फा. सं. ऐरा/20010/एमवाईटीपी/केआईएएल/सीपी-II/2024-28
F. No. AERA/20010/MYTP/KIAL/CP-II/2024-28

आदेश संख्या 36/2023-24
Order No. 36/2023-24

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

कन्नूर अंतरराष्ट्रीय हवाईअड्डा, कन्नूर (सीएनएन) के लिए द्वितीय नियंत्रण अवधि (01.04.2023 – 31.03.2028) के लिए वैमानिक टैरिफ निर्धारित करने के मामले में

IN THE MATTER OF
DETERMINATION OF AERONAUTICAL TARIFF FOR KANNUR INTERNATIONAL AIRPORT, KANNUR (CNN) FOR THE SECOND CONTROL PERIOD
(01.04.2023 - 31.03.2028)

जारी करने की तारीख : 28.02.2024
Date of Issue: 28.02.2024

ऐरा भवन /AERA Building
प्रशासनिक कॉम्पलेक्स/Administrative Complex
सफदरजंग हवाईअड्डा/Safdarjung Airport
नई दिल्ली /New Delhi – 110003

TABLE OF CONTENTS

LIST OF TABLES

GLOSSARY

Abbreviation	Full Form
A&G	Administrative & General
AAI	Airports Authority of India
AC	Air Conditioning
AECOM	Architecture, Engineering, Construction, Operations, and Management
AERA/ The Authority	Airports Economic Regulatory Authority of India
AFS	Air Freight Station
AGL	Airfield Ground Lighting
AHU	Air Handling Unit
Airport Operator	Kannur International Airport Limited
ANS	Air Navigation Services
AO	Airport Operator
AOCC	Airport Operations Control Center
ARR	Aggregate Revenue Requirement
ARFF	Aircraft Rescue and Fire Fighting
Asset Allocation Report	Study on allocation of assets between Aeronautical and Non-aeronautical assets for Kannur International Airport
ATC	Air Traffic Control
ATM	Air Traffic Movement
ATS	Air Traffic Service
AUCC	Airport User Consultative Committee
AVDGS	Advanced Visual Docking Guidance Systems
AWB	Air Way Bill
BIAL	Bangalore International Airport Limited
BUP	Built Up Pallet
CAGR	Compounded Annual Growth Rate
CAM	Common Area Maintenance
CAPEX	Capital Expenditure
CCTV	Closed Circuit Television
CISF	Central Industrial Security Force
CNS	Communication, Navigation and Surveillance
CSR	Corporate Social Responsibility
CUPPS	Common User Passenger Processing System
CUSS	Common User Self Service
CUTE	Common Use Terminal Equipment
CWIP	Capital Work in Progress
DFMD	Door Frame Metal Detector
DG	Diesel Generator
DIAL	Delhi International Airport Limited
DVOR	Doppler Very high frequency Omni directional Range
EC	Empowered Committee
EHCR	Employee Head Count Ratio
EPC	Engineering Procurement Construction

Abbreviation	Full Form
FA	Financing Allowance
FAR	Fixed Asset Register
FIDS	Flight Information Display System
FRoR	Fair Rate of Return
FY	Financial Year
GAL	GMR Airports Limited
GFA	Gross Fixed Asset
GHIAL	GMR Hyderabad International Airport Limited
GIL	GMR Infrastructure Limited
GoI	Government of India
HHMD	Handheld Metal Detector
HSD	High Speed Diesel
HVAC	Heating, Ventilation and Air Conditioning
IATA	International Air Transport Association
IDC	Interest During Construction
IMG	Inter-Ministerial Group
INR	Indian Rupee
IP	Internet Protocol
IT	Information Technology
KIA	Kannur International Airport
KIAL / AO	Kannur International Airport Limited
KINFRA	Kerala Industrial Infrastructure Development Corporation
KITCO	Kerala Industrial and Technical Consultancy Organization
LED	Light Emitting Diodes
MIA	Mangaluru International Airport
MPPA	Million Passengers per Annum
MYTP	Multi-Year Tariff Proposal
NCAP	National Civil Aviation Policy
O&M	Operation and Maintenance
O&M study report	Study on Efficient Operations & Maintenance expenses for Kannur International Airport
OPEX	Operational Expenditure
ORAT	Operational Readiness and Airport Transfer
PAX	Passenger Traffic
PBB	Passenger Boarding Bridge
PPP	Public-private partnership
R&M	Repairs & Maintenance
RAB	Regulatory Asset Base
RESA	Runway End Safety Area
RFP	Request for Proposal
SCP	Second Control Period
Sq.m.	Square Metres
TIES	Trade Infrastructure for Export Scheme
TNLC	Terminal Navigation Landing Charges
ULD	Unit Load Device
UPS	Uninterrupted Power Supply

Abbreviation	Full Form
VDGS	Visual Docking Guidance System
VIP	Very Important Person
WPI	Wholesale Price Index
YPP	Yield per Passenger

1 INTRODUCTION

1.1 Background

1.1.1 Kannur International Airport (KIA) is the second Greenfield Airport in Kerala set up under the Public Private Partnership (PPP) model. It is located 28 Kms east of Kannur and close to the municipality of Mattannur in Kannur district of Kerala. The airport commenced its commercial operations in December 2018 and caters primarily to the catchment area of Kannur, Wayanad, Kasaragod and northern Calicut district.

1.1.2 KIA reported an actual passenger throughput volume of 1.59 MPPA for FY 2019-20 which was lesser than the threshold limit of 3.5 MPPA defined under the AERA Act 2008 read with AERA (Amendment) Act 2019. However, based on KIA's designated capacity of 9.34 MPPA, AERA declared KIA as a 'Major Airport' vide Amendment to Public Notice 17/2019-20 dated March 16, 2020. Accordingly, AERA had determined Aeronautical tariff for KIA for the First Control Period vide Tariff Order No. 26/2018-19 dated November 9, 2018.

1.1.3 Pursuant to the AERA Act, 2008 read with AERA (Amendment) Act 2019 and 2021 and AERA Guidelines for the purpose of determination of Aeronautical tariff for Major Airports, Kannur International Airport Limited ('Airport Operator' / 'KIAL') had submitted its initial Multi Year Tariff Proposal (MYTP) on October 27, 2022 and the revised MYTP on March 27, 2023 for the Second Control Period commencing from FY 2023-24 to FY 2027-28. Further, the Authority based on its examination of the MYTP, had sought clarification/ justification on various issues from the Airport Operator, from time to time, till October 2023.

1.1.4 Kannur International Airport is owned and operated by Kannur International Airport Limited (referred to 'KIAL'), which was incorporated as a Public Limited Company in December 2009 with the objective of building, owning and operating the Kannur International Airport. The current shareholding pattern of AO is shown in the table below:

Table 1: Shareholding pattern of the Airport Operator

S. No.	Name of Shareholder	Shareholding (%)
1	Government of Kerala (GoK)	39.23%
2	Qualified institutional investors, individuals, co-operative banks/ societies/ commercial banks and other legal entities	37.10%
3.	Bharat Petroleum Corporation Limited (BPCL)	16.20%
4.	Airports Authority of India (AAI)	7.47%
	TOTAL	**100%**

1.2 Profile of Kannur International Airport (KIA)

1.2.1 Technical and Terminal Building details submitted by AO are provided in the table below:

Table 2: Technical and Terminal Building details submitted by AO

Particulars	Details
Total Land Area	1,192.18 acres
Total area of Integrated Terminal Building:	96,143 Sqm.
Designated Capacity	9.34 million passenger per annum

Particulars	Details
Check in counters:	• Domestic-30 • International- 30
Immigration counters:	• Arrival- 16 • Departure-16
ARFF	Two category 9 fire stations
Navigation	ILS Category I, DVOR, Automatic Dependent Surveillance Broadcast
Aircraft Handling:	Code 4E with orientation 07/25
Runway Physical length:	3,050 Meters extendable up to 4,000 meters
Number of parking bays:	14 out of which 6 are Multiple Aircraft Ramp System. Can accommodate 20 Code C aircraft at a time
Number of Passenger Boarding/ Aero Bridges :	6

1.2.2 After the commencement of commercial operations in December 2018, the AO reported Passenger traffic of 0.22 MPPA only for 4 months of FY 2018-19. The Airport thereafter achieved 1.59 MPPA in FY 2019-20, i.e., Pre-Covid Year.

Following the completion of the first year of commercial operations, the airport was severely impacted by COVID-19 with passengers traffic dropping by 70% in FY 2021 over FY2020.

1.2.3 The Authority vide Order No. 26/ 2018-19 dated November 9, 2018 had determined the Aeronautical tariffs for Kannur International Airport for the First Control Period from April 1, 2018 to March 31, 2023.

Thereafter, the Authority vide Order No. 41/ 2022-23 dated March 22, 2023, had decided to continue the levy of existing tariff beyond March 31,2023 for a period of 6 months up to September 30, 2023.

Further, AERA vide Order No. 19/2023-24 dated September 20, 2023 had extended the levy of existing tariffs for another 6 (six) months i.e. from October 1, 2023 till March 31, 2024.

1.3 Cargo Facility, Ground Handling and Supply of Fuel to Aircraft (CGF) Services

1.3.1 The CGF services are either carried out by the AO themselves or through Independent Service providers and the same is explained as follows:

Cargo Facility

1.3.2 Currently, the Cargo facility at the Airport is executed by the Airport Operator. The AO is handling Cargo Volume of approx. 4,000 tons, from the existing Cargo facility, constructed within an area of 1,506 Sq.m

1.3.3 AERA vide Order No. 44/2020-21 dated September 3, 2020 had determined tariff for the Cargo operations at Kannur International Airport, from the date of its commencement (i.e., October, 2021) up to 31st March 2021 and vide Order No. 67/ 2020-21 dated March 25, 2021 had extended the levy of existing tariff till September 30, 2021. The Authority vide Order No. 18/2021-22 dated September 15, 2021 had decided to continue the levy of existing tariff for a period of 6 months from October 1, 2021 to March 31, 2022.

Thereafter, AERA vide Order No. 46/ 2021-22 dated March 17, 2022 had decided to continue the levy of existing tariff for a period of 6 months, up to September 30, 2022

Further, AERA vide Order No. 24/2022-23 dated September 23, 2022 had extended the levy of existing tariffs for Cargo operations for an additional period of 6 months, effective till March 31, 2023 and vide Order No. 42/2022-23 dated March 23, 2023 extended the levy of existing tariffs, for another six months, which was effective up to September 30, 2023.

Furthermore, the Authority vide Order No. 20/ 2023-24 dated September 27, 2023 had extended the levy of existing tariff for a period up to March 31, 2024.

Ground Handling Services

1.3.4 Currently, there are two service providers engaged by the AO for Ground Handling Services and the details are as follows:

i M/s Celebi Ground Handling Delhi Private Limited had been engaged by the AO from September 2018 for a period of 5 years with a revenue share of 41%. Later, the contract with Celebi had been extended for a further period of 2 years with a revenue share of 43%.

ii M/s AI Airport Services Ltd. had been engaged by the AO for a period of 5 years from December 2018 with a revenue share of 41%.

1.3.5 AERA vide Order No. 36/2018-19 dated December 18, 2018 had determined tariff for FY 2018-19 and FY 2019-20 in respect of M/s Celebi Ground Handling Private Limited for providing ground handling services at Kannur Airport.

Further, the Authority vide Order No. 46/ 2020-21 dated September 29, 2020 had decided to continue the levy of existing tariff for an additional period of one year, till March 31, 2021 and vide Order No. 67/ 2020-21 dated March 25, 2021 had extended the levy of existing tariff as on March 31, 2021 till September 30, 2021.

AERA vide Order No. 18/2021-22 dated September 15, 2021 had decided to extend the levy of existing tariff till March 31, 2022. Later, the Authority had decided vide Order No. 46/ 2021-22 dated March 17, 2022 to continue the levy of existing tariff for Ground Handling till September 30, 2022.

Thereafter, the Authority vide Order No. 24/ 2022-23 dated September 23, 2022 had decided to extend the existing tariff up to March 31, 2023 and vide Order No. 42/ 2022-23 dated March 23, 2023 had decided to continue the levy of existing tariff till September 30, 2023.

Furthermore, the Authority vide Order No. 20/ 2023-24 dated September 27, 2023 had extended the levy of existing tariff for a period up to March 31, 2024.

Supply of Fuel to Aircraft

1.3.6 Fuel Farm services at the Airport are provided by the service provider BPCL Kannur Fuel Farm Private Limited (BKFFPL). The fuel volume handled at the Airport during FY 2022-23 is around 41,000 kilo litres

The Authority vide Order No. 44/ 2021-22 dated March 15, 2022 had determined tariff in respect of Fuel Infrastructure Fee (FIF) for Kannur Airport for the First Control Period, which was valid till March 31, 2023. The Authority through various interim orders had extended the levy of existing tariff for Fuel Facility, from time to time, till March 31, 2024.

2 METHODOLOGY OF TARIFF DETERMINATION OF KANNUR INTERNATIONAL AIRPORT

2.1 Tariff setting Principles

2.1.1 AERA was established by the Government of India vide notification No. GSR 317(E) dated May 12, 2009. The functions of AERA, in respect of Major Airports, are specified in section 13(1) of The - Airports Economic Regulatory Authority of India Act, 2008 ('AERA Act' or 'the Act') read with AERA (Amendment) Act 2019 and 2021, which are as below:

a) To determine the tariff for Aeronautical services taking into consideration –

i. The capital expenditure incurred and timely investment in the improvement of airport facilities.

ii. The service provided, its quality and other relevant factors

iii. The cost for improving efficiency.

iv. Economic and viable operation of Major Airports

v. Revenue received from services other than the Aeronautical services

vi. Any concession offered by the Central Government in any agreement or memorandum of understanding or otherwise; and

vii. Any other factor which may be relevant for the purpose of this Act:

- Provided that different tariff structures may be determined for different airports having regard to all or any of the above considerations specified at sub-clauses (i) to (vii).

b) To determine the amount of the development fees in respect of Major Airports.

c) To determine the amount of the passengers' service fee levied under Rule 88 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934.

d) To monitor the set performance standards relating to quality, continuity and reliability of service as may be specified by the Central Government or any authority authorised by it in this behalf.

e) To call for any such information as may be necessary to determine the tariff for Aeronautical services; and

f) To perform such other functions relating to tariff, as may be entrusted to it by the Central Government or as may be necessary to carry out the provisions of this Act.

2.1.2 The terms "aeronautical services" and "Major Airport" are defined on section 2 (a) and 2 (i) of the Act. respectively.

2.1.3 As per the AERA Act, 2008 the following are the Aeronautical services:

i. Aeronautical services provided by the Airport Operators.

ii. Cargo, Ground Handling and Fuel Supply Services; and

iii. Air Navigation Services.

Tariff determination for Air Navigation Services is carried out by the Ministry of Civil Aviation (MoCA) across all airports to maintain uniformity.

2.1.4 AAI shall be handling the Air Navigation Systems (ANS) at Kannur International Airport. Tariff for ANS is presently regulated by Ministry of Civil Aviation. All the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining tariff for ANS services. Further, the tariff for ANS services is determined at the Central level by the Ministry of Civil Aviation to ensure uniformity across the airports in India. Hence, AERA determines tariff for Aeronautical services of the Airport Operator, by excluding the assets, expenses, revenues from ANS.

2.2 Authority's Order applied in determination of Tariff proposals of Kannur International Airport, Kannur in this Tariff Order

2.2.1 The Authority's Orders applied in the tariff determination in this Tariff Order are :

i. Order No. 13 dated 12th January 2011 (Regulatory philosophy and approach in Economic Regulation of Airport Operators) and Direction No. 5 dated 28th February 2011 (Terms and conditions for determination of tariff for Airport Operators); and

ii. Order No. 05 dated 2th August 2010 ((Regulatory philosophy and approach in Economic Regulation of the services provided for Cargo facility, Ground Handling and Supply of Fuel to aircrafts); Order No. 12 dated 10th January 2011 and Direction No. 4 dated 10 th January 2011 (Terms and conditions for determination of tariff for services provided for Cargo facility, Ground Handling and Supply of Fuel to aircrafts).

iii. Order No. 07/2016-17 dated 13 th June2016 (Normative Approach to Building Blocks in Economic Regulation of Major Airports).

iv. Order No. 14/2016-17dated 23rd January2017 in the matter of aligning certain aspects of AERA's Regulatory Approach (Adoption of Regulatory Till) with the provisions of the National Civil Aviation Policy – 2016 (NCAP-2016) approved by the Government of India.

v. Order No. 20/2016-17 dated 31st March 2017 in the matter of allowing Concession to Regional Connectivity Scheme (RCS) Flights under RCS – Ude Desh ka Aam Naagrik (UDAN) at Major Airports.

vi. Order No. 35/2017-18 dated 12th January 2018 and Amendment No. 01 to Order No. 35/2017-18 dated 09.04.2018 in the matter of determination of useful life of Airport assets.

vii. Order No. 42/2018-19 dated 5th March 2019 in the matter of Determination of Fair Rate of Return (FRoR) to be provided on Cost of Land incurred by various Airport Operators in India.

2.3 Multi Year Tariff Proposal submission by Kannur International Airport Limited

2.3.1 Kannur International Airport commenced its operations w.e.f. December 9, 2018 with the First Control Period commencing from April 1, 2018 to March 31, 2023. AERA vide its Order No. 26/2018-19 dated November 9, 2018, had determined Aeronautical tariffs for KIA for the First Control Period.

2.3.2 As per proviso to clause 3.1 of the Airport Guidelines, the Airport Operator(s) are required to submit to the Authority for its consideration, a Multi-Year Tariff Proposal (MYTP) for the respective Control Periods within the due date as specified by the Authority. AO had submitted an initial MYTP for the Second Control Period commencing from April 1, 2023 to March 31, 2028 on October 27, 2022 (with projected financials for FY 2022-23) and a revised MYTP (by making revisions to certain Regulatory Building Blocks) on March 27, 2023. The MYTP is available on the AERA's website. Further, the AO had submitted unaudited financials for FY 2022-23 on June 30, 2023 and the audited financials of FY 2022-23 on August 31, 2023.

2.3.3 The Authority had appointed an Independent Consultant, M/s R. Subramanian and Company LLP to assess the MYTP submitted by AO for the Second Control Period. M/s R. Subramanian and Company

LLP has further assisted the Authority in examining the true up submission of AO including verifying the data from various supporting documents submitted by the airport operator, examining the regulatory building blocks in tariff determination, performing independent studies on the allocation of assets between Aeronautical and Non-aeronautical activities and efficient O&M expenses of AO for the First Control Period, Fixed Asset Register (FAR), audited financials, documentary evidence of the process of approval of capital addition projects including award of various work orders and ensuring that the treatment given to it is consistent with the Authority's methodology, approach, etc.

2.3.4 The Authority through its Independent Consultant had examined the revised MYTP submitted by AO, verified the data, the projections for the Second Control Period and true up for the First Control Period. The Authority obtained clarifications on the information shared by the AO from time to time, to review the appropriateness of the classification of assets, the reasonableness of the proposed Capital Expenditure, Operation & Maintenance expenditure, for finalizing this Tariff Order. The sequential timeline of the above events has been presented in the table below:

Table 3: MYTP Submission Timelines

Dates	Event
October 27, 2022	Initial MYTP Submission by AO
March 27, 2023	Revised MYTP was submitted by AO
April 3, 2023	Virtual meeting convened by AERA along with its Consultants with the Representatives of AO for addressing the issues in FAR
April 11, 2023	Trial Balance was submitted by AO for bifurcation of O&M Expenses
May 11, 2023	Revised FAR submitted by the AO
May 19, 2023	Confirmation provided by AO for considering figures in FAR for the purpose of determination of RAB and independent study on Allocation of Assets
June 29, 2023	Components of Non-Aeronautical Revenue (NAR) submitted by AO
June 30, 2023	Submission of Unaudited Financials for FY 2022-23 by the AO
July 7, 2023	Details obtained w.r.t certain components of the O&M expenses such as Custom Cost Recovery charges
September 2023 and October 2023	Clarification provided by AO w.r.t NAR, O&M expenses and capitalisation of assets

2.3.5 Upon enquiry, the AO had furnished details about certain components of Non-aeronautical Revenue to the Authority vide email dated February 23, 2024.

2.3.6 The Authority notes that clause 5.7.1 of Direction 5/ 2010-11 pertaining to Terms and Conditions for determination of Tariff for Airport Operators Guidelines, 2011 states that " *For any service provided by the Airport Operator for (i) ground handling services relating to aircraft, passengers and cargo at an airport; (ii) the cargo facility at an airport and (iii) supplying fuel to the aircraft at an airport, the Authority shall follow the regulatory approach and process for tariff determination as mentioned in the Direction No. 4/ 2010-11 on Terms and Conditions for determination of Tariff for services provided for Cargo facility, Ground Handling and Supply of Fuel to the Aircraft Guidelines, 2011*".

Further, clause 1.2 of the Direction No.4/ 2010-11 states that *"these Guidelines shall apply to Service Provider(s) for (i) the Cargo facility at a Major Airport, (ii) ground handling relating to aircraft, passengers and cargo at a major airport and for (iii) supplying fuel to the aircraft at a major airport: Provided that Airport Operator providing the Regulated Service(s) as defined herein shall be excluded from the application of these Guidelines.*

Taking cognizance of the above provisions laid out under Direction 5/ 2010-11 and Direction 4/ 2010-11 and the fact that the Airport Operator is providing the services on cargo facility, the Authority has examined the Assets, Expenses and Revenues pertaining to Cargo of the AO separately under the relevant chapters in this Tariff Order, for the purpose of determining Aggregate Revenue Requirement of the Airport Operator.

2.3.7 After examination of MYTP and other details submitted by AO, the Authority issued Consultation Paper No. 17/2023-24 dated November 16, 2023. Following the release of the Consultation Paper, the Authority had convened a meeting of the stakeholders on December 1, 2023. The minutes of the meeting are available on AERA's website.

2.3.8 The Authority also invited formal comments from all stakeholders on the issues and proposals presented in its Consultation Paper No. 17/2023-24.

2.3.9 The following stakeholders have provided their comments on the Consultation Paper No. 17/2023-24:

i. Kannur International Airport Limited (KIAL)

ii. Federation of Indian Airlines (FIA)

iii. International Air Transport Association (IATA)

Table 4: Regulatory building blocks with names of Stakeholders who commented on each building block

Component impacting tariff determination of the Second Control Period	Name of the Stakeholder who has provided comments
Process of Tariff Determination	FIA
Framework For Tariff Determination of KIA For Second Control Period	FIA
True up of the First Control Period	KIAL, FIA, IATA
Traffic for the Second Control Period	FIA
Capital Expenditure, Depreciation and Regulatory Asset Base for the Second Control Period	KIAL, FIA
Fair Rate of Return for the Second Control Period	KIAL, FIA
Inflation for the Second Control Period	IATA
Operation and Maintenance Expenses for the Second Control Period	KIAL, FIA
Non-aeronautical revenue for the Second Control Period	KIAL, FIA
Return on Land for Second Control Period	KIAL
Taxation for the Second Control Period	No comments
Quality of service for the Second Control Period	No comments
ARR for the Second Control Period	No comments
Aeronautical Revenue for Second Control Period	KIAL, IATA, FIA

2.3.10 No inputs were received from Ministry of Civil Aviation (MoCA) as part of the consultation process.

2.3.11 The counter comments from AO on the comments from other Stakeholders were received on December 26, 2023. Thus, the Stakeholders' Consultation process concluded on the receipt of counter comments on December 26, 2023. The stakeholders' comments and counter comments are available on AERA's website.

