projected by DIAL for the second Control Period ... 241

Table 44: Authority's computation of Equity to be considered towards WACC in respect of DIAL in the second Control Period in Consultation Paper No. 16/2014-15 269

Table 45: Total Capital Employed and WACC as considered by the Authority for second Control Period in Consultation Paper No. 16/2014-15 ... 269

Table 46: Total Capital Employed and WACC as considered by the Authority for second Control Period ... 277

Table 47: Rates of Depreciation considered by Authority in respect of DIAL for the second Control Period in Consultation Paper No. 16/2014-15 ... 281

Table 48: Depreciation for existing and new assets submitted by DIAL for the second control period in Consultation Paper No. 16/2014-15 ... 282

Table 49: Depreciation computed by Authority to be considered for the second Control Period in Consultation Paper No. 16/2014-15 ... 284

Table 50: Depreciation computed by Authority to be considered for the second Control Period ... 293

Table 51: Difference in allocations of operating expenses considered by DIAL ... 338

Table 52: Table Representing Difference in Airport Operator Fee Based on the Two Approaches ... 340

Table 53: Allocation of Operating Costs between aeronautical and non-aeronautical as considered by the Authority for the second Control Period in Consultation Paper No. 16/2014-15 ... 340

Table 54: Schedule for VRS payments from DIAL to AAI ... 349

Table 55: Actual Aeronautical Operating Expenses for DIAL for first Control Period as per Auditor's Certificate ... 351

Table 56: Aeronautical Operating Expenses considered by the Authority for the 2nd Control Period (2014-15 to 2018-19) in Consultation Paper No. 16/2014-15 353

Table 57: Aeronautical Operating Expenses considered by the Authority for the second Control Period 396

Table 58: Summary of Tax forecast for the second control period by DIAL in Consultation Paper No. 16/2014-15 401

Table 59: Summary of Aero Tax forecast for the second control period considered by the Authority 410

Table 60: Actual Non Aeronautical Revenue as per DIAL's financial statements in the first Control Period 438

Table 61: Non Aeronautical Revenues projected by DIAL for the second Control Period 438

Table 62: Non Aeronautical Revenues proposed to be considered by the Authority in the second Control Period in Consultation Paper No. 16/2014-15 440

Table 63: Total Non-Aeronautical Revenues considered by the Authority in the second Control Period 448

Table 64: Fuel Throughput Revenues considered by the Authority for the second Control Period in Consultation Paper No. 16/2014-15 467

Table 65: Passenger traffic considered by the Authority for the second Control Period (In Crores) in Consultation Paper No. 16/2014-15 491

Table 66: ATM considered by the Authority for the second Control Period in Consultation Paper No. 16/2014-15 491

Table 67: Actual traffic realized by DIAL at IGI Airport from AAI 496

Table 68: Passenger traffic considered by the Authority for the second Control Period (In Crores) 498

Table 69: ATM considered by the Authority for the second Control Period 499

Table 70: Inflation forecast – RBI Survey of Professional Forecasters on Macroeconomic Indicators – 30th Round 500

Table 71: Inflation forecast – RBI Survey of Professional Forecasters on Macroeconomic Indicators – 35th Round 501

Table 72: Sensitivity Analysis against the X-factor submitted by DIAL and the proposals made by the Authority in the Consultation Paper No. 16/2014-15 507

Figure 1: Chart represents the cumulative impact of each sensitivity on the final X Factor 510

Table 73: Calculation of Target Revenue and projected aeronautical revenue based on date of implementation of new tariff as 01.02.2015 as per the Consultation Paper No. 16/2014-15 510

Table 74: Factors resulting in changes in the X-Factor from (+) 78.24% as considered by the Authority in Consultation Paper No 16/2014-15 to (+) 96.08% as considered under this Order.......... 511

Figure 2: Cumulative Impact of each factor resulting in change in X factor from the Consultation Paper No 16/2014-15 to the Order.......... 512

Table 75: Calculation of Target Revenue and projected aeronautical revenue based on date of implementation of new tariff as 01.01.2016 512

Table 76: Estimated Cash outflows for DIAL, as an Entity, during the Second Control Period 533

Table 77: Estimated Cash Inflows to DIAL, as an Entity, during the Second Control Period at the X Factor of 96.08%.......... 534

Table 78: Annual Cash Deficit for DIAL over the Second Control Period at X Factor of 96.08%.......... 535