2.3.12 The Authority has examined the various comments and observations of stakeholders along with submissions made by AO to finalize its decisions pertaining to various regulatory building blocks, based on which this Tariff Order is being issued.

2.4 Construct of the Tariff Order

2.4.1 This Tariff Order has been developed/ constructed in the following sequence of Chapters:

i. The background of the Authority's tariff determination process is explained in this Chapter (Chapter 2) and in Chapter 3, wherein the framework for determination of tariff is discussed.

ii. Chapter 4 lists out the submissions of AO on true up for regulatory building blocks for the First Control Period, along with the summaries of decisions taken by the Authority as per the Tariff Order for the First Control Period. This is followed by the Authority's examination of and proposals regarding true-up of the regulatory building blocks of the First Control Period. This chapter also discusses the assessment and the outcome of the studies conducted by the Authority regarding asset allocation ratios between aeronautical and non-aeronautical assets and efficient cost segregation between aeronautical and non-aeronautical operating expenses. The summary of these reports is given as Annexures to the Tariff Order and the reports have been appended separately to the Tariff Order.

This is followed by the Authority's analysis on the specific issues regarding true up of the First Control Period as part of the tariff determination for the Second Control Period at the Consultation stage. The same is followed by comments from various stakeholders along with responses from the Airport Operator. The Authority has also provided its analysis of the Stakeholders' comments and the final decisions on the subject matter.

iii. Chapter 5 discusses the submissions of AO regarding Traffic Projections for the Second Control Period, along with the Authority's examination and proposals regarding the same as set out in Consultation Paper No. 17/2023-24 dated November 16, 2023. Thereafter, comments of AO and other stakeholders, responses of AO on other stakeholders' comments, Authority's analysis and final decisions are set out.

iv. Chapter 6 includes the submissions of AO regarding Capital Expenditure (CAPEX), Depreciation and RAB for the Second Control Period along with the Authority's detailed examination, adjustments, rationalisation and proposals on the Aeronautical capital expenditure and RAB for the Second Control Period as set out in Consultation Paper No. 17/2023-24 dated November 16, 2023. Thereafter, comments of AO and other stakeholders, responses of AO on other stakeholders' comments, Authority's analysis and final decisions are set out.

v. Chapter 7-13 includes the submissions of AO regarding various building blocks pertaining to the Second Control Period including Fair Rate of Return, Inflation, Operation and Maintenance Expenses, Non-aeronautical Revenue, Taxation, Quality of Service and Return on Land along with Authority's examination and proposals on each matter as set out in Consultation Paper No. 17/2023-24 dated November 16, 2023. Thereafter, comments of AO and other stakeholders, responses of AO on other stakeholders' comments, Authority's analysis and final decisions are set out.

vi. Chapter 14 presents the Aggregate Revenue Requirement as determined by the Authority based on the various proposals of the Authority and adjustments considered by the Authority for the

Second Control Period at the Consultation stage. Thereafter, the Authority's analysis and final decisions are set out.

vii. Chapter 15 presents the comments of AO and other stakeholders, responses of AO on other stakeholders' comments, the Authority's analysis and the Aeronautical Revenue decided by the Authority for Kannur International Airport for the Second Control Period.

viii. Chapter 16 summarizes the Authority's decisions on all the matters relating to the tariff computations and Chapter 17 is the Final Tariff Order issued by the Authority for the Second Control Period of Kannur International Airport

ix. Chapter 18 contains Annexures.

- Annexure 1 – Tariff Rate Card pertaining to Kannur International Airport Limited, for the Second Control Period as approved by the Authority, effective from April 01, 2024 to March 31, 2028
- Annexure 2 – Summary of study on allocation of assets between Aeronautical and Non-aeronautical assets
- Annexure 3 – Summary of study on efficient Operation and Maintenance expenses

x. Chapter 19 contains the list of Appendices.

- Appendix I – Independent Study on Allocation of assets between Aeronautical and Non-Aeronautical Assets
- Appendix II – Independent Study on efficient Operation and Maintenance Expenses

2.5 Studies commissioned by the Authority

2.5.1 The Authority commissioned the following studies through its Independent Consultant for the purpose of tariff determination of KIA, which are as follows:

a) **Study on allocation of Assets between Aeronautical and Non-Aeronautical Assets:** The Study has carried out a detailed analysis of the Regulatory Asset Base (RAB) of KIA. The study has developed a rationale for classification of assets into Aeronautical, Non-aeronautical, Air Navigation Services (ANS) and Common. Further, the Common assets have been apportioned to Aeronautical services, based on appropriate ratios. Based on the examination of the assets, the RAB has been determined as on March 31, 2023.

b) **Study on efficient Operation and Maintenance Expenses**: The Study examined the trends in the O&M expenses of KIA and assessed how the Airport has been performing in comparison to the select peers in the industry. The Study verified the classification of the various expenses between Aeronautical, Non-aeronautical, ANS and Common and made revisions wherever necessary. The Common expenses were further apportioned based on appropriate ratios. Further, the Study ascertained the expenses that were unreasonably high and rationalized them based on suitable benchmarks.

2.5.2 The recommendations of these studies have been used in this Tariff Order. The summary of the study on Allocation of Assets is given in Annexure 2 of this Tariff Order and the study is attached as Appendix 1 of this Tariff Order and that of Efficient O&M expenses is given in Annexure 3 of this Tariff Order and the study is attached as Appendix 2 of this Tariff Order.

3 FRAMEWORK FOR TARIFF DETERMINATION OF KIA FOR THE SECOND CONTROL PERIOD

3.1 Methodology

3.1.1 The Methodology adopted by the Authority to determine Aggregate Revenue Requirement (ARR) is based on AERA Act, 2008 read with AERA (Amendment) Act 2019 and 2021, the AERA (Terms and Conditions for determination of Tariff for Airport Operators) Guidelines, 2011 and further Guidelines issued by AERA from time to time.

3.1.2 As per the Guidelines, the Authority had adopted the Hybrid-Till mechanism for tariff determination for the First Control Period wherein, 30% of the Non-aeronautical revenues is to be used for cross-subsidizing the Aeronautical charges. The Authority has considered the same methodology in the true up of the First Control Period and for tariff determination in the Second Control Period

3.1.3 The ARR under hybrid till for the Control Period (ARR) shall be expressed as under:

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

Where,

- T is the tariff year in the control period, ranging from 1 to 5
- ARR_t is the Aggregate Revenue Requirement for tariff year 't'
- FRoR is the Fair Rate of Return for the Control Period
- RAB_t is the Aeronautical Regulatory Asset Base for tariff year 't'
- D_t is the Depreciation corresponding to the Regulatory Asset Base for tariff year 't'
- O_t is the Aeronautical Operation and Maintenance expenditure for the tariff year 't'
- T_t is the Aeronautical taxation expense for the tariff year 't'
- *s* is the cross-subsidy factor for revenue from services other than Aeronautical services. Under the Hybrid Till methodology followed by the Authority, $s = 30\%$.
- NAR_t is the Non-aeronautical revenue in tariff year 't'.

3.1.4 Based on ARR, Yield per passenger (Y) is calculated as per the formula given below:

$$Yield\ per\ passenger(Y) = \frac{\sum_{t=1}^{5} PV(ARR_t)}{\sum_{t=1}^{5} VE_t}$$

- Where, PV (ARR_t) is the Present Value of ARR for all the tariff years. All cash flows are assumed to occur at the end of the year. The Authority has considered discounting cash flows, one year from the start of the Control Period.
- VE_t is the passenger traffic in year 't'.

3.1.5 All the figures presented in this Tariff Order have been rounded off up to two decimals.

3.2 Control Period

3.2.1 In terms of Direction No. 5 issued on 28 February 2011, Control Period means "a period of five Tariff Years during which the Multi Year Tariff Order and Tariff(s) as determined by the Authority pursuant to such order shall subsist". The First Control Period for Kannur International Airport Limited commenced from April 1, 2018 and the Second Control Period has commenced from April 1, 2023

3.3 Revenues from Air Navigation Services (ANS)

3.3.1 Tariff for ANS is presently regulated by the Ministry of Civil Aviation. All the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining tariff for ANS services. Further, the tariff for ANS services is determined at the Central level by the Ministry of Civil Aviation to ensure uniformity across the Airports in the Country. Hence, AERA determines tariff for Aeronautical services of the Airport Operator, by excluding the assets, expenses and revenues from ANS.

3.3.2 The Airport Operator shall be performing Aeronautical services like landing, parking, ground handling, cargo services at Kannur Airport and has submitted revenue projections for the same for the Second Control Period in its MYTP. However, AAI shall be handling the Air Navigation Systems (ANS) at Kannur Airport and hence the MYTP submitted by Airport Operator does not consider revenues, expenditure, and assets on account of ANS.

3.4 Stakeholders' comments on the Framework for determination of tariff for the Second Control Period

3.4.1 During the stakeholders' consultation process, the Authority had received comments/views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 17/ 2023-24 with respect to framework for determination of tariff for KIA for the Second Control Period. The comments by stakeholders are presented below:

Other Stakeholders' comments on the Framework for determination of tariff for Kannur International Airport

3.4.2 FIA has commented the following:

- ***"Methodology for Tariff Determination – Hybrid till Vs. Single Till***

  It is observed that AERA have determined tariffs using the 30% Hybrid Till model including true ups, as applicable. FIA has advocated the application of Single Till model across the airports in India and submits that AERA should adopt Single Till across all control periods, including by way of true up.

  In a Shared/Hybrid till model, the airport operator has the incentive to skew the asset base towards aero-assets, thereby having a higher capital base for calculation of return offered by the regulator.

- ***"Revenues from Air Navigation Services (ANS)***

  It is submitted that as per section 2 of Airport Economic Regulatory Authority of India Act, 2008 (AERA Act), under sub-section (a), "aeronautical services means any services provided- (i)For navigation, surveillance and supportive communication thereto for air traffic management." It is submitted that considering the above provisions of the AERA Act, revenue from Air Navigation Services should form part of aeronautical revenues and accordingly AERA should take into account the corresponding revenue and revise the tariff card.

- ***Related Party Transactions (RPT)***

  It is noted that there is no mention of Related Party Transactions in the Consultation Paper.

FIA submits that in our view AERA should conduct the RPT Compliance check. In this regard, we request AERA to kindly ensure that:

- *the provisions of Concession Agreement ('CA') have been complied with;*
- *tendering and awards for services must go through a competitive, transparent and fair process;*
- *agreement with related parties shall not have any onerous terms, aggressive cost escalation, restrictive covenants, unfair lock in period or cost escalations or any other terms that may arise from awards to Related Parties, which is not in favour of airport users/other stakeholders.*

It is not in the interest of the stakeholders that related parties be awarded agreements for services (or otherwise) as there is fear of multi-layered transactions between / among airport operators or their Joint Ventures or their Holding / Subsidiary / Sister Subsidiary companies (or business associates by whatever name called), which is not efficient for the ecosystem, and should be banned. "

AO's responses to other stakeholders' comments on Background, Framework for determination of tariff for Kannur International Airport

3.4.3 AO has responded to FIA's comments regarding Methodology for Tariff Determination – Hybrid till Vs. Single Till as under:

"KIAL would like to highlight that the methodology for tariff determination is as per AERA approved guidelines on shared till mechanism in its Order no. 14/ 2016-17 dated 23 Jan 2017 based on the National Civil Aviation Policy, 2016".

3.4.4 AO has responded to FIA's comments regarding the revenue from ANS as under:

- *The revenue from Air navigation services has been considered under aeronautical revenues in line with the relevant guidelines from the Authority. The same can be seen from table No. 32 of consultation paper No. 17/2023-24*

  KIAL would like to highlight that the services are basis the agreement for provision of CNS/ATM facilities at greenfield airports. signed between AAI and KIAL on 17th November 2014. As per Clause 7.4 the provisions of CNS ATM services are on cost recovery basis. Revenue from Air Navigation Services include both RNFC and TNLC charges collected by AAI from airlines. As per the agreement with AAI, only TNCL charges are passed on by AAI to KIAL but not RNFC. For providing RNFC services. AAI is claiming both OPEX and CAPEX cost from Kannur Airport. Hence, KIAL has requested the Authority to consider both OPEX cost as revenue expenditure of KIAL and CAPEX costs claimed by AAI under RAB of KIAL.

  Hence the said revenue from TNLC in point 1 above, is adjusted against the relevant cost incurred by AAI in that period under consideration as detailed out in Clause 7.4 of the agreement.

  KIAL humbly requests the authority to consider cost of ANS services as aeronautical expenses while taking into account TNLC revenue under aeronautical services.

3.4.5 AO has responded to FIA's comments regarding the Related Party Transactions (RPT) as under:

- *In so far as concession agreement is concerned it may please be noted that Kannur Airport had been set up as per Government Orders issued by Government of Kerala (GoK) and the terms of reference are governed by various Government Orders issued by GoK from time to time, which are being complied with. Tendering and awards for services are carried out through a competitive, transparent and fair process.*

  KIAL has complied with the disclosure of related party transactions as per the Ind AS 24. Details of the same is included in Note 30 of FY 2022-23 ABS 2023 which was already submitted to the

Authority."

3.5 Authority's analysis on Stakeholders' comments regarding the Framework for determination of tariff for Kannur International Airport

3.5.1 The Authority has noted the comments of FIA regarding the regulatory Till approach applicable for the Airport. Determination of future tariff under Hybrid Till mechanism is as per the recommendation of the National Civil Aviation Policy 2016 of GoI and the Tariff guidelines issued vide AERA Order No. 14/2016-17 dated January 12, 2017. The Authority provided detailed reasoning and adequately responded to the stakeholders' comments on the adoption of Hybrid Till while issuing its Order No. 14/ 2016-17 dated January 12, 2017. The extract of the Order is provided as under:

"The Authority will in future determine the tariff of Major Airports under "Hybrid Till" wherein 30% of nonaeronautical revenues will be used to cross-subsidize aeronautical charges. Accordingly, to that extent the Airport operator guidelines of the Authority shall be amended. The provisions of the Guidelines issued by the Authority, other than regulatory Till, shall remain the same."

Therefore, Hybrid Till methodology has been followed to determine the aeronautical tariff uniformly across all Major Airports.

3.5.2 The Authority has noted the comments of FIA regarding the revenue from ANS and the response of AO thereon. The Authority, based on the recommendations of the Independent Study on *Allocation of Assets between Aeronautical and Non-aeronautical assets for KIA*, is of the view that the tariff for ANS is presently regulated by the Ministry of Civil Aviation for all the airports.

All the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining tariff for ANS services. Further, the tariff for ANS services is determined by the Ministry of Civil Aviation to ensure uniformity across the Airports in the Country. Hence, AERA determines tariff for Aeronautical services of the Airport Operator, by excluding the assets, expenses and revenues from ANS.

Therefore, the services availed towards CNS/ ATM facilities are beyond the Regulatory regime of AERA. In view of the above, the Authority has also excluded revenue from TNLC collection amounting to ₹ 12.61 Cr., which was submitted by the AO as part of the Aeronautical revenue achieved in the First Control Period, while determining true up for the First Control Period.

3.5.3 The Authority notes the comments submitted by FIA on Related Party Transactions and the AO's response thereon.

i. The Authority takes cognizance of the fact that Kannur Airport had been set up as per the Orders issued by the Government of Kerala (GoK) and the shareholding of GoK is around 39% (which is the major shareholding).

ii. Also, the Authority has examined the disclosures on the Related Party Transactions submitted by the AO, as part of its financial statements and notes that the transactions pertain to :

- Disclosure of salaries of Key Managerial Personnel as per the Companies Act.
- Expenditure incurred by the AO, on behalf of Government of Kerala (which is reimbursable by GoK) for certain construction work performed outside the Airport premises
- **License fee received from BKFFPL (Holding Company of BKFFPL i.e., BPCL is a Related Party having shareholding of 16.2% in KIAL) for leasing of land for construction of fuel farm and providing Into Plane (ITP) Services.**

The Authority notes that the above transactions are outside the Regulatory regime of AERA.

4 TRUE UP OF KIA FOR THE FIRST CONTROL PERIOD

4.1 Background

4.1.1 Pursuant to the AERA Act, 2008 read with AERA (Amendment) Act 2019 and 2021 and AERA Guidelines for the purpose of determination of Aeronautical tariff for Major Airports, Kannur International Airport Limited ('Airport Operator' / 'KIAL') had submitted True up workings for the First Control Period (from April 1, 2018 to March 31, 2023) as part of its initial Multi Year Tariff Proposal (MYTP) dated October 27, 2022 and the revised MYTP dated March 27, 2023.

4.1.2 The true up workings submitted by AO covered the following building blocks:

i. Traffic

ii. Regulatory Asset Base

iii. Aeronautical Depreciation

iv. Fair Rate of Return

v. Return on Land

vi. Aeronautical Operation and Maintenance Expenses

vii. Non-aeronautical Revenue

viii. Aeronautical Taxes

ix. Aggregate Revenue Requirement

4.1.3 The Authority had examined AO's true up submission in detail and the Authority's analysis had been organized as follows:

i. Recorded AO's submission regarding different regulatory building blocks for true up of the First Control Period.

ii. Recapped the decisions taken by the Authority in the Tariff Order for the First Control Period (Order No. 26/2018-19 dated November 9, 2018)

iii. Provided the Authority's examination and proposals regarding the true up calculation of each regulatory building block for the First Control Period.

4.2 AO's submission on True up for the First Control Period

4.2.1 The Authority noted that AO had initially submitted details of asset additions based on the Fixed Assets Registers (FARs) for the first 4 tariff years, i.e., FY 2018-19 to FY 2021-22 and Projections for FY 2022-23 which contained certain inconsistencies and duplications. AERA had then organised a virtual joint-meeting on April 3, 2023 with the representatives of AO and the Authority's Independent Consultant, wherein AO had agreed to provide the revised FARs after addressing the inconsistencies in the FAR and in the required format. Subsequently, AO had provided the revised FARs in the desired format on May 11, 2023, which had been considered by the Authority for further analysis. Also, minor variances were noted between assets appearing in the revised FARs submitted by AO and that shown in the revised MYTP submitted by AO. The RAB as per FAR submitted by the AO amounted to ₹1,777.86 Crores (as mentioned in Table 14). Upon further clarification, the AO had confirmed vide email dated May 19, 2023, to consider the figures appearing as per revised FARs (submitted by AO in the new format on May 11, 2023) for further analysis. Accordingly, the assets shown in the revised FARs was considered for determining the adjusted RAB as on March 31, 2023.

As mentioned in the above explanation, the Authority had considered the figures as per revised FAR for calculation of RAB.

4.2.2 As mentioned in para 4.1.1, the AO had submitted a revised True Up of the First Control Period on March 27, 2023, which contained audited figures for the period up to FY 2021-22. Further, for the last tariff year, i.e., FY 2022-23, unaudited figures were submitted by the AO in June, 2023 (refer Table 3). The details of the same were as follows:

Table 5: Submission on True up of First Control Period by AO for the period from FY 2018-19 to FY 2022-23

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Opening RAB	0.52	1,990.84	1,936.29	1,859.07	1,769.69	
Closing RAB	1,990.86	1,936.29	1,859.07	1,769.69	1,729.87	
Average Regulatory Asset Base (RAB)	**1,990.86**	**1,963.58**	**1,897.68**	**1,814.38**	**1,749.78**	
Fair Rate of Return (FRoR)	13.10%	13.10%	13.10%	13.10%	13.10%	
Return on Average RAB	80.00	257.14	248.51	237.60	229.14	**1,052.38**
Depreciation	20.05	91.94	91.91	92.44	92.16	**388.51**
Operating Expenditure	51.64	61.78	58.59	60.04	68.50	**300.55**
Return on Land	4.85	15.80	15.82	15.89	15.93	**68.29**
Corporate Tax	0.00	0.00	0.00	0.00	0.00	**0.00**
Add: Carry forward of Shortfall from First CP	-	-	-	-	-	-
Less: Deductions for Non-aeronautical Revenues	(2.90)	(8.06)	(4.03)	(7.48)	(6.75)	**(29.22)**
Total Gross ARR	**153.64**	**418.60**	**410.80**	**398.49**	**398.98**	**1,780.51**
Revenue earned from Aeronautical Services	9.39	90.87	36.86	59.01	86.37	**282.51**
(Excess) / Shortfall	144.25	327.73	373.94	339.48	312.60	**1,498.00**
PV Factor	**1.70**	**1.64**	**1.45**	**1.28**	**1.13**	
PV of (Excess) / Shortfall	**245.07**	**536.15**	**540.93**	**434.21**	**353.54**	**2,109.91**

4.3 Authority's examination of True up submitted by AO for the First Control Period (FY 2018-19 to FY 2022-23) at Consultation Stage

4.3.1 The Authority had taken cognizance of the decisions taken at the time of determination of tariff for the First Control Period and then proceeded to examine the same as part of the tariff determination for the current Control Period.

4.3.2 The decisions taken at the time of determination of tariff for Aeronautical services for the First Control Period vide Order No. 26/2018-19 dated November 9, 2018 had been reproduced below:

- ***Decision No.1 – Regarding RAB***

1a. The Authority has decided to remove land cost from RAB and consider it subsequently based on decisions taken on CP no. 17/ 2018-19 dated 01.10.2018

1b. The Authority has decided to exclude cost of ₹ 490 Crores pertaining to cost towards runway extension proposed to be incurred in FY 2020-21 as incurrence of such cost is not certain yet.

1c. The Authority has tentatively accepted the allocation of assets in to aeronautical and non-aeronautical assets in the ratio of 95:5. A detailed study will be conducted to determine the actual usage before true up in the Second Control Period.

1d. The Authority has decided to consider RAB during the First Control Period for the calculation of ARR.

1e. The Authority has decided to true up Average RAB and depreciation based on the actual date of capitalization and actual cost incurred during the First Control period.

- ***Decision No. 2 – Regarding FRoR***

2a. The Authority has decided to consider the Cost of Equity at 16% p.a. and FRoR at 13.06% p.a. for the First Control Period.

2b. FRoR will be trued up based on Actual debt- equity ratio, actual cost of debt and cost of equity which will be decided upon after completion of the proposed study on cost of equity at Major airports.

- ***Decision No.3 – Regarding Operation and Maintenance Expenditure***

3a. The Authority has decided to exclude expenses relating to the staff of CISF.

3b. The Authority has decided to accept allocation of aeronautical and non-aeronautical expenses in the ratio of 95:05. Further, the Authority shall true-up allocation ratio based on study being commissioned on the subject.

3d. The Authority also decides to true up the Operating expenses based on the actual expenditure during the First Control Period.

- ***Decision No.4 – Regarding Non Aeronautical Revenues***

4a. The Authority has decided to consider lease rental revenue from aircraft maintenance center, logistics and redistribution center and fuel farm as revenue from aeronautical services, and consequently exclude it from revenue from Non-aeronautical services.

4c. The Authority has decided to true-up the Non-Aeronautical Revenue based on the Actual Non Aeronautical Revenue earned during the First Control Period.

- ***Decision No.5 – Regarding Taxation***

5b. The true up amount shall be based on the actual tax paid during the First Control Period.

- ***Decision No.6 – ARR & the resultant shortfall/ excess calculations***

6a. Determination of aeronautical tariffs for the First Control Period is based on ARR and the resultant shortfall shall be considered in next Control Period.

6.b. True up of all the building blocks shall be considered in the next Control Period.

- ***Decision No.7 – Traffic Forecast***

7b. The Authority decides to true up the traffic (ATM and Passenger) based on actual traffic in the First Control Period while determining the tariff for next Control Period.

- ***Decision No.8 Regarding Annual Tariff Proposal***

8.a. The Authority has decided to merge PSF (F) with UDF.

8.b. The Authority has decided to consider date of commencement of operation as the date of implementation of the decided tariff rates.

8.c. The Authority has decided to issue a separate order for RCS Flights after receipt of proposal from AO and in consultation with Stakeholders

- ***Decision No.9 Aeronautical Revenues***

9.a. The Authority has decided to consider revenue from lease of land for Aircraft Maintenance Centre, Logistics and Redistribution Centre and Fuel Farm as revenue from aeronautical services.

9.c. The Authority decides to true up the Aeronautical Revenue based on actual revenue during the First Control Period

4.4 True up of Traffic

4.4.1 The actual passenger traffic and ATM for the First Control Period submitted by AO is as follows:

Table 6: AO's submission for True up of traffic for the First Control Period

Financial Year	Domestic Passengers (in Million)	International Passengers (in Million)	Total Passenger traffic (in Million)	Domestic ATM (in numbers)	International ATM (in numbers)	Total ATM (in numbers)
2018-19#	0.14	0.09	0.22	1,467	578	2,045
2019-20	0.78	0.81	1.58	9,742	5,389	15,131
2020-21	0.18	0.30	0.48	3,985	2,321	6,306
2021-22	0.28	0.52	0.80	5,674	4,136	9,810
2022-23*	0.60	0.75	1.35	6,533	5,933	12,466

Operations started only in December 9, 2018

* Forecasted

4.4.2 The Authority verified the actual Passenger traffic and ATM (as per Table 6) for the First Control Period with AAI's website and noted no variance till FY 2021-22. However, the Authority observed a variance between projected traffic submitted by AO for FY 2022-23 and the actual traffic achieved in respect of the same. The Authority had considered the actual traffic achieved by KIA in FY 2022-23 for true up of traffic for the First Control Period.

4.4.3 The Authority examined the actual passenger traffic and ATM of KIA with the traffic projections approved by the Authority in the Tariff Order of the First Control Period, which is as follows:

Table 7: Passenger traffic and ATM approved by the Authority in the Tariff Order of the First Control Period for KIA

Financial Year	Domestic Passengers (in Million)	International Passengers (in Million)	Total Passenger traffic (in Million)	Domestic ATM (in numbers)	International ATM (in numbers)	Total ATM (in numbers)
2018-19	0.14	1.47	1.61	2,015	13,372	15,387
2019-20	0.16	1.65	1.81	2,246	14,746	16,992
2020-21	0.18	1.85	2.03	2,481	16,139	18,620
2021-22	0.20	2.06	2.26	2,737	17,637	20,374
2022-23	0.22	2.29	2.51	3,014	19,251	22,265

4.4.4 The Authority noted from the above Table 6 and Table 7 that the actual Passenger traffic and ATM for the first tariff year i.e., FY 2018-19 was much lesser than the approved traffic projections since

Kannur Airport commenced operations only in December 2018 whereas the approved traffic projections were based on assumption of six months of operations. Further, it is observed that the actual PAX and ATM traffic of next tariff year, (i.e., FY 2019-20 during which, KIA started functioning in a full-fledged manner) was mostly in line with the projections, although there were minor deviations.

4.4.5 However, the Authority noted that the actual Passenger traffic and ATM in the next two tariff years, i.e., FY 2020-21 and FY 2021-22 were significantly lower than the projections approved in the Tariff order for the First Control Period, due to the adverse impact of the COVID-19 pandemic.

4.4.6 Further, it was observed that the AO had projected a positive growth in the FY 2022-23 (i.e., total traffic of 1.35 MPPA and 12,466 ATM) over the previous year's actuals due to resumption of full-fledged and normal operations at the Airport. As against this, the Authority noted that KIA had actually achieved PAX traffic of 1.26 MPPA (Domestic 0.41 MPPA + International 0.85 MPPA) and ATM traffic of 12,024 (International 6,233 + Domestic 5,791) for the FY 2022-23 (data as per AAI's website).

4.4.7 The Authority noted that the AO had submitted the following explanation with respect to True up of traffic for the First Control Period:

"KIAL started its operations in December 2018. Hence there were only four full months of operations in FY 2019. In the first full year of operation i.e., FY 2020, the airport had good domestic as well as international traffic. The airport registered higher domestic traffic than it was projected in FY 2020. This indicates a stronger domestic demand potential than what was expected from the catchment. On the other hand, the international traffic was lesser than what was projected in FY2020. However, the overall traffic was seen to be close to the projected figures of FY 2020.

In addition to the above, Kannur airport does not have Point of Call (PoC) status which would enable it to handle international airline operators. Given the dominant international passenger traffic demand in Airport's catchment, not having the PoC status has been a major factor that prevented the airport to achieve its full potential."

4.4.8 Based on all the above factors, the Authority proposed to consider the actual Passenger traffic and ATM as submitted by AO for the first 4 tariff years i.e., FY 2018-19 to FY 2021-22 and the actual traffic achieved by KIA in the last tariff year, i.e., FY 2022-23 (as mentioned in para 4.4.6) for the purposes of true up of the First Control Period. The details of actual traffic considered by the Authority for true up are as follows:

Table 8: True up of traffic proposed by the Authority for the First Control Period at Consultation Stage

Year	Domestic Passengers (in Million)	International Passengers (in Million)	Total Passenger traffic (in Million)	Domestic ATM (in numbers)	International ATM (in numbers)	Total ATM (in numbers)
2018-19#	0.14	0.09	0.22	1,467	578	2,045
2019-20	0.78	0.81	1.58	9,742	5,389	15,131
2020-21	0.18	0.30	0.48	3,985	2,321	6,306
2021-22	0.28	0.52	0.80	5,674	4,136	9,810
2022-23*	0.41	0.85	1.26	5,791	6,233	12,024

Operations started only in December 2018

* Actual traffic achieved by KIA

4.4.9 The above proposal was also in line with the Authority's decision no. 7b of the Tariff Order No. 26/2018-19 dated November 9, 2018, which states "*The Authority decides to true up the traffic (ATM and passengers) based on actual traffic in first control period while determining tariff for the next control period.*"

Stakeholders' comments on True up of traffic for the First Control Period

4.4.10 No comments were received from the Stakeholders on true up of traffic for the First Control Period.

Authority's analysis on stakeholders' comments on True up of traffic for the First Control Period

4.4.11 The Authority notes that no comments were received from the Stakeholders regarding True up of traffic for the First Control Period. Hence, the Authority has decided to consider the traffic based on actuals for true up of the First Control Period, consistent with the proposal made in the Consultation Paper No. 17/2023-24. The traffic considered by the Authority for true up of the First Control Period has been shown in Table 8.

4.5 True up of RAB

4.5.1 The AO had submitted RAB for the First Control Period as follows:

Table 9: RAB submitted by AO as part of true up of the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23 *	Total
Opening RAB (1)#	0.52	1,990.84	1,936.29	1,859.07	1,769.69	
Additions (2)	2,010.40^	37.40	14.69	3.06	52.34	**2,117.89**
Deletions (3)	-	-	-	-	-	-
Depreciation (4)	20.05	91.94	91.91	92.44	92.16	**388.51**
Closing RAB= (1)+(2)-(3)-(4)	**1,990.86****	**1,936.29**	**1,859.07**	**1,769.69**	**1,729.87**	

 # The Opening RAB for FY 2018-19 had been obtained from the audited financials of the FY ending March 31, 2018.
^ includes financing allowance of ₹ 363.56 Crores, which was included only for the FY 2018-19.
** FY 2022-23 figures represents unaudited figures submitted by AO*
*** Inaccuracies were noted in the Closing RAB submitted by the AO for FY 2018-19.*

4.5.2 The Authority noted that the RAB submitted by AO as at March 31, 2022 was based on audited figures (i.e., from FY 2018-19 to FY 2021-22) and the RAB as at March 31, 2023 was based on Unaudited figures for the last tariff year, i.e., FY 2022-23.

4.5.3 The Authority compared the year-wise additions to RAB by AO with the Aeronautical Capital Expenditure (CAPEX) approved by it in the Tariff Order for the First Control period and the same is summarized in the following table:

Table 10: Comparison of year-wise additions to RAB by AO with Aeronautical CAPEX approved by the Authority in the Tariff Order of the First Control Period

(₹ in Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23*	Total
Additions to RAB as per Tariff Order of the First Control Period *(refer Table 11 of the*	1,791.96	-	-	-	-	**1,791.96**

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23*	Total
Tariff Order No. 26/2018-19 dated November 9, 2018) (A)						
Actual additions to RAB (refer Table 9) (B)	2,010.40	37.40	14.69	3.06	52.34	**2,117.89**
Variance (A-B)	(218.44)	(37.40)	(14.69)	(3.06)	(52.34)	**(325.93)**

** Unaudited figures for FY 2022-23*

4.5.4 The Authority reviewed the actual capital additions to RAB during the First Control Period, which is explained as follows:

Table 11: Capital additions submitted by AO for the First Control Period

(₹ in Crores)

S. No	Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23*	Total
1	Free Hold Land	330.95	2.24	0.08	-	-	**333.28**
2	Lease Hold Land	51.17	0.35	-	-	-	**51.52**
3	Pavements	265.55	20.64	-	-	-	**286.19**
4	Buildings, Roads, Bridges, drains & Culverts	655.25	7.64	8.10	1.86	32.20	**705.05**
5	Fire Department Equipment	31.90	(0.04)	0.41	-	-	**32.28**
6	Plant & Equipment	22.42	0.03	0.71	0.01	20.14	**43.30**
7	Furniture & fittings	8.79	0.42	0.17	0.18	-	**9.56**
8	Vehicles	-	-	-	0.28	-	**0.28**
9	Computers & Accessories	0.33	0.00	0.02	0.18	-	**0.53**
10	Office Equipment	0.43	-	0.01	-	-	**0.43**
11	Electrical Equipment	279.90	6.05	5.10	0.39	-	**291.43**
12	Intangible asset	0.16	0.06	0.09	0.16	-	**0.47**
13	Financing Allowance	363.56	-	-	-	-	**363.56**
	TOTAL	**2,010.40**	**37.40**	**14.69**	**3.06**	**52.34**	**2,117.89**

** Unaudited figures given by AO for FY 2022-23*

4.5.5 The comparison of CAPEX approved by the Authority in the tariff order of the First Control Period with the CAPEX claimed by AO as part of the true up submission, is shown in the table below:

Table 12: Comparison of Aeronautical CAPEX approved by the Authority in the Tariff Order as against CAPEX claimed in the True up of the First Control Period

(₹ in Crores)

Particulars	CAPEX approved by the Authority (A)	CAPEX claimed by AO (B)	Variance (C = A – B)
Buildings & Civil works, Runways, bridges, roads and culverts	1312.94	968.60	344.34

Particulars	CAPEX approved by the Authority (A)	CAPEX claimed by AO (B)	Variance (C = A – B)
Plant & Machinery	479.02	346.87	132.15
Other assets such as Furniture & fixtures, vehicles, Office Equipment, Computer & accessories and Intangibles.	-	1.71	(1.71)
Freehold Land	-	333.28	(333.28)
Leasehold land	-	51.52	(51.52)
Plant & Machinery (one-time reimbursement of cost of ANS equipment to AAI)	-	20.14	(20.14)
Buildings & Civil works, Runways, bridges, roads and culverts (Construction of Integrated Cargo complex and office building)	-	32.20	(32.20)
Financing Allowance	-	363.56	(363.56)
Total	**1,791.96**	**2,117.90**	**(325.94)**

The Authority noted that the total approved CAPEX of ₹ 1,791.96 Crores, comprised of the following:

(i) An amount of ₹ 1,312.94 Crores was approved towards Buildings & Civil works, Runways, roads and culverts, against which the Airport Operator had claimed actual CAPEX of ₹ 968.60 Crores (which includes Terminal Building Area of 96,143 Sqm), Roads, Bridges, Drains and Culverts for ₹ 672.85 Crores, Pavements for ₹ 286.19 Crores and Furniture & fixtures for ₹ 9.56 Crores);

(ii) An amount of ₹ 479.02 Crores was approved towards Plant & Machinery, against which the Airport Operator had submitted actual CAPEX of ₹ 346.87 Crores (which included Electrical equipment worth ₹ 291.43 Crores, Fire departments equipment for ₹ 32.28 crores and other Plant & Machinery items for ₹ 23.16 Crores).

(iii) Apart from the above, was observed that AO had claimed unapproved CAPEX amounting to ₹ 802.27 Crores as part of RAB and the breakup of the same is as follows:

- An amount of ₹ 1.27 Crores towards miscellaneous assets such as Furniture & fixtures, Vehicles, Office equipment, Computers & accessories and Intangibles (in the nature of Computer Software, Logo, etc.)
- An amount of ₹ 333.28 Crores towards Freehold land development cost
- An amount of ₹ 51.52 Crores towards Leasehold land development cost
- Reimbursement of cost of procurement and installation of ANS equipment worth ₹ 20.14 Crores to AAI.
- Construction of Integrated Cargo complex and office building worth ₹ 32.30 Crores and
- Financing allowance of ₹ 363.56 Crores for the FY 2018-19

4.5.6 The Authority had examined the unapproved CAPEX (as per para 4.5.5 (iii)) in detail and had provided its views as follows:

(i) **Miscellaneous assets -** The Authority examined the miscellaneous assets amounting to ₹ 1.27 Crores relating to Furniture & fixtures, Vehicles, Office equipment, Computers & accessories (in the nature of Computer Software, Logo, etc.) based on their need, location and usage and further proposes to consider the same as part of RAB additions during the First Control Period.

(ii) **Freehold Land Development Cost** – The Authority noted that the AO had claimed Land development costs of ₹ 333.28 Crores towards cutting, filling, blasting etc, on the Freehold land, towards development of various aeronautical assets. The Authority noted that AO had not added such cost to the respective asset in the RAB and instead included the land development cost as a separate asset in the RAB and further claimed depreciation on the same.

With reference to the above-mentioned Land Development cost, the Authority had taken inference from the relevant provisions of the Order No. 42/2018-19 dated March 5, 2019 of AERA, and noted that the cost had been incurred towards Land Development by AO, prior to the date of issuance of the above-mentioned Order No. 42/ 2018-19 (i.e., before March 5, 2019). Therefore, the Authority proposed not to consider the above-mentioned Land Development costs amounting to ₹ 333.28 Crores, as part of RAB or as part of Land cost (for which Return was provided as per Order No. 42/ 2018-19) for true up of the First Control Period of KIA.

(iii) **Leasehold land development cost** - The Authority noted that the AO had included the development cost of ₹ 51.52 Crores incurred on Leasehold land and claimed amortization over the useful life of 60 years. Upon further enquiry, the AO had shared a map showing the land acquisition layout of the airport and explained that apart from the 1,192 acres of land acquired from the Government of Kerala through KINFRA, the AO had also taken on lease approx. 71 acres of land from the Kerala State Government. The Authority noted that, the AO had carried out development on such land (near the runway) and the corresponding cost of the same was ₹ 51.52 Crores, which had been included under RAB. Further, the Authority understood from the AO that the lease was for a period of 60 years, though the underlying agreement was yet to be finalized and signed between the parties. Based on the provisions of Amendment No. 01 to Order No. 35/2017-18 dated April 9, 2018, which prescribed that the development cost of Leasehold land to be amortized over the lease period, the Authority proposed to consider the leasehold land development cost of ₹ 51.52 Crores as part of asset additions (refer to para 4.1.10 (iii) of *Asset Allocation report)* of the First Control Period.

(iv) **ANS equipment** – The Authority noted that the AO had claimed CAPEX of ₹ 20.14 Crores in FY 2022-23 towards reimbursement of the cost of procurement and installation of ANS equipment incurred by AAI at the airport. Being a greenfield airport, the AO had entered into an agreement with AAI for providing CNS-ATM services at the Kannur airport. Further, it was noted that the AO had provided the following explanation for claiming the above CAPEX in the MYTP:

"KIAL has considered a sum of INR 20.14 Crore as per the details of the bill raised by the ANS service provider dated 20th January 2023. The amount pertains to the cost of procurement and installation of ANS equipment. However, these are under negotiations and KIAL has considered the amount for calculations as interim. As we get confirmation from CNS-ATM service provider for non-applicability of these charges, the same can be re-evaluated during the true-up for third control period."

The Authority hereby stated that tariff for ANS is regulated by the Ministry of Civil Aviation. All the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining tariff for ANS services. Further, the tariff for ANS services is determined by the Ministry of Civil Aviation to ensure uniformity across the Airports in the Country. Hence, AERA determines tariff for Aeronautical services of the Airport Operator, by excluding the assets, expenses and revenues from ANS.

Based on all the above factors, the Authority proposed not to consider the above-mentioned CAPEX of ₹ 20.14 Crores as part of RAB. (refer to para 4.1.10 (iv) of *Asset Allocation report*).

(v) **Integrated Cargo Terminal** – The Authority noted that the capital expenditure of ₹ 32.30 Crores claimed by the AO in FY 2022-23 represented the estimated cost of construction of the Integrated Cargo Terminal *net* of Government grant received from Trade and Infrastructure Scheme (TIES) for the construction of Cargo complex (i.e., Projected cost of ₹ 52.30 Crores *less* Grant of ₹ 20 Crores). The new Cargo terminal was expected to add 5,000 Sq.m. and an additional 12,000 MT of volume.

Further, the AO had explained the CAPEX towards Cargo terminal in the MYTP as follows:

"The total project cost for the cargo terminal is estimated to be INR 52.3 Crore. An amount of INR 22.3 Crore is under Capital Work in Progress (CWIP) for the same as on FY22. KIAL had received a grant of INR 20 Crore as part of Trade and Infrastructure Scheme (TIES) for the construction of cargo complex. Out of the total grant of INR 20 Crore, KIAL has received INR 10 Crore as on date. The remaining INR 10 Crore is assumed to be transferred to KIAL in FY23. The entire grant has been adjusted in the total capital expenditure incurred for cargo complex and the same has not been considered for the calculation of RAB. After adjusting for the grant, the remaining CWIP is expected to be capitalized in FY 23, i.e., INR 32.2 Crore."

The Authority examined the supporting document provided by the AO i.e., Minutes of the 10th meeting of Empowered Committee (EC) on 'Trade and Infrastructure Scheme' (TIES) for FY 2019-20 held under the Chairmanship of Commerce Secretary on November 1, 2019 at New Delhi and observes that the EC had approved the estimated cost of construction of Cargo complex at Kannur Airport and also the grant of ₹ 20 Crores towards the same.

Further, the Authority noted that the cargo Terminal project had been completed to the extent of 80% as on March 31, 2023 (as confirmed by AO vide email dated May 11, 2023). Considering the same, the Authority noted that the new Cargo terminal was likely to be commissioned only in the next year i.e., FY 2023-24 which was the 1st tariff year of the 2nd Control Period.

Further, the Authority noted that AO had already capitalised Cargo related assets such as buildings, roads, electrical and fire equipment, plant & machinery, etc, amounting to approx. ₹ 10 Crores in the FY 2020-21 towards construction of an Interim cargo facility measuring approx. 1,506 Sq.m. The AO had commenced Cargo operations out of the interim facility in October 2021 and was functioning from the same facility. With respect to continuation of the usage of the interim cargo building and equipment, the AO had explained vide email dated May 12, 2023, that the equipment and machinery would continue to be used in the new greenfield cargo facility whereas the building might be put to alternative use (such as warehouse) and the decision would be taken at a later date (refer to para 4.1.10 (v) of *Asset Allocation Study)*. Therefore, the Authority proposed not to consider the CAPEX towards construction of new Cargo Terminal during FY 2022-23 (i.e., last tariff year of First Control Period) and shift the capitalisation of the Cargo Terminal to the Second Control Period.

Financing Allowance

(vi) Financing allowance (FA) of ₹ 363.56 Crores – The Authority noted that KIA being greenfield airport had calculated FA on the value of Work-in Progress Assets (WIPA) as per the prescribed formula (refer para 5.2.7 of Direction No.5 / 2011-12 dated February 28, 2011) for the period under construction i.e., from FY 2012-13 up to FY 2018-19 and claimed the same in the first tariff year i.e., FY 2018-19. The Authority noted that as per the provisions of Direction No. 5/ 2011-12, Airport Operators were eligible for FA (which was basically a return on the value invested in the construction phase of an asset including Equity invested) before the asset is put to use.

IDC

(vii) Considering that KIA is a greenfield airport which commenced its commercial operations on December 9, 2018, wherein majority of the assets were not put to use and also taking cognizance of the fact that, the AO did not have any airport operations to support the investment in CAPEX during the period of construction, the Authority considered the AO's claim for FA to be justified and reasonable. It was pertinent to note here that the AO had also claimed IDC of ₹ 159.16 Crores, in addition to the FA.

In this background, the Authority had drawn inference from its previous Tariff Orders issued for

BIAL (refer para 9.2.22 and Table 26 of Order No. 18 / 2018-19 issued on August 31, 2018 for the Second Control Period and para 3.3.52 of Order No.11/2021-22 dated August 28, 2021 issued for the Third Control Period) wherein it was observed that AERA had allowed Financing Allowance calculated as per the prescribed Airport Guidelines 2011 (i.e., Direction No.5 / 2011-12). Further, it had been noted that KIAL had claimed only FA as an addition to RAB and not IDC i.e., borrowing cost. The FA had been added to the basic infra cost & charges (without including borrowing cost) and the resultant value of the asset had been considered for capitalization and further allocation / segregation.