Table 79: Estimated Annual Cash Deficit for DIAL over the Second Control Period with additional ARR 536

Annexure

Attachment to Tariff Order No. 40/2015-16 for IGI, Delhi International Airport Ltd. for the Second Control Period (2014-2019)

Airport Charges-effective FY 2014-15 from 1st January 2016

Contents

Airport Charges

1. Landing, Parking and Housing charges

2. User Development Fee (UDF)

3. CUTE Counter charges

4. Fuel Throughput charges

Landing, Parking & Housing charges

1.1. **Landing Fee per single landing**

Weight of Aircraft	Rate Per Landing-International Flight	Rate Per Landing-Other than International Flight
Upto 100 MT	Rs. 227.70 per MT	Rs. 170.80 per MT
Above 100 MT	Rs. 22770/- + Rs 306.00 per MT in excess of 100 MT	Rs. 17080/- + Rs 229.50 per MT in excess of 100 MT

*Inflation of 5.1% would be given over this value every year on the 1st of April until 1st of April, 2018

Note:

a) Charges shall be calculated on the basis of next Metric Tonne (MT) (i.e. 1,000 kgs.) of the aircraft.
b) A surcharge of 25%will be levied on landing charges for supersonic aircraft.
c) No landing charges shall be payable in respect of:
    a. Aircraft with a maximum certified capacity of less than 80 seats, being operated by domestic scheduled operators; and
    b. Helicopters of all types
d) Subject to (c) above, a minimum fee of INR 10,700/- shall be charged per single landing for all types of all non-scheduled aircrafts, including but not limited to domestic landing, international landing and general aviation landings.
e) Weight of the aircraft means maximum takeoff weight (MToW) as indicated in the Certificate of Airworthiness filed with Director General Civil Aviation (DGCA).
f) All domestic legs of International routes flown by Indian operators will be treated as domestic flights as far as air side airport user charges are concerned, irrespective of the flight number assigned to such flights.

1.2. **Housing and Parking Charges**

The Housing charges and Parking charges are as under:

Weight of Aircraft	Parking charges Rate per MT per hour	Housing charges Rate per MT per hour
Upto 100 MT	INR 7.40 per MT	INR 7.40 per MT
Above 100 MT	INR 740/- +INR 9.80 per MT per hour in excess of 100 MT	INR 740/- +INR 9.80 per MT per hour in excess of 100 MT

*Inflation of 5.1% would be given over this value every year on the 1st of April until 1st of April, 2018

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

Note:

a) No parking charges shall be levied for the first two hours. While calculating free parking period, standard time of 15 minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of taxing time of aircraft from parking stand to take off point. These periods shall be applicable for each aircraft irrespective of actual time taken in the movement of aircraft after landing and before takeoff.

b) For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour.

c) Charges shall be calculated on the basis of next MT.

d) Charges for each period parking shall be rounded off to nearest Rupee.

e) Whilst in-contact stands, after free parking, for the next two hours Parking charges shall be levied. After this period, the Housing charges shall be levied.

2. User Development Fee (UDF)

The User Development Fee per passenger shall be payable as under:

1. There shall be no UDF charged on Arriving Passengers, both for Domestic and for International Passengers.
2. In the case of Departing passenger, UDF shall be applicable as below:

	Domestic Rate	International Rate
For ticket issued in Indian Rupee (INR)	10.00	45.00
For Tickets Issued in Foreign currency ($)	0.20	0.90

Note:

a) In respect of the tickets issued in foreign currency, the UDF shall be levied in US Dollars.
b) Collection charges: If the payment is made within 15 days of receipt of invoice, then collection charges at Rs. 2.50 per departing passenger shall be paid by DIAL. No collection charges shall be paid in case the airline fails to pay the UDF invoice to DIAL within the cred it period of 15 days or in case of any part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any other account with DIAL.

c) Transit/Transfer Passenger: A passenger is treated in transit/transfer only if the onward journey is within 24 hours from the time of arrival into Delhi and the onward

3. CUTE Counter charges

The Cute Counter charges per departing flight shall be payable as under:

Charges per departing flight	
International	Domestic
INR 1500/-	INR 500/-

*Inflation of 5.1% would be given over this value every year on the 1st of April until 1st of April, 2018

Fuel Throughput charges (FTP)

The Fuel Throughput charges shall be payable as under:

Charge per Kl of fuel
INR 688.17

5. General Condition

For all the above charges, credit period allowed by Airport Operator is 15 days.