Based on the above factors, the Authority proposed to consider the FA of ₹ 289.31 Crores (after excluding FA claimed on Land Development Cost of ₹ 72.99 crores) claimed by AO as part of RAB. However, the Authority proposed not to consider ₹ 159.16 Crores of IDC (i.e., borrowing cost) added to the cost of the asset, as Financing Allowance had been proposed to be considered for the assets capitalised by the Airport Operator (as explained in the above-mentioned paragraphs). Therefore, IDC had been excluded while computing the capitalised value of the assets of the Airport Operator for the First Control Period. (Refer to para 4.1.10 (vi) of *Asset Allocation report).*

Further, the Authority proposed to consider the recalculated capitalized value of assets for further allocation / segregation.

4.5.7 The Authority also noted that the Airport Operator had not carried out any work relating to runway extension as per the decision of the Authority (refer para 6.6 and Decision no. 1.b of the Tariff Order of the First Control Period).

4.5.8 Based on the above factors, the Authority proposed to consider the actual Aeronautical additions of KIA after excluding Freehold land development cost, reimbursement cost of ANS equipment and New Cargo terminal. Further, the Authority noted that there are minor variances between the Aeronautical CAPEX additions as per the revised MYTP submission and the revised FARs submitted by AO. The details of the same are shown below:

Table 13: Aeronautical CAPEX as per MYTP vis-a-vis FARs

(₹ in Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	Total
Aero Capex additions - as per MYTP (A)	2,010.40	37.40	14.69	3.06	**2,065.55**
Aero Capex additions - as per FARs (revised by AO) (B)	2,005.06	40.06	14.53	3.09	**2,062.74**
Variance (C = A – B)	**5.34**	**(2.66)**	**0.15**	**(0.02)**	**2.81**

As explained in para 4.2.1, the Authority proposed to consider the Aeronautical additions as per the revised FARs for further analysis on classification and deriving revised RAB as on March 31, 2023.

4.5.9 **Reclassification of assets**

The Authority had commissioned an independent study on allocation of assets between Aeronautical and Non-aeronautical activities for the period FY 2018-19 to FY 2022-23 and used the recommendations of the Study, while truing up the RAB of KIA as on March 31, 2023.

The Authority had considered the opening RAB submitted by AO, Capital additions and corresponding depreciation based on the results of the Asset Allocation report (Refer Annexure 1 for the Summary of the report and Appendix 1 for the detailed report on Study on allocation of assets between Aeronautical and Non-aeronautical assets for KIA).

The Asset Allocation Study reviewed the various asset categories and developed a basis for segregation of various assets into Aeronautical, Non-aeronautical and Common. Based on the same, the Authority had reclassified some portion of assets submitted by the AO for true up of First Control Period, which had been detailed hereunder:

4.5.9.1 Landside Drains & Culverts

Allocation as per AO: Aeronautical

Observation: The Drains & Culverts built on Land side had been classified as Aeronautical assets by AO. As these assets were not located on the airside, these assets are reclassified as Common assets and had been allocated using the Terminal Building ratio (92:8).

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduced the RAB to the extent of ₹ 0.86 Crores.

Reference: Para 4.4.1.1 of the *Asset Allocation report.*

4.5.9.2 Boundary Wall

Details of the Asset: Property Boundary Wall

Allocation as per AO: Aeronautical

Observation: It was noted that out of the total length of 24,459 m of Property wall, approximately 10,500 m (40%) was on the City side. Therefore, the Study had considered only 60% of the Property Boundary wall as Aeronautical and the remaining 40% was considered as Non-aeronautical.

Allocation proposed as per Authority: 60% Aeronautical

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduced RAB to the extent of ₹ 4.60 Crores

Reference: Para 4.4.1.2 of the *Asset Allocation report.*

4.5.9.3 Roads

(A) Details of the Asset: Car Approach Road and other roadwork.

Allocation as per AO: Aeronautical

Observation: AO had considered the Approach roads as Aeronautical. However, Approach roads namely East Entry Road, Car Approach Road, Pump House road and Secondary Approach Road were all serving mainly the Terminal Building and therefore, the same had been considered as "Common" and allocated in the ratio of Terminal Building (92:8).

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduced RAB to the extent of ₹0.64 Crores

Reference: Para 4.4.1.3 of the *Asset Allocation report.*

(B) Details of the Asset: Service Road (West Entry Road)

Allocation as per AO: Aeronautical

Observation: Service Road (West Entry Road) were part of the road network connecting to the Cargo Terminal, General Aviation, land earmarked for future expansion, Defence area etc. As these roads do not cater to any specific Aeronautical/ Non-aeronautical activities, the same had been classified as "Common" and allocated in the ratio of Terminal Building (92:8).

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduced RAB to the extent of ₹ 0.10 Crores.

Reference: Para 4.4.1.3 of the *Asset Allocation report.*

4.5.9.4 Electrical Installation EPC

(A) Details of the Asset: Earthing & wiring assets

Allocation as per AO: Aeronautical

Observation: Power supply infrastructure at the airport, provided power to air side, roads, terminal building and forecourts. The electrical equipment included DG sets, Lighting Pole, power distribution board, low tension switchboards, high tension cables and Fire Protection System, etc. AO had considered these assets as Aeronautical, irrespective of whether these assets service at the airside or the terminal building. Since, certain assets available at the Terminal building, forecourts, etc, are used for both Aeronautical and Non-Aeronautical activities, the same had been identified and reclassified as Common assets and reallocated using the Terminal Building ratio (92:8).

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduced RAB to the extent of ₹ 0.59 Crores.

Reference: Para 4.4.1.4 of the *Asset Allocation report.*

(B) Details of Asset: CCTV cameras and security system

Allocation proposed by AO: Aeronautical

Observation: The assets pertaining to the installation of CCTV cameras across the airport, were used for both Aeronautical and Non- Aeronautical activities and hence, considered as Common assets as per the Study and segregated in the ratio of the Terminal Building (92:8).

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduced RAB to the extent of ₹ 0.14 Crores.

Reference: Para 4.4.1.4 of the *Asset Allocation report.*

4.5.9.5 Electrical Equipment

Details of Asset: Earthing, Lighting work & Video management software assets

Allocation proposed by AO: Aeronautical

Observation: The assets pertaining to Electrical fittings & cablings, including video management software & IP Phones had been considered as Aeronautical by AO. However, these assets cater to the needs of both Aeronautical and Non-aeronautical activities and therefore, had been reclassified as Common assets and re-allocated in the ratio of the Terminal Building (92:8)

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common, reduced RAB to the extent of ₹ 1.18 Crores.

Reference: Para 4.4.1.5 of the *Asset Allocation report.*

4.5.9.6 Buildings

Details of Asset: Construction of Ancillary Buildings in Operational Area and Related work

Allocation proposed by AO: Aeronautical

Observation: The assets pertaining to static tank, underground water tank, sewerage line and garbage dump had been considered as Aeronautical assets by AO. However, these assets were used for both Aeronautical and Non-aeronautical activities and therefore, the same were reclassified as Common assets and re-allocated in the ratio of the Terminal Building (92:8)

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduced RAB to the extent of ₹ 0.73 Crores.

Reference: Para 4.4.1.6 of the *Asset Allocation report.*

4.5.9.7 Furniture & fixtures

(A) Details of asset: Other Furniture

Allocation proposed by AO: Common (Terminal Building Ratio)

Observation: These Assets were used by both Aeronautical and Non-aeronautical employees and therefore had been re-allocated in the ratio of Employee Head Count (as against allocation in the ratio of Terminal Building) of the Airport Operator for the respective FYs in the First Control Period.

Allocation proposed as per Authority: Common (Employee Head Count Ratio)

Impact on RAB: Reclassifying these assets using Employee Head Count Ratio reduced RAB to the extent of ₹ 0.01 Crores.

Reference: Para 4.4.1.7 of the *Asset Allocation report.*

(B) Details of asset: Office Furniture

Allocation proposed by AO: Aeronautical

Observation: The furniture & fixtures were used by both Aeronautical and Non-aeronautical employees and therefore had been re-allocated in the ratio of Employee Head Count of the Airport Operator for the respective FYs in the First Control Period.

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common decreased RAB to the extent of ₹ 0.04 Crores.

Reference: Para 4.4.1.7 of the *Asset Allocation report.*

4.5.9.8 Computer & Accessories

Details of asset: IT related Assets

Allocation proposed by AO: Aeronautical

Observation: The Assets namely HP Laptops, Scanners, Printers are classified as Aeronautical. As these IT assets were used for both Aeronautical and Non-aeronautical activities, the same had been reclassified as Common assets. Further, as these assets were used by the employees of the Airport Operator, the same had been reallocated in the ratio of Employee Head Count of the Airport Operator for the respective FYs in the First Control Period.

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common decreased RAB to the extent of ₹ 0.01 Crores.

Reference: Para 4.4.1.8 of the *Asset Allocation report.*

4.5.9.9 Office Equipment

Details of asset: Air Conditioning, LED & other equipment

Allocation proposed by AO: Aeronautical

Observation: The assets such as Air Conditioners, Voice Recorders, LED, etc had been classified as Aeronautical by AO. As these assets were utilized for both Aeronautical and Non-aeronautical activities, the same were reclassified as Common assets and allocated in the ratio of Employee Head Count (as these were used by employees) of the Airport Operator for the respective FYs.

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common had NIL impact on RAB.

Reference: Para 4.4.1.9 of the *Asset Allocation report.*

4.5.9.10 Plant & Equipment

A) Details of Asset: Fuel Handing Equipment, Water Treatment Plant, Rodent Repellent

Allocation proposed by AO: Aeronautical

Observation: HSD Fuel Handling Equipment used in city side and Water & sewage treatment Plant and Rodent Repellent had been classified as Aeronautical assets by AO. As these assets were used for servicing both Aeronautical and Non-aeronautical activities within the Terminal Building, these were reclassified as Common assets and had been allocated in the ratio of the Terminal Building (92:8).

Allocation proposed as per Authority: Common

Impact: Reclassifying these assets from Aeronautical to Common decreased RAB to the extent of ₹ 0.12 Crores.

Reference: Para 4.4.1.10 of the *Asset Allocation report.*

B) Details of Asset: Air Conditioning & Other Office Equipment

Allocation proposed by AO: Aeronautical

Observation: The Assets related to Air Conditioning, Water coolers, UPS & modem, etc. had been classified as Aeronautical assets by AO. As these assets were used for facilitating the needs of employees, the same were reclassified as Common and hd been allocated in the ratio of the Employee Head Count for the respective FY in the First Control Period.

Allocation proposed as per Authority: Common

Impact: Reclassifying these assets from Aeronautical to Common reduced RAB to the extent of NIL.

Reference: Para 4.4.1.10 of the *Asset Allocation report.*

(C) Details of Asset: Biogas Plant

Allocation proposed by AO: Aeronautical

Observation: The Biogas Plant was classified as Aeronautical by AO. The same had been considered as Non-Aeronautical as it did not cater to Aeronautical activities of the Airport.

Allocation proposed as per Authority: Non-Aeronautical

Impact on RAB: Reclassifying these assets from Aeronautical to Non-Aeronautical had reduced the RAB to the extent of ₹ 0.27 Crores.

Reference: Para 4.4.1.10 of the *Asset Allocation report.*

4.5.9.11 Old Assets

Details of asset: Vehicle, Computer & Accessories, Furniture & Fixtures & Office Equipment and other assets up to March 31, 2018 (Prior to the commencement of First Control Period)

Allocation proposed by AO: Aeronautical

Observation: As explained in para 4.1.14 *(refer Study on Allocation of Assets between Aeronautical and Non-Aeronautical assets)* the aforementioned assets relating to prior period (i.e., up to March 31, 2018) had been considered as Common and allocated in the Terminal Building Ratio (92:8).

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common had NIL impact on RAB.

Reference: Para 4.4.1.11 of the *Asset Allocation report.*

4.5.9.12 Other Assets:

A) Details of Asset: Microsoft office, Tally & windows

Allocation proposed by AO: Common (Terminal Building Ratio)

Observation: The assets pertaining to Microsoft office, Tally & window software are classified as Common assets by AO and had been allocated in the ratio of Terminal Building determined by the Airport Operator (94.5:5.5). However, these assets were used by the employees of the Airport Operator and therefore had been re-allocated in the ratio of Employee Head Count of the Airport Operator for the respective FY in the First Control Period.

Allocation proposed as per Authority: Common (Employee Head Count Ratio)

Impact on RAB: Reclassifying these assets from Aeronautical to Common had NIL impact on the RAB.

Reference: Para 4.4.1.12 of the *Asset Allocation report.*

4.5.10 Subsequent to the above reclassifications, the adjusted RAB had been derived by the Authority as under:

Table 14: Adjusted RAB derived by the Authority post reclassifications at Consultation Stage

(₹ Crores)

Particulars	Reference	Reference para	Amount
RAB as on March 31, 2023 as submitted by AO	A	4.2.1	1,777.86
Exclusion of IDC	B	4.5.6(vii)	(159.16)
Land Development cost relating to Freehold Land excluded from RAB.	C	4.5.6(ii)	(333.28)
Financing allowance related to Freehold land exclusion	D	4.5.6(vi)	(72.99)
RAB before Reclassification Adjustments	E= sum(A:D)		**1,212.42**
Reclassification Adjustments:-			
<u>Reclassification of other assets:</u>			
Drains & Culverts	F	4.5.9.1	(0.86)
Boundary Wall	G	4.5.9.2	(4.60)
Roads	H	4.5.9.3	(0.74)
Electrical Installations EPC	I	4.5.9.4	(0.73)
Electrical Equipment	J	4.5.9.5	(1.18)
Buildings	K	4.5.9.6	(0.73)
Furniture & Fixtures	L	4.5.9.7	(0.05)
Computers & Accessories	M	4.5.9.8	(0.01)
Office Equipment	N	4.5.9.9	(0.00)
Plant & Equipment	O	4.5.9.10	(0.39)
Old Assets	P	4.5.9.11	(0.00)
Other Assets	Q	4.5.9.12	(0.00)
Total reclassification of Other assets Sum (F: Q)	**R**		**(9.29)**
Depreciation computation errors observed in FAR (refer note below)	**S**		(32.47)
Sale Value Wrongly Calculated	**T**		(0.03)^
Impact of Terminal Building ratio (Net Block)	**U**	4.5.11	(14.55)
Adjusted RAB as on March 31, 2023 (V = E + R + S + T+U)			**1,156.08**

Note: *Depreciation determined was higher, due to some calculation errors noted in the FAR submitted by the AO, which was as follows:*

- *Depreciation for FY 2019-20 had been calculated by including the number of days for FY 2018-19 as well.*
- *Depreciation had not been calculated on the value of balance assets (which was retained by the Airport), in cases where only a part of the assets had been sold out.*

- *Depreciation had not been calculated for many assets from FY 2020-21, although there had been no sale of the assets.*

^ Sale value of Assets had been calculated after taking depreciation into consideration and hence, recalculated as per Study after examining the discrepancies.

4.5.11 **Revision of Terminal Building ratio:**

i The Authority noted that the AO had submitted the Terminal Building ratio as 94.5%:5.5% (Aeronautical: Non-aeronautical) as part of its MYTP, which was then later revised to 95%:5% vide email dated July 21, 2023. In this regard, the Authority had drawn inference of its decision no. 1c in the Tariff Order No. 26/2018-19 dated November 9, 2018 for the First Control Period, which stated that *"The Authority has tentatively accepted the allocation of assets in to aeronautical and non-aeronautical assets in the ratio of 95:5. A detailed study will be conducted to determine the actual usage before true up in the Second Control Period".* Accordingly, based on the Independent Study on allocation of Assets commissioned by the Authority for true up of the First Control Period for KIA, the Authority had determined the Terminal Building ratio of 92:8 (Aeronautical: Non-aeronautical), which was also in line with the recommendations of IMG norms and the ratio considered by AERA in the past for other similar airports.

ii Due to the revision in the Terminal Building Ratio from 94.5%: 5.5% (as considered by AO) to 92%: 8% the RAB as March 31, 2022 had been reduced by ₹ 14.55 Crores.

4.5.12 **True up of Depreciation**

The Authority noted that while submitting the True up for the First Control Period, the AO had taken cognizance of the rates of depreciation as per Order No. 35/ 2017-18 dated January 12, 2018 read with Amendment No. 01 to Order No. 35 on 'Determination of Useful Life on Airport Assets'). Accordingly, the rates of depreciation approved by AERA had been applied by the AO from FY 2018-19 onwards. The Authority considered the same to be reasonable, as per the Order No. 35/ 2017-18.

For the additions to RAB, the AO had calculated the depreciation during year of capitalization based on number of days that the asset was put to use. The Authority proposed to consider the same.

The Authority had computed depreciation for the First Control Period, after making necessary adjustments to the assets excluded from RAB and the same is presented as follows:

Table 15: Depreciation considered by the Authority for true up of First Control Period at Consultation Stage

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23*	Total
Depreciation approved by the Authority in the First Control Period	29.79	59.74	59.74	59.74	59.74	**268.75**
Depreciation as submitted by AO as per FAR** (A)	24.46	104.50	51.62	52.22	52.10	**284.90**
Depreciation impact on reclassification of assets (C)	(2.80)	(33.31)	19.82	19.80	19.78	**23.28**

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23*	Total
Depreciation* considered by the Authority after reclassification and other adjustments = Sum (A: C)	**21.66**	**71.19**	**71.44**	**72.02**	**71.88**	**308.18**

*** Depreciation shown in above table (₹ 284.90 cr.) is different from that shown under Table 9 (388.51 Cr.), as depreciation as per Table 9 is based on MYTP submission on the AO and Table 15 is based on FAR submitted by the AO. As stated in para 4.2.1, the figures in the FAR submitted by the AO had been considered for further analysis.*

**Reference: Table 10 of the Study on Allocation of assets between Aeronautical and Non-aeronautical assets for KIA, Kannur.*

The Authority proposed to consider depreciation as per Table 15 for true up of First Control Period.

4.5.13 **Adjusted RAB (year-wise) of KIA derived by the Authority**

Based on the analysis and adjustments, as detailed in the earlier paragraphs, the Authority had derived the Opening, Closing and Average RAB of KIA for the period from FY 2018-19 to FY 2022-23. The Authority had derived year-wise adjusted RAB for the First Control Period as shown in the table below:

Table 16: Adjusted RAB of KIA considered by the Authority for True up of First Control Period at Consultation Stage

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Opening RAB# (A)	0.37	1,388.69	1,354.04	1,297.02	1,227.95	
Capital Additions# (+)	1,409.98	36.92	14.44	2.94	0.00	**1,464.28**
Depreciation (-) (refer Table 15)	21.66	71.19	71.44	72.02	71.88	**308.18**
Sales/ Disposal# (-)	0.00	0.37	0.02	0.00	0.00	
Closing RAB (B)	1,388.69	1,354.04	1,297.02	1,227.95	1,156.08*	
Average Regulatory Asset Base (RAB) (C) = (A+B)/2	694.53	1,371.37	1,325.53	1,262.49	1,192.01	

 # Opening RAB, Capital Additions and disposals had been obtained from the Fixed Assets Register submitted by the AO.

** Refer Table 12 of Asset Allocation Study Report of KIA*

The Authority had therefore considered the Average RAB for true up of the First period as per Table 16.

Stakeholders' comments on True up of Capital Expenditure, Depreciation and RAB for the First Control Period

4.5.14 During the stakeholders' consultation process, the Authority has received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper No. 17/ 2023-24 with respect to True up of Capital Expenditure, Depreciation and RAB for the First Control Period. The comments by stakeholders are presented below:

AO's comments on True up of Capital Expenditure, Depreciation and RAB for the First Control Period

4.5.15 AO has commented the following:

i *As per para 4.1.6 of AERA order No. 42/2018-19, "The cost of land levelling and land development will be included in the cost of asset if it can be specifically identified with the aeronautical asset and taken to the RAB. In other cases, a return will be given as per this order only on land utilized for Aeronautical purpose as and when used." The cost incurred to the tune of INR 330 Crore pertains to the land levelling and development carried for constructing aeronautical assets as shown below. The same was shared with the authority vide email dated 18 September 2023. Land Development Cost was considered separately in the financial statements of FY 2018-19 in line with Order No.35/2017-18 issued by the Authority on 12 January 2018 in the matter of Useful Life of Airport Assets, in which it is stated that land development cost of own land to be added to land cost and those of leased land to be amortized over the lease period. Hence, if amortization of land development cost of leased land is permissible as per Order No.35/2017-18, so is depreciation and/or return on land development cost of own land identifiable with specific aeronautical assets, details of which are given in the succeeding para. Note No. 1.3 of Audited Financial Statements of FY 2018-19 may please be referred to for compliance with the Accounting Standards and AERA order. Note No. 2.4 and Note No. 2.5 of Audited Financial Statements of FY 2022-23 also may please be referred to for the above compliances. Hence, the land development costs incurred and identifiable with specific assets may please be considered despite the fact these were considered as a separate line item in RAB. Further, it is only fair to assume and it remains so that land development costs were incurred for development of aeronautical asset irrespective of the date of Order No.42/2018-19 and therefore we request the Authority to consider the same in RAB and be eligible for return on land development cost.*

ii *Given the hilly and uneven terrain on which the airport is located, conducting land development and levelling was unavoidable. Details of the same is as follows:*

- *Land development for runway, taxiway, isolation bay, turning pads, RESA & RSS as per the original terrain contour varying from 33m to 131 m and to bring the formation levels to the required levels varying from 95m to 102 m.*
- *Land development done for Apron, HOS road, PTB access area, GSE parking as per the original terrain contour varying from 76m to 103m to bring the formation levels to the required levels varying from 100m to 101m.*
- *Land development done for approach road, internal service road, operational road and perimeter road as per the original terrain contour varying from 35m to 122m to bring the formation levels to the required levels varying from 37m to 100m*
- *Land development done for ancillary buildings as per the original terrain contour varying from 60m to 122m to bring the formation levels to the required levels varying from 99m to 102m*
- *Land development done for boundary wall and operational wall as per the original terrain contour varying from 34m to 140m to bring the formation levels to the required levels varying from 73m to 95m*
- *Land development done for construction of PTB as per the original terrain contour varying from 85m to 90m to bring the formation levels to the required levels varying from 95m to 102m.*

S. No:	Location	Quantity (Approx.) in m3	Amount (INR)	% Share
1	Runway	6808564	1,167,668,726	35%
2	Apron	2245825	385,158,988	12%
3	Taxi track	776194	133,117,345	4%
4	Basic Strip	2900380	497,415,170	15%
5	RESA	1068312	183,215,508	6%
6	Over Run	425906	73,042,879	2%
7	Isolation Bay	127943	21,942,225	1%
8	Operational Wall & Operational Roads	595400	102,111,100	3%
9	Emergency Approaches both ends	1219167	209,087,141	6%
10	RSS Fill	566035	453,212,904	14%
11	Miscellaneous		74,815,818	2%
	TOTAL	**16733726.43**	**3,300,787,803**	

iii *In the KIAL's tariff order for first control period; Order No. 26/2018-19, KIAL had furnished the details of sum estimated to be incurred for 'earthwork, earth cutting filling' in table 4, to the tune of INR 313.69 Cr. The same was approved by the authority. As per actuals, KIAL has incurred similar expenditure for land development.*

Table 4: Details of capital expenditure incurred upto and including FY 18-19 as per KIAL (in ₹ crores)

Category	Description	Amount (₹ crores)
Buildings	Civil, Plumbing works etc.	363.22
Buildings	Earthwork, Earth cutting filling	313.69
Buildings	Additional Buildings & Civil Works	102.38
Buildings	Other works - Airside	34.70
Buildings	Ancillary buildings in Operational area	27.07
Buildings	Boundary Wall	9.72
Buildings	Car, Bus and Taxi parking	8.33
Buildings	Watch Tower, Security post	0.62
Buildings Total		**859.73**

iv *KIAL observes that the expenditure pertaining to land development has been added as part of RAB in BIAL's tariff order No. 11/2020-21 for the third control period in table 184 under the head 'Site preparation & earth works. KIAL has followed similar consideration of land development cost.*

Table 184: Revised aeronautical asset addition for FY21

S no	Projects	Revised submission of BIAL – total additions	Allocation as per BIAL	Aero addition to FY21 as per BIAL	Revised allocation as per the study	Revised Aero addition to FY21 as per the study	Difference
1	Site preparation & Earthworks	21.98	100.00%	21.98	100.00%	21.98	0.00

KIAL also observes that the expenditure pertaining to land development for runway amounting to INR 775 crore has been approved for BIAL in the third control period.

S NO	Asset	Group Description	Description	Date of Capitalisati	Gross block -2020	Gross block - 2019	Gross block - 2018	Gross block - 2017	Gross block - 2016	Additions - 2020
10744	600000001	Earthwork	Earthwork for NSPR	6-Dec-19	7,751,050,515	0	0	0	0	7,751,050,515

v *KIAL would also like to highlight the treatment of land development cost for Manohar International Airport, MOPA, Goa in the consultation paper No. 11/2023-24 for the first control period. Authority has proposed land development cost amounting to INR 628.43 Crore and the same has been treated as addition to RAB.*

Table 63: CAPEX proposed by the Authority for the First Control Period

(Rs. in crores)

S.No	Description	Amount
1	Runway, Taxiways and Apron - (Phase I, II & III)	526.17*
2	Passenger Terminal Building including Fit Outs (for 7.7 MPPA) (Phase I, II & III)	1,283.98
3	Airside buildings, Airside roads & Drainage System (Phase I & III)	346.65
4	Site Preparation/ Earthwork	628.43

vi *In response to authority's view that land development cost being incurred prior to the release of Order No. 42/2018-19, KIAL would like to highlight the land development cost amounting to INR 5.97 Crore approved for Cochin International Airport Limited in the tariff order for third control period. The said cost was capitalized by the airport on 11 March 2017 and the consultation paper for the same was released on 15 June 2021 which is over two years after the date of issuance of Order No. 42/2018-19. The extract of same is given below:*

Study on allocation of assets between Aeronautical and Non-Aeronautical assets for CIAL

Unique Identifier	Asset Class	Capitalized on	Description	Useful Life	Acquisition Value	Classification as per CIAL	Revised Allocation	% Aeronautical
12000019810	Buildings & Civil Works	11/03/2017	Plumbing Works	15	112,597,097.89	Common	Common	91.06%
12000019811	Buildings & Civil Works	11/03/2017	METAL FALSE CEILING WORK	20	335,869,379.68	Common	Common	91.06%
12000019812	Buildings & Civil Works	11/03/2017	PMC Metal false ceiling	20	13,646,969.78	Common	Common	91.06%
12000019813	Buildings & Civil Works	11/03/2017	Internal Water Supply	15	3,030,276.03	Common	Common	91.06%
12000019814	Buildings & Civil Works	11/03/2017	Interior works for Reserved Lounges	15	15,285,076.34	Non-Aeronautical	Non-Aeronautical	0%
12000019817	Buildings & Civil Works	11/03/2017	Interior Works	15	232,377,066.97	Common	Common	91.06%
12000019818	Buildings & Civil Works	11/03/2017	PMC Interior Works	15	9,417,178.75	Common	Common	91.06%
12000019819	Buildings & Civil Works	11/03/2017	INTERIOR GLASS PARTITION &DOORS	15	69,513,727.66	Common	Common	91.06%
12000019820	Buildings & Civil Works	11/03/2017	Immigration Counters	10	28,665,269.93	Common	Aeronautical	100%
12000019821	Buildings & Civil Works	11/03/2017	Hand Rails	20	26,548,721.66	Common	Common	91.06%
12000019822	Buildings & Civil Works	11/03/2017	PMC Hand rails	20	1,077,868.90	Common	Common	91.06%
12000019824	Buildings & Civil Works	11/03/2017	Flooring works	15	419,689,938.98	Common	Common	91.06%
12000019825	Buildings & Civil Works	11/03/2017	PMC Flooring	15	19,321,984.81	Common	Common	91.06%
12000019826	Buildings & Civil Works	11/03/2017	FINISHING WORK	15	49,960,150.66	Common	Common	91.06%
12000019827	Buildings & Civil Works	11/03/2017	EXTERIOR FACADE WORKS	20	415,996,950.33	Common	Common	91.06%
12000019828	Buildings & Civil Works	11/03/2017	PMC Facades	20	19,603,373.64	Common	Common	91.06%
12000019829	Buildings & Civil Works	11/03/2017	EARTHWORK	60	59,782,547.52	Common	Common	91.06%
12000019830	Buildings & Civil Works	11/03/2017	Duty Free Shop	15	22,304,199.05	Non-Aeronautical	Non-Aeronautical	0%
12000019831	Buildings & Civil Works	11/03/2017	Cladding & Finishing works	15	356,213,862.45	Common	Common	91.06%

vii *In addition to the land development cost, KIAL is also eligible for the financing allowance of INR 72.99 crore associated with the land development cost.*

viii *The land development cost has been incurred solely to develop aeronautical assets. Therefore, the airport has no other option to recover the same from none other than the aeronautical tariffs.*

ix *Considering the responses provided by KIAL which includes detailed bifurcation of land development cost towards specific aeronautical assets, KIAL requests the authority to allow the full expenditure incurred towards land development cost and the associated financing allowance in the RAB for the first control period true up calculation.*

x *Regarding ANS procurement: As per the Greenfield Airports Policy, the CNS/ ATM services will be provided by the central government agency on a cost recovery basis by the airport operator. It says:*

- *"Clause 6.1 – On any greenfield airport to be developed under these Policy Guidelines, activities relating to Air Traffic Services (ATS), security, customs and immigration would be reserved for central government agencies. Provision of these services would be governed by the policy to be laid down by the Central Government from time to time. Prior to grant of license, an applicant for license shall procure the following clearances:……… B) Air Traffic Services (ATS): Functions related to ATS are being discharged by AAI. The applicant will have to enter into a CNS/ATM Agreement with AAI for the provision of ATS services at the proposed airport. ATS would be provided on a cost recovery basis and AAI would publish a standard agreement for this purpose. The Airport Company would also provide the required infrastructure to AAI free of cost for provision of ATS."*

xi *KIAL has considered a sum of INR 20.14 Crore as per the details of the bill raised by the ANS service provider dated 20th January 2023. The amount pertains to the cost of procurement and installation of ANS equipment. Hence, it is requested that the amount may be considered as per actuals in view of the invoice raised by Airport Authority of India (AAI).*

Other Stakeholders' comments on True up of Capital Expenditure, Depreciation and RAB for the First Control Period

4.5.16 IATA has commented the following:

- *"We support the Authority's treatment of the true-up of CAPEX, as well as its scrutiny in validating the allocation of assets.*
- *We welcome the revision of the Terminal Building Ratio from 95:5 to 92:8 based on the independent study. We expect that the percentage of non-aeronautical should increase over time in line with the projected traffic growth."*

AO's responses to other stakeholders' comments on True up of Capital Expenditure, Depreciation and RAB for the First Control Period

4.5.17 AO has responded to IATA's comments regarding the True up of CAPEX as under:

- *"Adequate responses to the consultation paper has been submitted to Authority and same can be referred."*

4.5.18 AO has responded to IATA's comments regarding the Terminal Building ratio as under:

- *"KIAL humbly requests the authority to reconsider the same given the fact that the airport is situated in a non-metro city containing a population with limited spending capacity as compared to Metro or Tier I airports. Moreover, due to impact of COVID on the passenger traffic, many non-*

aeronautical concessionaires had vacated in the first control period. Hence, the actual utilization of the assets for non-aero activities could not be optimized even after lot of efforts. As per the actuals, the terminal building ratio is 94.5:5.5 and details of the same has already been shared with the authority. KIAL requests the authority to kindly consider the terminal building ratio on actuals."

Authority's analysis on Stakeholders' comments regarding True up of Capital Expenditure, Depreciation and RAB for the First Control Period

4.5.19 The Authority has noted the comments of AO on Land Development costs, ANS assets and provides its views as under:

i. **Land Development Cost:** The Airport Operator (AO) has claimed land Development costs of ₹ 333.28 crores and financing allowance thereon towards cutting, filling, blasting etc. on the freehold land, towards development of various aeronautical assets. AO has shown the same in its MYTP as separate line item under CAPEX and depreciation schedule. Further, AO has not added such cost to the respective assets in the RAB.

At the Consultation stage, the Authority had drawn inference from Order No. 42/2018-19 dated March 5, 2019 of AERA and noted that cost has been incurred towards land development by AO, prior to the issuance of the Order No. 42/2018-19 (i.e. March 5, 2019). Therefore, the Authority had proposed not to consider the land development cost and financing allowance associated to it.

Subsequent to the stakeholder comments received from the AO on the Consultation Paper, the Authority has observed as under:

a. During the tariff determination exercise of First Control Period, the Authority had considered amount of ₹ 313.69 crores (towards Earthwork, Earth Cutting filling etc.), as part of RAB, for calculation of Aggregate Revenue Requirement of the Airport Operator.

b. Para 3.3.7 of Order No. 35/2017-18 dated 12.01.2018 in the matter of Determination of Useful Life of the Airport Assets stipulates as under:

Authority notes that 'Land Development Cost' activity (For example filling a pit, levelling the field etc.) will be of a permanent nature not necessitating any replacement or change after a certain period of time, and hence the same can be treated as a different line item.....'

c. Cost has been actually incurred by the Airport Operator and there is a rationale to provide such cost.

d. Authority has also drawn inference from the comments of AO on consideration of such capex in case of other airports.

Further, AO, vide email dated February 12, 2024, has submitted as under:

"Total land development cost claimed- 405.9 crore

Break up is below:

A. Actual cost- 333 crore

B. Financing allowance - 72.9 crore

This is amortized over 30 years.

Therefore, land development cost claimed annually is 13.5 (11.1+2.4) crore

Further, Land development cost is for land put to use."

In view of the above paras, the Authority has considered an amount of ₹ 406.27 Crores (₹ 333.28 Crores towards land development cost and ₹ 72.99 Crores towards financing allowance). On the same, Terminal Building ratio of 92:8 has been applied. Resultant amount of ₹ 373.77 Crores has been amortized over a period of 30 years starting from FY 2009-10. Accordingly, the Authority has allowed ₹ 49.84 Crores in True up of the First Control Period (refer Table 44) and ₹ 62.30 Crores in Second Control Period (refer Table 94).

ii. **ANS assets** – Regarding ANS assets, the Authority has taken cognizance of the Greenfield Policy of MoCA and provides its views as follows:

- The Greenfield Policy issued by MoCA does not bind the Regulator to consider such expenses in the tariff determination for aeronautical services. Further, the tariff for ANS is presently regulated by the Ministry of Civil Aviation. All the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining tariff for ANS services. Moreover, it is pertinent to note that the revenue (RNFC) generated through these services are retained by AAI. The Authority has excluded revenue from TNLC collection amounting to ₹ 12.61 Cr., which was submitted by the AO as part of the Aeronautical revenue achieved in the First Control Period, while determining true up for the First Control Period.
- Moreover, it has been noted that the revenue (RNFC) generated through these services are retained by AAI. The Authority has excluded revenue from TNLC collection amounting to ₹ 12.61 Cr., which was submitted by the AO as part of the Aeronautical revenue achieved in the First Control Period, while determining true up for the First Control Period.
- Also, the AO in its MYTP submission had stated that *"KIAL has considered a sum of INR 20.14 Crore as per the details of the bill raised by the ANS service provider dated 20th January 2023. The amount pertains to the cost of procurement and installation of ANS equipment. However, these are under negotiations and KIAL has considered the amount for calculations as interim. As we get confirmation from CNS-ATM service provider for non-applicability of these charges, the same can be re-evaluated during the true-up for third control period."* From the above submission, the Authority notes that the payment towards ANS equipment is only an interim payment and not Final payment.

Therefore, the Authority decides not to consider the assets, revenue and expenses pertaining to CNS/ ATM services, as the same is not within the regulatory regime of AERA.

4.5.20 AERA notes the views of IATA about the True up of CAPEX, allocation of assets and the revision of Terminal Building ratio.

Regarding AO's comments on consideration of actual Terminal Building ratio of 94.5: 5.5, the Authority hereby states the following:

i. IMG norms inter alia states that the optimum non- aeronautical area allocation for airports having passenger traffic of less than 10 MPPA, should be in the range of 8% to 12%. This approach is uniformly followed by the Authority in line with other similar Airports and is also based on the recommendations of the Independent Study on Allocation of Assets between Aeronautical and Non-aeronautical assets for KIA.

ii. Therefore, the Authority decides to retain Terminal Building ratio as 92:8, as proposed at the Consultation stage.

4.5.21 In view of the above, the Authority decides to consider the Capital Expenditure, depreciation and RAB as per Table 16.

4.6 True up of Return on Land

4.6.1 The Authority noted that the AO had acquired 1,192.18 acres of land at a value of ₹ 316 Crores for development of phase-I of the airport from the Government of Kerala through Kerala Industrial Infrastructure Development Corporation (KINFRA), the nodal agency for land acquisition appointed by the Government and till date, carried out development of the airport on approx. 631 acres of such land.

4.6.2 Further, the AO had claimed return on the proportionate cost of land pertaining to Airport Operations i.e., ₹ 167.31 Crores (₹ 316 Crores * 631 acres / 1192 acres) as shown below:

Table 17: Return on Land submitted by AO for True up of First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY -20	FY 2020-21	FY 2021-22	FY 2022-23*
Land Cost (₹ in Crores)	167.31	167.31	167.31	167.31	167.31
Aero Ratio (%)	94.5%	94.5%	94.5%	94.5%	94.5%
Aero Land ₹ in Crores)	158.11	158.11	158.11	158.11	158.11
Yearly cost of debt (%)	9.30%	9.30%	9.31%	9.36%	9.39%
Return on land cost (₹ in Crores)	4.85#	15.80	15.82	15.89	15.93
Total Return on Land for the Control Period			**68.29**		

** Projections figures for FY 2022-23*

 # Proportionate Return calculated for FY 2018-19 based on the date of commencement of airport operations i.e., December 9, 2018

4.6.3 With respect to AO's claim towards Return on Land for the First Control Period, the Authority has examined the relevant clauses prescribed in its Order No.42/2018-19, which is as follows:

- As per para 4.1.1 of the aforementioned order, the Authority decided that in case the land is provided to the airport free of cost, no return shall be given on the land.
- As per para 4.1.2, the Authority stated that return on land shall be provided on the cost if (provided it is not free of cost) it is used for aeronautical purposes only.
- As per clause 4.1.8. of the aforementioned order, return on land shall be allowed on a prospective basis only.

Based on the facts as stated above, the Return on Land should be provided prospectively and not retrospectively (as per clause 4.1.8 of the Order No. 42/ 2018-19), the Authority was of the opinion that the Return on Land should not be included as part of the true up of the First Control Period. Therefore, the Authority proposed not to consider Return on Land claimed by the AO as part of True up of the First Control Period.

Stakeholders' comments on True up of Return on Land for the First Control Period

4.6.4 During the stakeholders' consultation process, the Authority has received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper No. 17/ 2023-24 with respect to True up of Return on Land for the First Control Period. The comments by stakeholders are presented below:

AO's comments on True up of Return on Land for the First Control Period

4.6.5 AO has commented the following:

i. *"Land acquisition cost is one of the largest capital expenditures incurred by KIAL in the first control period.*

ii. *As per the first control period order for KIAL, decision on return on land to KIAL was proposed post completion of the study undertaken by AERA in this matter.*

iii. *At present, 631.4 acres out of the total land of 1192.18 acres, have been utilized for aeronautical purposes. The land acquisition cost for the total land cost of 1192.18 acres is INR 316 Crore. The land cost corresponding to the airport project is therefore considered to be INR 156 Crore and the same has been used to calculate the return on land.*

iv. *KIAL also highlights that AERA in its Order No. 42/2018–19 released on 5 March 2019 had laid down the mechanism for calculation of return on land to be provided on cost of land. KIAL has taken into account the mechanism for calculation of return on land as per the order to derive proposed fair return on land, INR 68.29 Cr for true up.*

v. *Kannur Airport started its operations in December 2018 due to operational delays. This makes the actual duration of first control period, 4 years and 4 months instead of a full 5 year. In the Consultation Paper No. 11/2023-24 for Manohar International Airport for the first control period, the duration of the first control period is mentioned as 5 years while the 4 months from airport operation start date of Dec 2022 till March 2023 (4 months) is considered as pre-control period. If in case KIAL had considered the duration of first control period as 5 years and the 4 months as pre-control period, the return on land would have been applicable in the first control period itself. Therefore, KIAL humbly requests the authority to not exclude the entire claim on return on land due to a difference of 3 months in the date of capitalization and the Order no. 42/ 2018-19. KIAL requests the authority to accordingly pro rate the return on land for four years in the first control period."*

Other Stakeholders' comments regarding True up of Return on Land for the First Control Period

4.6.6 IATA has commented the following:

"Appreciate the exclusion of Return on Land, as well as expenses on CSR given that there have been losses."

AO's response to stakeholders' comments regarding True up of Return on Land for the First Control Period

4.6.7 AO has responded to IATA's comment as follows:

- *"Land acquisition cost is one of the largest capital expenditures incurred by KIAL in the first control period*
- *Kannur airport started its operations in December 2018 due to operational delays. This makes the actual duration of first control period, 4 years and 4 months instead of a full 5 year. In the consultation paper No. 11/2023-24 for Manohar International Airport for the first control period, the duration of the first control period is mentioned as 5 years while the 4 months from airport operation start date of Dec 2022 till March 2023 (4 months) is considered as pre-control period. If in case KIAL had considered the duration of first control period as 5 years and the 4 months as pre-*

control period, the return on land would have been applicable in the first control period itself. Therefore, KIAL humbly requests to not exclude the entire claim on return on land due to a difference of 3 months in the date of capitalization and the Order no. 42/ 2018-19. KIAL requests the Authority to accordingly pro rate the return on land for four years in the first control period.

Authority's analysis on Stakeholders' comments regarding True up of Return on Land for the First Control Period

The Authority has noted the comments of AO regarding consideration of Land Development costs for determining Return on Land for the First Control Period and provides its views as follows:

i As per clause 4.1.8 of the AERA Order No. 42/ 2018-19, the return on land may be allowed only on a prospective basis. As this Order was issued in March 2019, it becomes effective only in the next Control Period. Therefore, based on the principles which is uniformly followed across all Airports, the Authority decides to consider Return on Land only for the Second Control Period for KIA and not for the First Control Period.

ii AERA notes the views of IATA about the Return on Land and CSR expenses.

Regarding AO's response on consideration of Return on Land for the First Control Period, as the difference is only 3 months from the date of capitalization (December 2018) and the date of issuance of Order No. 42/ 2018-18 (March 2019), the Authority has the following views:

- The First Control Period of KIA commenced from April 1, 2018, which is nearly one year prior to the date of issuance of Order No. 42/ 2018-19.
- Further, as per clause 4.1.8 of the Order No. 42/ 2018-19, the return on land may be allowed only on a prospective basis. As this Order was issued in March 2019, it becomes effective only in the next Control Period.

In view of the above, the Authority sees no reason to deviate from the proposal made by it at the Consultation stage.

4.7 True up of Fair Rate of Return (FRoR)

4.7.1 The Authority noted that the AO had submitted Cost of Debt as 9.3%, Cost of Equity as 16% and had claimed FRoR as 13.10% for true up of the First Control Period.

The Authority while examining the FRoR submitted by the AO for true up of the First Control Period and had referred to its Decision No. 2b in the Tariff Order No. 26/2018-19 dated November 9, 2018 for the First Control Period, which states that the *"FRoR will be trued up based on Actual debt-equity ratio, actual cost of debt and cost of equity which will be decided upon after completion of the proposed study on cost of equity at Major airports"*. Accordingly, the Authority had taken into consideration the average Cost of Equity derived by the Independent Study report as 15.18% (refer para 7.2.2 and 7.2.4 of this Tariff Order). Further, the Independent study reports have used the Capital Asset Pricing Model (CAPM) and a notional gearing (Debt: Equity) ratio of 48:52 to determine the levered Equity beta and accordingly derived the abovementioned Cost of equity as 15.18% and Cost of Debt as 9% (refer para 7.2.7) Based on these factors, the Authority had derived the FRoR as 12.21% (refer para 7.2.8) and proposed to consider the same for true up of the First Control Period.

Stakeholders' comments on True up of FRoR for the First Control Period

4.7.2 During the stakeholders' consultation process, the Authority has received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper No. 17/ 2023-24 with respect to True up of FRoR for the First Control Period. The comments by stakeholders are presented below:

AO's comments on True up of FRoR for the First Control Period

4.7.3 AO has commented the following:

i. *"COVID-19 pandemic has exposed the vulnerable side of aviation sector and displayed the enormous risk and uncertainty the travel industry faces in case of such events. Its severe impact on the airport financials can be seen not only in the Indian airports but also across the global airports. The pandemic impact on Kannur International Airport was even more severe, as the airport had just commenced its operations in December 2018, and had only one year of uninterrupted operations i.e., FY 2020 before pandemic outbreak.*

ii. *KIAL would like to point out that Kannur Airport was at its growing phase and several routes were yet to be mature when the unprecedented pandemic outbreak occurred. The pandemic has increased the risk of airport sector and the same must be accounted by the Authority accordingly in the cost of equity especially for greenfield airports which commenced operations close to pandemic outbreak.*

iii. *KIAL also underlines that along with the challenges faced during pandemic, the airport's traffic recovery was significantly affected with impacts of the following events:*

- *Suspension of flight operations and further restricted operations due to capacity restrictions and bubble agreements on international sectors*
- *Grounding of anchor airline has impacted passenger traffic growth*
- *Grounding of aircrafts due to engine supply chain issues*
- *Lack of PoC status which limits any capacity addition*

iv. *COVID -19 impacted initial growth, traffic, revenues, and cash flows have severely impacted the profitability of the airport which entails a higher risk profile.*

v. *Authority has already approved a cost of equity of 16% for KIAL vide the tariff order No. 26/2018-19 for the first control period.*

vi. *Authority proposed 12.21% as FRoR for KIAL, on basis of benchmarking study done with PPP airports including CIAL, MIAL, BIAL, DIAL and GHIAL. However, the benchmark airports are established airports operating in Tier-I cities. Moreover, most of the airports cited by the authority are not greenfield airports. Therefore, the cost of capital for such airports is comparatively lower in the present conditions. Comparing the same with KIAL, which is a greenfield airport may not be a levelled comparison.*

vii. *The order on determination fair rate of return as per the independent study done by IIM Bangalore was published on 5 March 2019. The risk-free rate and equity risk premium considered in the IIM Bangalore independent study does not consider the increased risk that the aviation sector is facing post COVID era. The risk profile for greenfield airports have greatly increased. KIAL requests the authority to kindly reconsider the same.*

viii. *Moreover, KIAL would like to highlight the following decision by the authority in BIAL's tariff order No. 18/2018-19 for the second control period, para 14.2.4: "The authority noted that there were no adverse scenarios affecting the risk assessment of BIAL airport, on the contrary, very favorable traffic and profitability had been witnessed for the past 3 years from the time of issue of MYTP-CP1. Considering the past operations, profitability and established traffic base, the authority proposed to consider return on equity at 16% for BIAL for the second control period". In light of authority's view of the conditions required for a greenfield airport to avail a return of equity of 16%, KIAL is of the* *view that Kannur Airport being a greenfield airport operating from a non-metro city under adverse conditions which significantly elevates its risk profile should also be allowed a return of equity 16% cost of equity.*

ix. *Similarly, KIAL notes that FRoR allowed for AAI airports is 14% despite of the fact that AAI airports have least risk due to sovereign holding. Whereas the Authority has proposed 12.21% as FRoR for KIAL which has higher equity for financing the development of airport and other capital expenditure. Given the nature of ownership of AAI and KIAL, cost of equity for KIAL is bound to be higher than AAI. However, AERA has adopted a lower cost of equity for KIAL.*

x. *Kannur airport has an equity share of 54% and the capital structure of Kannur airport is distinctive with involvement of large number of individuals participating in the equity of the airport. The airport is a unique entity established with equity participation from the Government of Kerala, NRIs, Industrialists, Financial Institutions and Airport Service Providers, with around 9050 shareholders. This can be related to higher cost of equity compared to other airports.*

xi. *Similarly, the cost of debt approved by the authority is 9% which is lesser than the actual cost of debt, 9.3% for term loan and 10.3% for funded interest term loan. The details of actual interest rates for the first control period have already been submitted to the Authority as shown below:*

TERM LOAN (TL)-	**INTEREST RATE**
CANARA BANK TL-0821773019566	9.30%
SOUTH INDIAN BANK-0721652000000083	9.30%
FEDERAL BANK LTD-10987100005277	9.30%
FUNDED INTEREST TERM LOAN (FITL)-	**INTEREST RATE**
CANARA BANK TL-0821773019566	10.30%
SOUTH INDIAN BANK-0721652000000083	10.30%
FEDERAL BANK LTD-10987100005277	10.30%

xii. *KIAL requests AERA to consider cost of equity of 16% and cost of debt based on actual figures as shown above considering abovementioned facts and the depth of losses the airport has endured in its inception phase itself."*

Other Stakeholders' comments on True up of FRoR for the First Control Period

4.7.4 FIA has commented the following:

"It is submitted that: (a) Fair Rate of Return (FRoR) to airport operators should be provided only at reasonable rates as any high value of fixed/ assured return favors the service provider/airport operators, creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs. Due to such fixed/assured returns, Airport Operators have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs, as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines. (b) We observe that the Fair Rate of Return of 12.21% provided to the KIA is higher in comparison to some of the Airports such as Chennai and Pune. Without prejudice to the above, there appears to be no rationale to provide higher return to KIA and accordingly AERA may reduce the FRoR suitably."

AO's responses to other stakeholders' comments on True up of Fair Rate of Return (FRoR) for the First Control Period

4.7.5 AO has responded to FIA's comments as under:

Para 4.7.1 of CP

- *"COVID-19 pandemic has exposed the vulnerable side of aviation sector and displayed the enormous risk and uncertainty the travel industry faces in case of such events. Its severe impact on the airport financials can be seen not only in the Indian airports but also across the global airports. The impact of the pandemic on Kannur International Airport was even more severe, as the airport had just commenced its operations in December 2018, and had only one year of uninterrupted operations i.e., FY 2020 before pandemic outbreak.*
- *KIAL would like to point out that Kannur airport was at its growing phase and several routes were yet to be mature when the unprecedented pandemic outbreak occurred. The pandemic has increased the risk of green field airports and naturally the same must be accounted in the cost of equity especially for those greenfield airports which commenced operations close to pandemic outbreak.*
- *KIAL also underlines that along with the challenges faced during pandemic, the airport's traffic recovery was significantly affected with impacts of the following events:*
    a. *Suspension of flight operations and further restricted operations due to capacity restrictions and bubble agreements on international sectors*
    b. *Grounding of anchor airline has impacted passenger traffic growth*
    c. *Grounding of aircrafts due to engine supply chain issues*
    d. *Lack of PoC status which limits any capacity addition*
- *Airports such as Pune and Chennai are established brownfield airports with mature traffic flow and strong catchment potential as they are tier I/Metro Cities. Moreover, there is huge difference in the shareholding patterns of these airports when compared to Kannur. Pune and Chennai are AAI owned airports with sovereign shareholders as opposed to Kannur which has equity participation from Government of Kerala, NRIs, Industrialists, Financial Institutions and Airport Service Providers, with around 9050 shareholders. Similarly, the cost of debt approved by the authority is 9% which is lesser than the actual cost of debt, 9.3% for term loan and 10.3% for funded interest term loan. Airports such as Chennai and Pune can obtain better competitive lending rates due to lower risk profile unlike KIAL.*

  In light of above, KIAL humbly requests the authority to consider the cost of capital as submitted by the Airport Operator which is on actuals basis.
- *It may be noted that the aeronautical charges have been proposed as per the guidelines laid out by the authority and taking into the stakeholder interests. Considering the competitive landscape, inputs from AERA and other stakeholders, the tariff increase in first control period is reasonably increased. KIAL has sincerely considered a phased approach for recovery of ARR accordingly."*

Authority's analysis on Stakeholders' comments regarding True up of Fair Rate of Return (FRoR) for the First Control Period

4.7.6 The Authority has examined the comments of the AO on Cost of Equity, Cost of Debt and provides its views as under:

The Authority has taken cognizance of the Decision 2b stated in the Tariff Order (Order No.

26/2018 -19 dated November 9, 2018) for the First Control Period of KIA, which is as follows:

"FRoR will be trued up based on Actual debt - equity ratio, actual cost of debt and cost of equity which will be decided upon after completion of the proposed study on cost of equity at Major airports"

Based on the above decision, the Authority has provided its views on the Cost of Equity, Cost of Debt and the Debt Equity ratio, which is as follows:

i. Cost of Equity:

a) As stated in decision 2b in the Tariff Order for the First Control Period (as mentioned in the above paragraph), the Authority had commissioned an Independent Study for evaluation of Cost of Equity through a premier institute, namely IIM Bangalore, for 5 PPP airports such as DIAL, MIAL, GHIAL, BIAL, and CIAL and used these Study reports as a basis, to the extent applicable and relevant, to ascertain the Cost of equity of the AO.

b) The Authority believes that the Cost of Equity for the purpose of determination of FRoR has to be fairly consistent across PPP airports so that there is uniformity of evaluation of their inherent financial risk, and compensation for the same in the form of return on RAB.

c) The Authority has noted the various challenges listed out by the Airport Operator. It is also to be noted that airport operators in India have certain inherent advantages and protections built into the tariff determination process and airport management, some of which are highlighted below:

- The tariff determination methodology incorporates adequate return on airport operator's gross fixed assets investment, as well as O&M expenses and other building blocks in setting tariff.
- The tariff determination mechanism also ensures the true up of certain building blocks on actual basis in the tariff determination process.
- There is a well-documented, stable and publicly notified regulatory regime for tariff determination and the proceedings are conducted in a transparent manner in compliance with AERA Act and other relevant guidelines.
- The Government of India, through the Ministry of Civil Aviation and various regulatory agencies, provides adequate support and guidance on all operational, safety, airline, connectivity and stakeholder related matters.
- Similarly, the relevant State Governments help the AO by the way of allotment of land on concessional rates in many of the cases and take responsibility for connectivity to the airports.

d) The FRoR has to be computed in a consistent manner taking into account long-term business and financial risk parameters, which are reasonably applicable to the industry as a whole. It would not be appropriate for short-term factors such as Covid-19 pandemic, or prejudge future risk probabilities arising from competitive dynamics, and to incorporate these into the FRoR computation.

e) With respect to AO's comments on Cost of Equity allowed to AAI airports, the Authority hereby clarifies that the Cost of Equity allowed to AAI airport is 14%, which is even lesser than that considered for PPP Airports.

In view of the above, the Authority does not see any reason to revise the Cost of Equity determined for Kannur International Airport

ii. Cost of Debt:

- The Authority has considered a reasonable cost of borrowing of 9%, based on the approach followed uniformly with all the PPP airports. Further the cost of debt (9%) considered by the Authority is nearly closer that claimed by the Airport Operator (which is 9.3%). Also, the Authority notes that the average cost of debt of other five PPP Airports viz., DIAL, MIAL, HIAL, BIAL and CIAL is 8.96%.

iii. Debt Equity ratio

The Authority has considered the actual debt equity ratio, which is 43.3%:56.7%, as submitted by the AO for true up of FRoR for the First Control Period, in line with its decision 2b in the Tariff Order for the First Control Period for KIA.

Based on the above views, the Authority has determined FRoR for true up of the First Control Period for KIA, which is as follows:

Table 18 : FRoR decided by the Authority for the First Control Period

Particulars	FY 2018-19
Weighted Average Gearing of Equity (A)	56.70%
Weighted Average Gearing of Debt (B)	43.30%
Cost of Equity (C)	15.18%
Cost of Debt (D)	9.00%
Fair Rate of Return for Second Control Period (E= A*C+(100%-A) *D)	12.50%

4.7.7 The Authority notes FIA's comments to consider only reasonable rate of return on the assets or reducing it and the response of the AO. The Authority is of the view that an airport is a long-term asset and in such long-term projects, investors desire a stable return on their investment. Therefore, the Authority finds that it is not pragmatic or fair to reduce or not to provide any return on the assets of the AO.

4.7.8 The Authority decides to consider FRoR at 12.50% as per Table 18 for True up of the First Control Period of KIA.

4.8 True up of Non-aeronautical revenue

4.8.1 The AO had submitted the actual Non-aeronautical revenue (NAR) for the First Control Period as follows:

Table 19: Non-aeronautical revenue submitted by AO for the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Monthly License Fee	0.35	1.12	1.18	1.85	3.96	**8.46**
Space Rental Charges	0.46	2.68	1.71	2.97	8.12	**15.94**
Lease rental Ind As 116	-	0.44	1.07	-	-	**1.51**
Pre-Booked Taxi Collection – Agency	-	-	0.60	0.30	-	**0.90**
Income from Pre-Booked Taxi - Own Operations	-	-	-	0.24	0.96	**1.20**
Sale of Visitors Entry Pass	0.50	0.62	0.03	0.06	0.26	**1.47**
Monthly Guarantee Fee	2.13	8.44	0.95	0.04	-	**11.56**

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Revenue Share from Concessionaire (refer Table 20)	0.81	2.81	0.83	11.54	6.06	**22.07**
CAM Charges	0.20	2.27	0.51	0.39	0.46	**3.83**
Lounge Fee Collection- Own Lounge		0.02	0.00	0.00	0.00	**0.02**
Car Parking Revenue Share	0.41	1.48	0.23	0.50		**2.62**
Car Parking Toll Collection	-	-	-	0.47	1.78	**2.25**
ADP, AEP & AVP Charges	-	0.03	0.02	0.04	0.04	**0.13**
Miscellaneous Income (Others @ 18%)	-	0.24	0.22	0.10	0.17	**0.73**
Fuel Throughput Royalty	0.65	3.76	-	-		**4.41**
Other Income including Interest Income	4.07	1.86	5.51	5.63	1.73	**18.80**
Total	**9.58**	**25.76**	**12.85**	**24.15**	**23.54**	**95.88**

Note: The CAM charges did not include utilities pertaining to Power and water charges from the concessionaire.

Table 20: Details of Revenue from Concessionaires for First Control Period

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Break up details of the Revenue Share from Concessionaire						
Retail	-	-	0.02	0.11	0.02	**0.15**
In Flight Catering	0.05	0.41	0.18	0.23	0.40	**1.28**
Food and Beverages	0.76	2.40	0.14	0.77	1.29	**5.36**
Miscellaneous	-	-	-	9.02	-	**9.02**
Pre-Paid Taxi	-	-	-	0.00	-	**0.00**
Forex	-	-	0.23	0.54	1.09	**1.86**
Duty Free	-	-	0.08	0.82	2.81	**3.71**
Hotel	-	-	-	-	0.10	**0.10**
Lounge	-	-	-	0.17	0.35	**0.52**
Other	-	-	0.18	(0.12)	-	**0.06**
Total	**0.81**	**2.81**	**0.83**	**11.54**	**6.06**	**22.07**

4.8.2 The Authority compared the actual Non-aeronautical revenue submitted by AO as per Table 19 with the projections given in the Tariff Order for the First Control Period and the same was as follows:

Table 21: NAR approved by the Authority in the Tariff Order for the First Control Period

(In Crores)

S. No.	Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
1	F&B services	1.04	2.53	3.07	3.69	4.43	**14.76**
2	Flight Catering Services	0.64	1.46	1.65	1.86	2.10	**7.71**
3	Land Lease Revenue	0.00	0.00	0.00	0.00	0.00	**0.00**
4	Space Lease Rental	0.59	1.30	1.44	1.58	1.74	**6.65**
5	Car Park Revenue	1.20	2.93	3.55	4.27	5.12	**17.07**
6	Public Admission Charges	0.38	0.93	1.13	1.36	1.63	**5.43**

S. No.	Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
7	Duty Free Shop	4.17	10.14	12.27	14.76	17.72	**59.06**
8	Advertising	0.12	0.28	0.30	0.33	0.37	**1.40**
	Sub-Total	**8.16**	**19.57**	**23.41**	**27.85**	**33.11**	**112.10**

4.8.3 The Authority noted that the significant variance between the actual NAR achieved by KIA during the First Control Period and that approved by the Authority in the Tariff Order for First Control Period, was due to the adverse impact of the COVID-19 pandemic on the aviation sector. Due to the constant decrease in the passenger traffic, many concessionaires had suspended their operations, which had overall impacted the Non Aeronautical Revenue for the First Control Period.

Based on the above analysis, the Authority proposed to consider the actual Non-aeronautical revenue as presented in Table 19 for the purpose of true up of the First Control Period, in line with its Decision No. 4c in the Tariff Order No. 26/ 2018-19 dated November 09, 2018 which states *"The Authority has decided to true up the Non-Aeronautical Revenue based on the actual Non-Aeronautical revenue earned during the First Control Period."*

Stakeholders' comments on True up of Non-aeronautical revenue for the First Control Period

4.8.4 No comments were received from the Stakeholders on true up of Non-aeronautical revenue for the First Control Period.

Authority's analysis on stakeholders' comments on true up of Non-aeronautical revenue for the First Control Period

4.8.5 The Authority notes that no comments were received from the Stakeholders regarding true up of Non Aeronautical Revenue for the First Control Period.

4.8.6 The Authority has considered the audited financials of FY 2022-23 for determining the Non aeronautical revenue for the First Control Period of KIA, while being consistent with the proposal made in the Consultation Paper No. 17/2023-24 for other tariff years from FY 2018-19 to FY 2021-22.

4.8.7 The Authority observes that Non-aeronautical revenue includes Space rentals and CAM charges collected from retail shops such as Food and Beverages, Pre-paid taxi, ATM, Duty free, Lounge etc. But, the Authority noted that the AO has considered Space Rental and CAM charges collected from Airlines as Non-aeronautical revenue. However, the Space Rental and CAM charges collected from Airlines should be treated as Aeronautical Revenue as the space is used for Aeronautical activities, which is in line with the similar approach followed in other airports. Therefore, the Authority decides to consider the above revenue amounting to ₹ 3.86 Crores as Aeronautical Revenue. The Non aeronautical revenue decided by the Authority for true up of the First Control Period is as follows:

Table 22: Non-Aeronautical Revenue decided by the Authority for the First Control Period

(in ₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Monthly License Fee	0.35	1.12	1.18	1.85	3.52	**8.02**
Space Rental Charges	0.46	2.68	1.71	2.97	4.27	**12.09**
Lease rental	-	0.44	1.07	-	-	**1.51**

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Pre-Booked Taxi Collection – Agency	-	-	0.6	0.3		**0.90**
Income from Pre-Booked Taxi - Own Operations	-	-	-	0.24	0.96	**1.20**
Sale of Visitors Entry Pass	0.5	0.62	0.03	0.06	0.26	**1.47**
Monthly Guarantee Fee	2.13	8.44	0.95	0.04	-	**11.56**
Revenue Share from Concessionaire	0.81	2.81	0.83	11.54	5.75	**21.74**
CAM Charges	0.2	2.27	0.51	0.39	0.58	**3.95**
Lounge Fee Collection- Own Lounge		0.02	0	0	0.00	**0.02**
Car Parking Revenue Share	0.41	1.48	0.23	0.5	0.02	**2.64**
Car Parking Toll Collection	-	-	-	0.47	1.78	**2.25**
ADP, AEP & AVP Charges	-	0.03	0.02	0.04	0.04	**0.13**
Miscellaneous Income	-	0.24	0.22	0.1	0.17	**0.73**
Fuel Throughput Royalty	0.65	3.76	-	-	-	**4.41**
Other Income including Interest Income	4.07	1.86	5.51	5.63	2.58	**19.65**
A. Total	**9.58**	**25.76**	**12.85**	**24.15**	**19.92**	**92.26**
B. Reclassification from Non-aeronautical to Aeronautical revenue						
i. *Less:* CAM charges from Airlines	-	0.17	0.14	0.08	0.12	**0.50**
ii. *Less:* Space Rental from Airlines	0.14	0.59	0.64	0.80	1.20	**3.36**
B. Total	**0.14**	**0.76**	**0.78**	**0.88**	**1.32**	**3.86**
Total Non-aeronautical Revenue (A-B)	**9.44**	**25.01**	**12.08**	**23.27**	**18.60**	**88.40**

Note: NAR of FY 2022-23 has been derived based on Audited Financials.

4.9 True up of Aeronautical Operation and Maintenance (O&M) expenses

4.9.1 The component wise break up of Aeronautical Operation and Maintenance expenses submitted by AO for the First Control Period was as follows:

Table 23: O&M expenses submitted by AO for True up of the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Employee expenses	7.33	11.05	10.99	11.45	11.11	**51.92**
Total Airport Operating Expenses	23.44	46.60	43.97	44.60	54.28	**212.90**
Total Other Expenses	7.64	4.12	3.63	3.99	4.92	**24.30**
ORAT	1.52	-	-	-	-	**1.52**
Airport Inauguration expenses	11.72	-	-	-	-	**11.72**
Total	**51.64**	**61.78**	**58.59**	**60.04**	**70.31**	**302.36**

4.9.2 The Authority noted that in the Tariff Order of the First Control Period vide Order No. 26 / 2018-19 issued on November 09, 2018, it had approved the O&M expenses of ₹ 225.49 Crores for KIA, which was as follows:

Table 24: Aeronautical O&M expenses approved by the Authority in the Tariff Order for the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Land Lease Rental	0.01	0.01	0.01	0.01	0.01	**0.05**
Employee Costs	4.34	10.56	11.29	12.09	12.93	**51.21**
Power & Water	1.61	3.91	4.11	4.31	4.53	**18.47**
Repair & Maintenance	-	18.86	19.24	19.62	20.02	**77.74**
Administration	2.41	5.86	6.27	6.71	7.18	**28.43**
Marketing Costs	0.88	2.02	2.30	2.60	2.95	**10.75**
Security	2.41	5.86	6.27	6.71	7.18	**28.43**
Stores & Spares	-	2.52	2.57	2.62	2.68	**10.39**
Total	**11.66**	**49.60**	**52.06**	**54.67**	**57.48**	**225.49**

4.9.3 The Authority had commissioned an Independent Study through the Consultant appointed by AERA to determine efficient Aeronautical Operation and Maintenance Expenses for the period FY 2018-19 to FY 2022-23 and used the recommendations of the Study, while truing up the O&M expenses for the First Control Period for KIA.

4.9.4 On comparing the actual expenses incurred by AO (line item wise) with the expenses approved in the Tariff Order for the First Control Period, the Authority noted the following:

i. **Land lease rental:** The Authority noted that the AO had not claimed land lease rental in the true up of First Control Period whereas the Authority had approved ₹ 0.05 Crores in the tariff order for the First Control Period. The AO explained that AERA had approved land lease rental expense in the Tariff Order of the First Control Period based on the assumption that AO would be leasing 1,176.48 acres of land from M/s. KINFRA at the rate of ₹ 100 per acre per annum (refer table 15 of the Tariff Order of the First Control Period). However, AO had subsequently acquired 1,192.18 acres of land from KINFRA for ₹ 316 Crores towards development of Phase I of the Airport.
Further it was observed that, AO had taken on lease approx. 71 acres of land from the Kerala State Government (i.e., apart from acquiring 1,192.18 acres of land) and carried out development on such land (near the runway) but had not yet finalized and signed the lease agreement. Hence, the AO had not considered any land lease rental expense in the true up submission on the First Control Period.

ii. **Employee benefit expenses:** The Authority noted that the actual Employee benefit expense incurred by AO (₹ 51.92 crores) was more or less in line with the amount approved in the Tariff Order (₹ 51.21 crores), for FY 2018-19 to FY 2022-23 of the First Control Period. In respect of higher employee costs incurred by KIA in the first 2 tariff years as compared to approved cost as per the tariff order, it had been observed that the AO had provided salary hike to the employees, in the first tariff year, i.e., FY 2018-19 effective from the date of commissioning of the airport and also, the employee numbers were increased in the next year, i.e., FY 2019-20 in anticipation of traffic growth. Hence, higher employee cost was incurred in the first 2 tariff years. However, the Authority noted that the employee headcount of KIA for certain departments seems to be on the higher side for the last 2 tariff years, as compared to other similar airports and therefore proposed to rationalize the same (refer para 4.9.5 (i)).

iii. **Power & Water:** The Authority noted that the actual Power & Water expenses of ₹ 46.71 Crores were much higher than ₹ 18.47 Crores approved by the Authority in the Tariff Order for the First Control Period. It was noted that the major reason for such deviation is a significant spike in actual power cost incurred during FY 2019-20, i.e., the Pre-COVID year during which KIA achieved its highest traffic growth during the First Control Period. Subsequently, the power cost decreased in the next two tariff years on account of the impact of the pandemic and has again increased in the last tariff year, since the same had been projected based on expected traffic growth.

The Authority noted that the aforementioned utility charges (Power, fuel etc.) had been incurred by the AO, as the infrastructure had been built to handle passenger capacity of 9.34 MPPA. The Authority further noted, that due to the lower traffic during the First Control Period, KIA could have utilized only a limited portion of the Terminal Building and therefore, the higher power expenses were not justified. Based on the above factors, the Authority proposed to rationalize the power expenses and the same has been explained in para 4.9.5 (ii).

iv. **Repairs and Maintenance (R&M):** The Authority noted that the total Repairs & Maintenance expenses of ₹ 76.31 Crores (including housekeeping expenses of ₹ 39.53 Crores) claimed by AO for the First Control Period, were within the limits of ₹ 77.74 Crores as approved by the Authority in the tariff order for the First Control Period.

The Authority noted that the total Repairs & Maintenance expenses were within the limit of 6% of Opening RAB. The Authority had reviewed the repair and maintenance expenses of KIA with other comparable airports as part of the Independent Study on Efficient Operation and Maintenance Expenses of KIA (refer Table 11 of O&M Study report of KIA). Based on the recommendations of the Independent study, the Authority proposed to rationalize Repairs and Maintenance expenses and the same have been explained in para 4.9.5 (iii).

v. **Administration expenses:** The Administration expenses of ₹ 24.76 Crores submitted by AO for true up of the First Control period were within the limits of ₹ 28.43 Crores as approved by the Authority in the tariff order for the First Control Period. Administration expenses for the First Control Period included various expenses such as consultancy charges, travelling, printing & stationery, legal & professional charges, postage & courier, employee training, CSR expenses, rent, miscellaneous administrative expenses, etc.

The Authority noted that the AO had incurred ₹ 1.23 Crores towards CSR expenses during the First Control Period (i.e., ₹ 0.37 Crores in FY 2018-19, ₹ 0.78 Crores in FY 2019-20 and ₹ 0.08 Crores in FY 2020-21). In this regard, the statutory provisions of the Companies Act, 2013 towards allowance of CSR expenses was reviewed and the extract of the same has been provided as under:

Section 135 (1) of Companies Act, 2013 states that 'Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one shall be an independent director.' Further section 135(5) states that 'The Board of every company referred in section 135(1), shall ensure that the company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility'.

The Authority noted that AO had incurred losses in all the five tariff years during First Control Period. Therefore, it was proposed to not consider the above expenses incurred by AO towards CSR. Hence, the Authority proposed to consider the Administration expenses of ₹ 23.53 Crores (₹24.76 Crores less ₹ 1.23 Crores) for the true up the First Control Period.

vi. **Marketing Cost:** It was noted that AO had not claimed any amount towards marketing cost as part of true up in comparison to ₹ 10.75 Crores approved in the tariff order for the First Control Period. Hence, the Authority proposed to not consider any amount towards marketing cost for the First Control Period.

vii. **Security Expenses:** It was noted that Security expenses claimed by the AO amounting to ₹ 2.09 Crores is much lower than the ₹ 28.43 Crores approved by the Authority in the tariff order for the First Control Period.

The Authority noted that the Security expenses claimed by the AO were lower than the approved amount due to the fact that the security services had not been outsourced to third parties as originally envisaged, due to lower passenger traffic during the First Control Period. However, it was observed that AO had engaged a third-party service provider (i.e., outsourced security services) for providing security services, in addition to CISF personnel, both in front of and inside the Terminal Building. Considering all the above factors, the Authority proposed to consider actual Security expenses of ₹ 2.09 Crores for true up of the First Control Period.

viii. **Stores and Spares:** The Authority noted that the AO had not claimed any amount separately for Stores and Spares as against the amount of ₹ 10.39 Crores approved by the Authority in the tariff order for the First Control Period. However, the AO had claimed the expenses towards Stores and Spares under the Repair and Maintenance Expenses. Hence, the Authority proposed to consider Stores and Spares under the Repair and Maintenance expenses and not as separate line item for true up of the First Control Period.

ix. **Other Airport Operating expenses:** The Authority noted that AO had claimed ₹ 76.92 Crores towards Other Airport Operating expenses which were not approved by the Authority as per tariff order for the First Control Period. Other Airport Operating expenses claimed by AO include multiple expenses viz., Custom Cost Recovery Charges, Aviation Meteorological support services charges CNS-ATM services charges, Trolley retrieval services charges and Insurance expenses. As part of the O&M study, following analysis had been done for Other Airport Operating expenses:

a) Customs cost recovery charges (amounting to ₹ 43.50 Crores) refer to the reimbursement of salary cost of customs officials posted at Kannur International Airport vide Circular No. 16/2013 – Customs dated April 10, 2013 issued by Central Board of Excise & Customs, Department of Revenue, Ministry of Finance. The Office of Commissioner of Customs issues a letter / raises a note along with the details of salary cost of customs staff posted at the Airport.

According to the norms for identifying the class of an airport, the minimum number of International Flights per annum and minimum number of passengers per annum should be 3,500 & 3 Lakh respectively for Class C Airport in the each of the preceding two financial years. After analyzing the trend of the PAX and ATM of Kannur Airport, it was noted that the same qualifies as a Class C airport, for which the total staff as per the norms should be 28 (such as 8 Superintendent, 16 Inspector & 4 Sepoy), as against 36 staff claimed by the AO. Accordingly, the Custom cost recovery expenses had been rationalised by the Authority based on staffing norms applicable for Class C airport, as per the above-mentioned Circular (refer para 4.9.5 (iv)).

b) Aviation Meteorological Support Service charges (amounting to ₹ 4.86 Crores) refer to the reimbursement of salary cost and support service charges payable on monthly basis to Indian Meteorological Department (IMD) by the AO for the aviation meteorological services provided to the airport and is based on a Memorandum of Understanding (MOU) entered into between KIAL and IMD.

c) Communication, Navigation and Surveillance and Air Traffic Management Service charges (amounting to ₹ 22.21 Crores) refer to charges payable by AO to AAI on 'quarterly cost recovery' basis for CNS-ATM services rendered by AAI at Kannur International Airport and the same was based on the terms and conditions of the agreement entered into between AAI and KIAL (as per Clause 5.1.1 and 7.4 of the Agreement between KIAL and AAI).

d) In respect of trolley retrieval services amounting to ₹ 1.98 Crores, AO as confirmed that the same had been outsourced to a third-party vendor and the expenses were incurred based on agreed terms and conditions of the agreement entered with the vendor. Further, insurance refers to insurance expenses incurred on various assets and equipment of the Airport.

e) The AO vide email dated January 27, 2023 had provided the following explanation regarding the essentiality of aforementioned services and related charges:

"KIA is a greenfield airport, and these charges are governed as per the terms in the contract for greenfield airports signed between KIAL and the respective central government agencies. Such contracts were not executed during the submission of MYTP for the First Control Period and the historical figures for the same were not available and hence were unable to estimate the expenditure for the same during the time of submission. The services are provided on a cost recovery basis as per the terms and conditions. Further, such costs are only existent for a greenfield airport and hence KIA was not able to benchmark the same since a comparable greenfield airport with similar passenger and aircraft traffic profile was not available. These charges are inevitable for any airport since such services are critical for carrying out operations at any airport. Hence, we request you to consider the same on actuals."

In respect of Customs cost recovery charges and Aviation Meteorological Support Service charges, KIAL had availed the services of the concerned Government Authority / Department for the functioning of smooth conduct of airport operations and incurred the expenses based on agreed terms. Hence, the Authority proposed to allow actual expenses of ₹ 48.37 Crores for true up of the First Control Period.

However, it was pertinent to note that CNS-ATM services were being provided by AAI at Kannur International Airport and the tariff for ANS was regulated by the Ministry of Civil Aviation. All the assets, expenses and revenues pertaining to ANS were considered separately by the Ministry while determining tariff for ANS services. Further, the tariff for ANS services was determined at the Central level by the Ministry of Civil Aviation to ensure uniformity across the Airports in the Country. Hence, AERA determined tariff for Aeronautical services of the Airport Operator, by excluding the assets, expenses and revenues from ANS. Based on the same, the Authority proposed not to consider the CNS-ATM charges of ₹ 22.21 Crores claimed by the AO for true up of the First Control Period.

However, the Authority proposed to consider trolley retrieval service charges and insurance (on assets) for the true up of the First Control Period.

Based on all the above, the Authority proposed to consider Other Airport Operating expenses of ₹ 54.71 Crores for the true up of the First Control Period.

x. **CISF Induction Fee:** The AO had claimed an unapproved amount of ₹ 9.80 Crores towards CISF Induction fee during FY 2018-19. Upon further clarification, AO had submitted the following explanation:

"KIAL had not included the expenses related to CISF in line with Authority's direction in the first control period. However, KIAL based on demand letter dated May 7, 2018 placed a security deposit of Rs.982.03 Lakh with the Ministry of Home Affairs (MoH), towards deployment of CISF staff induction. Subsequently, KIAL requested vide letter dated October 29, 2019 for a refund of such deposit from MoH. The MoH had responded vide letter dated December 2, 2019, that upon clearance from Ministry of Civil Aviation (MoCA) for refunding the deposit the same shall be processed. As per the discussions

held with the MoCA on June 4, 2021, KIAL was informed that the matter was taken up with the MoH and they stated that the fund was deposited in the consolidated fund of India and the fund is non-refundable.

KIAL is of the view that the Security Deposit was paid from its own resources and this deposit was to be recouped from PSF collections after commencement of operations. Due to low passenger volumes since Government of India is not allowing foreign carriers, PSF collections were inadequate to recoup the Security Deposit and meet the Cost of Deployment of CISF personnel and their related expenses. Hence KIAL is of the view that since security function is also a sovereign function and considering the fact that PSF cannot be used for AO's own expenditure, CISF cost is to be borne by the Government of India".

The Authority noted that KIAL was claiming the disputed amount deposited earlier with the Government and subsequently not refunded, as an 'expense' only for Aeronautical purposes (i.e., regulatory filing) since the same was not recoverable from PSF collections. However, it was observed that in the audited financials of KIA for the period up to FY 2021-22, the amount was classified as 'Security deposit' and hence, the same could not be considered differently i.e., as an 'expense' only for the purpose of regulatory filing. The Authority noted that there was a bright possibility of AO recovering the deposit amount from PSF collections in the next Control Period, with expected increase in the passenger volumes. Furthermore, it was pertinent to note that, paras 8.4 and 3.a. of the tariff order of First Control Period mentions the following about CISF costs:

8.4 "The Authority has noted that KIAL has included CISF cost as part of security expenses while computing operation and maintenance expenditure proposed to be incurred during the first control period. Since CISF costs form part-of PSF (security), the Authority has proposed to exclude such amounts from security expenses while computing O&M expenditure proposed to be incurred during the first control period."

3.a "The Authority has decided to exclude expenses relating to the staff of CISF."

Based on the above factors, the Authority proposed not to consider the CISF Induction fee of ₹ 9.80 Crores for the true up of the First Control Period.

xi. **Cargo Related Expenses**: The AO had claimed unapproved Cargo related expenses of ₹ 0.62 Crores for the First Control Period, i.e., actual expenses of ₹ 0.21 Crores towards Cargo handling and other related costs for the FY 2021-22 and Unaudited figures of ₹ 0.41 Crores for the last tariff year, i.e., FY 2022-23.

In this respect, it was observed that the AO had selected the Cargo O&M vendor i.e., Cargo Service Centre India Private Limited, based on competitive bidding process and after carrying out necessary technical / financial evaluation of all the bid proposals, the AO had subsequently entered into a Contract with the vendor (i.e., O&M agreement) on February 2, 2021 for cargo handling operations.

It was pertinent to note here that, AO started Cargo operations in October 2021 out of an interim cargo facility and the operations were continuing from the same facility. The Authority noted that the international imports were commenced only in May 2022 and the international cargo represents approx. 99% of the total cargo volume handled by KIA. Based on the same, the Authority proposed to consider the actual Cargo related expenses of ₹ 0.62 Crores claimed by AO for the true up of the First Control Period.

xii. **ORAT:** The AO had claimed unapproved amount of ₹ 1.52 Crores towards Operational Readiness and Airport Transfer (ORAT) in FY 2018-19 and provided detailed break-up and reports relating to completion of ORAT process. Upon further clarification, KIAL vide email dated January 27, 2023 provided the following explanation:

"These costs are related to the Operational readiness and Airport Transfer (ORAT) which involves series of testing activities carried out before an airport starts its operations. KIA being a greenfield airport, ORAT was required prior to start of operations. However, the expenditure related to the same was not available during the time of submission and hence was not included as part of projections. Therefore, we request you to consider the same on actuals."

Upon examination of the above explanation provided by AO and AERA's Tariff Order issued for BIAL (refer para 5.5.24 and 7.5.32 of Order No. 11 / 2021-22 for the Third Control Period of BIAL, Bengaluru) the Authority noted that ORAT was considered as part of CAPEX along with pre-operative expenses and included in the RAB. It was pertinent to note here that the ORAT process was conducted by BIAL's internal team, and the expenses included costs relating to BIAL's core team, delivery specialists, transportation cost, training charges, provision of various facilities, consumables, etc. (refer para 7.2.65 and Table 133 of Order No. 11 / 2021-22).

However, in respect of KIA, it had been identified that the ORAT process was handled by a third-party service provider, i.e., GMR Airport Developers Ltd and the entire amount of ₹ 1.52 Crores pertained to the professional fees / charges paid to the third-party service provider. Based on the same, the Authority proposed to consider ORAT under O&M expenses of FY 2018-19 and not as part of RAB for the true up of the First Control Period.

xiii. **Airport Inauguration Expenses:** It had been noted that the AO had claimed ₹ 11.72 Crores towards Airport inauguration expenses as part of true up which was not specifically approved by AERA in the tariff order of the First Control Period. The AO had also submitted a detailed break-up of the same and vide email dated January 27, 2023, the following explanation in support of its claim:

"KIA is a greenfield airport which is sandwiched between two international airports (Mangalore and Calicut) within a ~100-150 km radius. Calicut and Mangalore have been in operation for past few decades and have a strong presence in their respective catchments (which include the catchment area for Kannur airport also). Therefore, being a greenfield airport, AO had to carry out various initiatives as part of airport inauguration to attract the passengers to the airport. The initiatives supported in achieving the PAX movement of 1.6 million in first operational year for a greenfield airport such as KIA in a competitive environment. Hence, we request you to consider the expenses on actuals."

It was noted that approx. 92% of the expenses was pertaining to marketing cost i.e., advertisement & promotion / branding expenses both prior to and after the commencement of the operations during the first tariff year, i.e., FY 2018-19. In this regard, the Authority had drawn inferences from the Tariff Order No. 64/2020-21 (para 6.2.41) issued for MIAL on February 27, 2021 pertaining to treatment of advertising expenses and notes the following:

a. Airport is an essential utility service and its use does not necessarily depend on advertisements given or lack of it;

b. Most of these advertisements carry the promoter's logo in addition to the logo of the airport and perhaps is a way to promote promoter's interest while publicizing the airport;

c. Advertising cost is a corporate overhead, as advertisements given promote non-aeronautical services as well as aeronautical services rendered by the Airport Operator.

The AO had allocated the advertisement & branding cost as fully Aeronautical. The Authority noted that the inauguration expenses had been incurred for the first time by the Airport Operator. However, on comparing the same with other similar airports, the same seemed to be on the higher side. Therefore, the Authority proposed to consider ₹ 5.86 Crores (which is about 50% of the expense claimed by AO), for true up of the First Control Period (refer para 4.9.5 (v)).

4.9.5 **Rationalisation of Aeronautical O&M expenses**

Based on the recommendations of the Independent Study on Efficient O&M expenses and its assessment of the reasonableness of O&M expenses, the Authority noted that certain expenses claimed by the AO during the First Control Period (FY 2018-19 to FY 2022-23) such as Employee expenses, Power, fuel & water expenses, Repairs & Maintenance expenses and Airport Inauguration expenses are not in line with normal operating efficiency levels. Accordingly, the Authority proposed to rationalise the same and the details are as follows:

i. **Employee Expenses**

Based on the analysis, the Authority noted that the Employee Head Count and corresponding cost should be rationalised. The department-wise breakup of employees submitted by the AO, had been examined by the Authority for the First Control Period along with the basis of computing the Employee Head Count ratio. The details are shown below:

Table 25: Employee details submitted by AO

Department	Classification	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
MD's Office	Common	4	5	4	4	4
Liaison Office	Non-Aeronautical	0	1	1	1	1
Human Resources	Common	3	3	2	3	2
Finance	Common	5	5	6	6	6
Admin & Land	Common	4	3	2	2	2
Secretarial	Aeronautical	3	3	3	3	1
Engineering-Civil & Electrical	Aeronautical	18	17	17	15	14
IT & Electronics	Aeronautical	5	4	4	4	4
Commercial	Non-Aeronautical	2	3	5	5	6
Operations	Aeronautical	29	28	28	27	24
Airport Security	Common	31	31	29	35	33
ARFF	Aeronautical	67	62	62	60	55
Corporate Affairs	Common	1	1	0	0	0
Total		**172**	**166**	**163**	**165**	**152**
Direct Aeronautical Employees		122	114	114	109	98
Common employees		48	48	43	50	47
Direct Non- Aeronautical Employees.		2	4	6	6	7
Common employee's apportionment						
Aeronautical		47.23	46.37	40.85	47.39	43.87
Non- Aeronautical		0.77	1.63	2.15	2.61	3.13
Total		**48**	**48**	**43**	**50**	**47**
Head Count after apportionment of Common employees						
Total Number of Aero Employees		**169**	**160**	**155**	**156**	**142**

Department	Classification	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Total Number of Non-Aero Employees		**3**	**6**	**8**	**9**	**10**
Employee Head Count ratio (Aeronautical: Non-aeronautical)		**98.39%**	**96.61%**	**95.00%**	**94.78%**	**93.33%**

The Authority noted that Security department head count submitted by the AO for the First Control Period were on the higher side as compared to the level of operations, lower traffic growth and the employee headcount of other similar airports.

Upon further analysis of the Headcount of Security personnel for each Financial Year, it was noted that the same includes Baggage Screener Executives and Trainees, who were generally engaged for monitoring passenger flow through screening checkpoints to ensure order and efficiency at the airport. The Headcount of Baggage Screener Executives included as part of Security for the First Control Period, were 25 for FY 2018-19, 23 for FY 2019-20 and FY 2020-21 and 8 for FY 2021-22 and FY 2022-23. As these Screeners catered to the essential requirements of the passengers, the expenses incurred towards them had been considered as Aeronautical.

It is noted that the majority of the Headcount included under Security Personnel for the FY 2018-19, FY 2019-20 and FY 2020-21 pertained to Screener Executives. Therefore, the Authority proposed to consider the actual Headcount of Security Personnel, submitted by the AO for the aforementioned tariff years. However, in the last 2 tariff years, the Headcount of Screeners was much lesser. Further, it was noted that Headcount of Security personnel for the last 2 tariff years were on the higher side when compared with the level of operations, lower traffic growth and the employee numbers of other similar airports. Based on the above factors, it was proposed to consider 50% of the Security headcount (other than Screeners) for the last 2 tariff years i.e., FY 2021-22 and FY 2022-23.

Further, the Authority noted that the employees of Secretarial department and IT & Electronics department had been classified as 'Aeronautical'. The Authority, based on the recommendations of the O&M Study report, proposed to reclassify the same as 'Common' in line with the approach adopted by the Authority for other similar airports. Based on the above factors, the Aeronautical Employee Head Count and the corresponding ratios for all the FYs had been recomputed and the same were as follows:

Table 26: Employee Head Count and ratio proposed by the Authority at Consultation Stage

Department	Classification	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
MD's Office	Common	4	5	4	4	4
Liaison Office	Non- Aeronautical	0	1	1	1	1
Human Resources	Common	3	3	2	3	2
Finance	Common	5	5	6	6	6
Admin & Land	Common	4	3	2	2	2
Secretarial	Common	3	3	3	3	1
Engineering-Civil & Electrical	Aeronautical	18	17	17	15	14
IT & Electronics	Common	5	4	4	4	4
Commercial	Non- Aeronautical	2	3	5	5	6
Operations	Aeronautical	29	28	28	27	24
Airport Security	Common	31	31	29	20	19
ARFF	Aeronautical	67	62	62	60	55

Department	Classification	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Corporate Affairs	Common	1	1	0	0	0
Total		**172**	**166**	**163**	**150**	**138**
Direct Aeronautical Employees		114	107	107	102	93
Common employees		56	55	50	42	38
Direct Non- Aeronautical Employees		2	4	6	6	7
Common employee's apportionment						
Aeronautical		55	53	47	39	35
Non- Aeronautical		1	2	3	3	3
Total		**56**	**55**	**50**	**42**	**38**
Head Count after apportionment of Common employees						
Total Number of Aero Employees		**169**	**160**	**154**	**141**	**128**
Total Number of Non-Aero Employees		**3**	**6**	**9**	**9**	**10**
Employee Head Count ratio (Aeronautical: Non-aeronautical)		**98.28%**	**96.40%**	**94.69%**	**94.44%**	**93.00%**

Based on the above rationalisation in employee headcount and reclassification of two departments, the corresponding reduction in employee cost are shown as follows:

Table 27: Employee Cost as per AO vs Revised cost derived by the Authority at Consultation Stage

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
As per AO						
Total Employee Head Count as per AO (in Nos.)	**172**	**166**	**163**	**165**	**152**	
Total Employee cost as per AO	7.45	11.44	11.57	12.08	11.90	**54.44**
Aero ratio applied by AO	98.39%	96.61%	95.00%	94.78%	93.33%	
Aeronautical Employee Cost claimed by AO **(A)**	**7.33**	**11.05**	**10.99**	**11.45**	**11.11**	**51.93**
As derived by the Authority						
Total Employee Head Count revised as per Study (in Nos)	**172**	**166**	**163**	**150**	**138**	
Aero ratio applied as per Table 26	98.28%	96.40%	94.69%	94.44%	93.00%	
Aeronautical Employee Cost considered by the Authority **(B)**	**7.32**	**11.03**	**10.95**	**10.35**	**10.05**	**49.70**
Amount proposed not to be considered by the Authority **(C = A-B)**	0.01	0.02	0.04	1.10	1.06	**2.23**

Based on all above factors, the Authority proposed to consider the Employee cost of ₹ 49.70 Crores as per Table 27 for true up of the First Control Period.

ii. **Rationalisation of Power, fuel & water expenses**

The Authority noted that as against ₹ 18.47 crores approved by the Authority towards Utility expenses (refer Table 24) in the Tariff Order of the First Control Period, the AO had submitted actual power expenses of ₹ 46.72 Crores for the First Control Period. The higher expense was attributable to the designated capacity of the Airport which was 9.34 MPPA and the same did not complement with the actual passenger throughput (which was only 1.35 MPPA during FY 2022-23). Further, the Authority noted that the total passenger traffic of KIA is projected to reach only up to 2.89 MPPA by the end of the Second Control Period.

Based on the above factors, the Authority proposed to rationalise the Utility expenses (Power, Water etc.), based on the recommendations of the Independent Study report on Efficient O&M expenses of KIA, by considering the expenses of MIA as the base (since its more comparable to KIA) and had derived the proportionate cost of KIA *(refer 5.5.3 of O&M Study Report of KIA)* on the basis of PAX traffic which worked out to ₹ 25.34 Crores (i.e., ₹ 58.41 (Utility expense of MIA/ PAX) x 4.34 MPPA (PAX of Kannur Airport)). The Authority proposed to allow ₹ 25.34 Crores as against ₹ 46.72 Crores claimed by AO and reduced the differential amount of ₹ 21.38 Crores (i.e., ₹ 46.72 Crores minus ₹ 25.34 Crores) over four tariff years starting from FY 2019-20 since the airport commenced its operations and was functional only for approx. four months in the first tariff year, i.e., FY 2018-19. The details of the same are shown below:

Table 28: Rationalisation of Power, fuel & water expenses proposed by the Authority at Consultation Stage

(₹ in Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	TOTAL
Power, fuel & water expenses claimed by AO (A)	3.58	12.92	9.07	9.82	11.33	**46.72**
Power, fuel & water expenses derived by the Authority (B)	3.58	7.37	3.85	4.45	6.09	**25.34**
Amount proposed not to be considered by the Authority (C = A - B)	-	5.55	5.22	5.37	5.24	**21.38**

The Authority was of the view that the AO should implement energy saving measures, by optimizing power consumption in areas within the Terminal Building, where there is no passenger movement. Also, the Authority took cognizance of the Green Energy initiatives proposed by the AO for the current Control Period, which might help in achieving efficiency in power consumption over a period of time.

iii. **Rationalisation of Repairs & Maintenance expenses**

The Authority, based on the recommendations of the Independent Study report on Efficient O&M expenses of KIA, proposed to rationalise the Repairs & Maintenance expenses (other than *housekeeping* charges) by considering the expenses of MIA as the base (since its more comparable to KIA) and had derived the proportionate cost of KIA based on the PAX traffic, which worked out to ₹ 27.61 Crores (i.e., ₹ 63.62 (expense of MIA / PAX Traffic) x 4.34 MPPA (PAX of KIA) . Based on the above factors, the Authority proposed to allow ₹ 27.61 Crores *as against* ₹ 36.78 Crores claimed by AO and reduced the differential amount of ₹ 9.17 Crores (i.e., ₹ 36.78 Crores minus ₹ 27.61 Crores) over four tariff years starting from FY 2019-20 since the airport commenced its operations and was functional only for approx. four months in the first tariff year, i.e., FY 2018-19 *(refer 4.2.3 of O&M Study Report of KIA)*. The details of the same are shown below:

Table 29: Rationalisation of Repairs & Maintenance expenses proposed by the Authority at Consultation Stage

(₹ in Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Repairs & Maintenance expenses – as per Actuals submitted by AO						
Housekeeping charges	3.13	8.98	8.44	9.08	9.89	39.52
Other Repairs and maintenance	2.70	6.61	8.25	9.51	9.71	36.78
Total Repairs & Maintenance expenses claimed by AO (A)	**5.83**	**15.59**	**16.69**	**18.59**	**19.60**	**76.30**
Repairs & Maintenance expenses – as per the Authority						
Housekeeping charges	3.13	8.98	8.44	9.08	9.89	39.52
Other Repairs and maintenance	2.7	4.15	5.45	6.86	8.45	27.61
Total Repairs & Maintenance expenses considered by the Authority (B)	**5.83**	**13.13**	**13.89**	**15.94**	**18.34**	**67.13**
Amount proposed not to be considered by the Authority (C = A-B)	-	2.46	2.80	2.65	1.26	**9.17**

iv. **Other Airport Operating expenses**

The Authority proposed to rationalize the Custom Cost Recovery expenses claimed by AO, based on the Staffing Norms defined for Class C Airport, as per the Circular No. 16/2013 – Customs dated April 10, 2013 issued by Central Board of Excise & Customs, Department of Revenue, Ministry of Finance. Accordingly, the Customs Recovery costs had been determined as ₹ 33.70 Crores (considering proportionate salary costs of 28 officers as per norms, as against 36 officers claimed by AO) for the period from FY 2018-19 to FY 2022-23, as against ₹ 43.50 Crores claimed by AO. *(refer 4.2.4 of O&M Study Report of KIA)*. The details of the same are shown below:

Table 30: Adjustments for Other Airport Operating Expenses proposed by the Authority at Consultation Stage

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	TOTAL
Total Other Airport Operating expenses – considered for True up (A)	**2.96**	**10.80**	**11.41**	**13.66**	**15.88**	**54.71**
Other Airport Operating expenses considered by the Authority						
Customs Cost Recovery Charges (B)	1.96	6.69	6.81	8.39	9.87	33.72
Aviation Meteorological Support Services (C)	0.24	0.98	1.08	1.19	1.37	4.86
Trolley Retrieval Services (D)	-	0.50	0.55	0.35	0.58	1.98

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	TOTAL
Insurance (E)	0.19	0.67	1.00	1.30	1.22	4.38
Total Other Airport Operating expenses proposed by the Authority (F= B+ C+ D+ E)	**2.39**	**8.84**	**9.44**	**11.23**	**13.04**	**44.94**
Amount proposed not to be considered by the Authority (G = A - F)	0.57	1.96	1.97	2.43	2.86	**9.78**

v. **Airport Inauguration Expenses**

Based on its analysis, the Authority proposed to rationalise the Airport inauguration expenses claimed by AO which were mostly in the nature of advertisement, branding and promotion, as the same was oriented towards enhancing Aeronautical and Non-aeronautical revenue. Taking cognizance of the fact that such expenses had been incurred for the first time by AO, the Authority proposed to consider the same for true up of the First Control Period. However, on a comparison of such expenses incurred by other similar airports, it appeared ₹ 11.72 Crores claimed by AO is on the higher side. Therefore, the Authority proposed to consider ₹ 5.86 Crores (which was about 50% of the expense claimed by AO), for true up of the First Control Period. The details of the same are shown below:

Table 31: Adjustment to Airport inauguration expenses proposed by the Authority at Consultation Stage

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Airport inauguration expenses – as per Actuals submitted by AO **(A)**	11.72	-	-	-	-	**11.72**
Airport inauguration expenses – considered by the Authority **(B)**	5.86	-	-	-	-	**5.86**
Amount proposed not to be considered by the Authority **(C = A - B)**	**5.86**	-	-	-	-	**5.86**

4.9.6 Based on the above analysis, the Authority proposed to consider the following revised Aeronautical O&M expenses (prior to reallocation) for True up of the First Control period.

Table 32: Revised Aeronautical O&M expenses of KIA for True up of the First Control period post rationalisation at Consultation Stage

(₹ Crores)

Particulars	Ref.	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Land lease rental		-	-	-	-	-	-
Employee costs	Table 27	7.32	11.03	10.95	10.35	10.05	49.70
Power, Fuel & Water	Table 28	3.58	7.37	3.85	4.45	6.09	25.34
Repair & Maintenance	Table 29	5.83	13.13	13.89	15.94	18.34	67.13
Administration expenses	4.9.4 (v)	7.29	3.42	3.69	4.04	5.09	23.53
Marketing Cost	4.9.4 (vi)	-	-	-	-	-	-
Security	4.9.4 (vii)	-	0.44	0.43	0.47	0.75	2.09
Stores & Spares	4.9.4 (viii)	-	-	-	-	-	-
Other Airport Operating Expenses	Table 30	2.39	8.84	9.44	11.23	13.04	44.92
CISF Induction fee	4.9.4 (x)	-	-	-	-	-	-

Particulars	Ref.	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Cargo related expenses	4.9.4 (xi)	-	-	-	0.21	0.41	0.62
ORAT	4.9.4 (xii)	1.52	-	-	-	-	1.52
Airport inauguration expenses	Table 31	5.86					5.86
Total		**33.79**	**44.23**	**42.25**	**46.69**	**53.75**	**220.71**

4.9.7 Reallocation of O&M expenses by the Authority

The Authority had drawn the inference from the Independent Study on Efficient Operation and Maintenance expenses of Kannur International Airport, that the common O&M expenses had been segregated by the AO between Aeronautical and Non-aeronautical expenses based on appropriate ratio. This ratio had been determined based on the underlying proportion of their expected utilisation for Aeronautical and Non-aeronautical services and activities at the Airport.

The Authority had analyzed the submission made by the AO on allocation of Common expenses into Aeronautical and Non-aeronautical on a case-to-case basis and applied appropriate re-classification and re-allocation of the expenses, wherever it noted any discrepancies in the allocation of expenses by the AO (refer Table 27 for basis for allocation of O&M expenses of KIA as per the O&M Study report). Further, the following expenses had already been rationalised by the Authority and hence had not been considered for further re-allocation.

a) Employee Cost

b) Power, Fuel & water Expenses

c) Other Repairs and Maintenance expenses (under Repair & Maintenance)

d) Cargo related Expenditure

e) Custom Cost Recovery Expenses (under Other Airport Operating Expenses)

f) ORAT and Airport Inauguration Expenses

The re-allocation of the other O&M expenses had been explained in the following paragraphs.

a) Administrative and other expenses

Observation: The submissions by AO had been analysed and it was observed that the Administrative and other expenses include certain expenses such as Consultancy charges, Legal & professional fees, Insurance on vehicles, etc., which directly relate to the Airport premises, certain others such as Employee Training expenses, Printing & Stationery, Vehicle running expenses, Travelling & conveyance, etc. are relatable to employees and rent is relatable to Terminal Building. Therefore, the components of the Administrative and other expenses related to the entire Airport had been allocated in the Gross Fixed Assets ratio, those relatable to employees in the revised Employee Head Count ratio and rent had been allocated in the Terminal Building ratio of 92:8.

Impact: The impact of the reallocation resulted in the reduction of Administrative and other expenses by ₹ 0.38 Crores for the First Control Period.

Reference: Para 5.5.2 of the Study on Efficient Operation and Maintenance Expenses for KIA, Kannur

b) Repairs and Maintenance expenses

Observation: The aeronautical Repairs & Maintenance expenses of KIA (excluding housekeeping) had already been rationalised. Therefore, the Authority did not propose to further re-allocate the same.

However, the housekeeping charges claimed by AO (which was part of total Repairs and Maintenance) had been re-allocated in the Terminal Building ratio of 92:8.

Impact: The impact of the reallocation resulted in increase of Repairs and Maintenance expenses by ₹ 1.04 Crores for the true up period.

Reference: Para 5.5.3. of the Study on Efficient Operation and Maintenance Expenses for KIA, Kannur.

c) **Security Expenses**

Observation: It was observed that the Security expenses, which directly relate to the Airport premises, had been allocated by AO in the ratio of Employee Headcount. However, the Authority proposed to reallocate the same in the Gross Fixed Assets ratio considering the nature of expenses and in line with allocation for other similar airports.

Impact: The impact of the reallocation resulted in reduction of Security expenses by ₹ 0.05 Crores for the true up period.

Reference: Para 5.5.4 of the Study on Efficient Operation and Maintenance Expenses for KIA, Kannur.

d) **Other Operating Expenses**

Observation: It was noted that the Other Operating expenses include expenses such as Aviation Meteorological Support Services, Trolley retrieval service charges, which are essential for the operations of the airport and had been considered as 100% Aeronautical by AO. However, it was observed that the Insurance expenses claimed under this head had been incurred towards various assets and hence, related to the entire Airport. Based on the same, the Insurance expenses had been allocated in the Gross Fixed Assets ratio.

Impact: The impact of the reallocation resulted in increase of Other Operating expenses by ₹0.01 Crores for the true up period.

The impact based on the above re-allocation of O&M expenses had been summarised in the following table:

Table 33: Impact of re-allocation of O&M expenses determined by the Authority for True up of First Control Period at Consultation Stage

(₹ Crores)

O&M expenses	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Employee Cost	-	-	-	-	-	-
Administration Expenses	0.27	0.06	0.02	0.03	0.01	**0.38**
Power, Fuel & Water	-	-	-	-	-	-
R&M Expenses	0.08	0.24	0.22	0.24	0.26	**1.04**
Security expenses	-	0.01	0.00	(0.00)	0.04	**0.05**
Other Operating Expenses	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	**(0.01)**
Cargo Related Expenditure	-	-	-	-	-	-
ORAT & Inauguration Expenses	-	-	-	-	-	-
Total	**0.35**	**0.31**	**0.23**	**0.26**	**0.30**	**1.45**

4.9.8 Based on the above re-classification and change in allocation ratio, the Authority had proposed the following revised Aeronautical O&M expenses (post rationalization and reallocation) for the First

Control Period:

Table 34: Aeronautical O&M expenses proposed to be considered by the Authority for the True up of the First Control period at Consultation Stage

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
O&M Expenses post rationalisation as proposed by the Authority (A)						
Land lease rental	-	-	-	-	-	-
Employee costs	7.32	11.03	10.95	10.35	10.05	49.70
Power, Fuel & Water	3.58	7.37	3.85	4.45	6.09	25.34
Repair & Maintenance	5.83	13.13	13.89	15.94	18.34	67.13
Administration expenses	7.29	3.42	3.69	4.04	5.09	23.53
Marketing Cost	-	-	-	-	-	-
Security	-	0.44	0.43	0.47	0.75	2.09
Stores & Spares	-	-	-	-	-	-
Other Airport Operating Expenses	2.39	8.84	9.44	11.23	13.02	44.92
CISF Induction fee	-	-	-	-	-	-
Cargo related expenses	-	-	-	0.21	0.41	0.62
ORAT	1.52	-	-	-	-	1.52
Airport inauguration expenses	5.86	-	-	-	-	5.86
Aeronautical O&M expenses post rationalisation (A) (refer Table 32)	**33.79**	**44.23**	**42.25**	**46.69**	**53.75**	**220.71**
Impact on reallocation proposed by the Authority (B)						
Employee Cost	-	-	-	-	-	-
Administration Expenses	0.27	0.06	0.02	0.03	0.01	**0.38**
Power, Fuel & Water	-	-	-	-	-	-
R&M Expenses	0.08	0.24	0.22	0.24	0.26	**1.04**
Security expenses	-	0.01	0.00	(0.00)	0.04	**0.05**
Other Operating Expenses	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	**(0.01)**
Cargo Related Expenditure	-	-	-	-	-	-
ORAT & Inauguration Expenses	-	-	-	-	-	-
Total downward/ upward impact of reallocation proposed by the Authority (B)	**0.35**	**0.31**	**0.23**	**0.26**	**0.30**	**1.45**
O&M Expenses post rationalisation and reallocation as proposed by the Authority (C=A-B)						
Land lease rental	-	-	-	-	-	-
Employee costs	7.32	11.03	10.95	10.35	10.05	**49.70**
Power, Fuel & Water	3.58	7.37	3.85	4.45	6.09	**25.34**
Repair & Maintenance	5.75	12.89	13.67	15.70	18.08	**66.09**
Administration expenses	7.02	3.36	3.67	4.01	5.08	**23.15**
Marketing Cost	-	-	-	-	-	-
Security	-	0.43	0.43	0.47	0.71	**2.04**
Stores & Spares	-	-	-	-	-	-
Other Airport Operating Expenses	2.39	8.84	9.44	11.23	13.02	**44.91**
CISF Induction fee	-	-	-	-	-	-
Cargo related expenses	-	-	-	0.21	0.41	**0.62**
ORAT	1.52	-	-	-	-	**1.52**

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Airport inauguration expenses	5.86	-	-	-	-	5.86
Aeronautical O&M expenses post rationalisation & Reallocation = (C= A- B)	**33.44**	**43.92**	**42.02**	**46.43**	**53.45**	**219.26**

4.9.9 Based on its analysis, the Authority proposed to true up the O&M expenses for the First Control period as per Table 34.

Stakeholders' comments on True up of Operation and Maintenance (O&M) expenses for the First Control Period

4.9.10 During the stakeholders' consultation process, the Authority has received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper No. 17/2023-24 with respect to True up of Operation and Maintenance (O&M) expenses for the First Control Period. The comments by stakeholders are presented below:

AO's comments on True up of Operation and Maintenance (O&M) expenses for the First Control Period

4.9.11 AO has commented the following:

- *"Regarding headcount of screeners: KIAL would like to highlight that in FY22 and FY23 the designation of Baggage Screening Executives were changed to Junior Managers. However, they perform the same function of baggage screening as seen in the below table. The same can also be verified in the details provided by KIAL vide mail dated 4 July 2023 which contains the name and designation of all the personal in the respective department.*

Break up of employees in security department	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Assistant Manager	1	1	1		2
Baggage Screening Executive	18	23	23	8	7
Baggage Screening Executive-Trainee	7				1
Chief Security Officer	1	1	1	1	1
Junior Manager	2	2	2	25	21
Junior Executive	1	1	1		
Manager	1	1	1	1	1
TOTAL	31	29	29	35	33

The designation change for the same person can be observed in the detailed employee break up submitted by KIAL to the authority vide email dated 4 July 2023.

➢ *Providing a sample from employee list below:*

As per employee break up in FY21:

Emp No	Name of Employee	Designation
0115	AMAL KUMAR K K	Baggage Screening Executive
0116	REMYA K K	Baggage Screening Executive

As per employee break up in FY22:

Emp No	Name of Employee	Designation
0115	AMAL KUMAR K K	Junior Manager
0116	REMYA K K	Junior Manager

It can be observed that the employees are same and only the designations have been changed.

- *As a measure to rationalize expenses, KIAL has not undertaken any additional hiring and no increase in manpower is envisaged in second control period also.*
- *KIAL observes that the Authority has rationalized actual O&M expenses pertaining to power & fuel expenses and repairs & maintenance expenses on basis of benchmarking figures with Mangalore international Airport. We request authority to reconsider the same because of strikingly different nature when compared to the benchmark airport. The airport that has been chosen for comparison with KIAL is a well-established brownfield airport whose variable costs are already spread across a matured traffic flow, while Kannur Airport is greenfield airport whose cost of operations would be high in the initial years of operations. Furthermore, the challenges faced by the airport such as global pandemic, lack of PoC status and grounding of anchor airline as mentioned earlier has led to a unique situation of low traffic.*
- *Further, kindly note that Kannur International Airport has been recently constructed with state-of-the-art infrastructure which was supposed to help cater to needs of the ever-changing consumers and growing aviation market and attract Indian and International carriers in extremely competitive catchment area. The terminal area of benchmark airport (Terminal area of MIA is only 39% of the area of KIA; Terminal area of CCJ is only 59% of the area of KIA) are significantly lower than that of Kannur airport.*
- *Authority has highlighted lower traffic during the First Control Period at KIA as a reason to lower power expenses. KIAL would like to point out that lower traffic flow at KIAL, as already mentioned in the document before, was due to factors which were beyond the control of the airport.*
- *Regular maintenance of assets including utility infrastructure is critical as they wear out with time and use. Neglected or deferred maintenance of infrastructure will result in degradation/ damage leading to maintenance costs over time and in some cases additional capital expenditure. This will further increase the aggregate revenue requirement in the future.*
- *Kannur International Airport is yet to mature as it commenced its operations in December 2018 and had only one year of uninterrupted operations i.e., FY 2020 before COVID pandemic outbreak.*
- *During initial years of operation such higher operation and maintenance expenditure is normal and the same matures once traffic increases and stabilizes. KIAL had missed the opportunity for this due to reasons not in control of the airport.*
- *KIAL humbly requests AERA to consider the operation and maintenance expenses on actuals as submitted by the airport operator."*

Other Stakeholders' comments on True up of Operation and Maintenance (O&M) for the First Control Period

4.9.12 IATA has commented the following:

- *"We would like to seek clarity on the obligation of the Airport Operator for security expenses following the introduction of the ASF.*
- *We agree with the proposed rationalization of aeronautical O&M expenses by AERA, particularly the employee-related expenses that did not reflect the required optimization of operations and costs during the pandemic*
- *We commend AERA for correctly re-classifying some of the costs as expenses, such as the ORAT expenses, and not adding to the RAB. It is important as returns are already provided for RAB.*
- *It should be noted that OPEX by Airport Operator remained constant even during the pandemic, which is not ideal."*

AO's responses to other stakeholders' comments on True up of Operation and Maintenance (O&M) for the First Control Period

4.9.13 AO has responded to IATA's comments as under:

- *"The security at the airport has to be ensured in addition to personnel in CISF. Hence the airport has deployed third party security personnel to ensure the safety and security at the airport. Such measures are in line with that followed in other major airports such as DIAL, MIAL, CIAL and BIAL.*
- *KIAL observes that the Authority has rationalized actual O&M expenses pertaining to power & fuel expenses and repairs & maintenance expenses on basis of benchmarking figures with Mangalore international Airport. We request authority to reconsider the same because of strikingly different nature when compared to the benchmark airport. The airport that has been chosen for comparison with KIAL is a well-established brownfield airport whose variable costs are already spread across a matured traffic flow, while Kannur Airport is greenfield airport whose cost of operations would be high in the initial years of operations. Furthermore, the challenges faced by the airport such as global pandemic, lack of PoC status and grounding of anchor airline as mentioned earlier has led to a unique situation of low traffic.*
- *KIAL had conducted in depth analysis and classified the assets which has been updated to Authority and its consultants during clarification and Airport visits. We request AERA to consider KIAL submissions.*
- *KIAL has the following operations and maintenance expense heads:*
  - *a) Employee expenses*
  - *b) Repairs and maintenance*
  - *c) Security*
  - *d) Power and Fuel*
  - *e) Operations and maintenance*
  - *f) Vehicle Running & Maintenance expenses*
  - *g) Housekeeping*

h) Customs Cost Recovery Charges

i) Aviation Meteorological Support Services

j) Communication, Navigation and Surveillance and Air Traffic Management Services

k) CISF Induction Fee

l) Land lease expenses

m) Trolley Retrieval Services

n) Insurance

It may be noted that majority of expenses are fixed and not directly related to traffic movement. Such expenses such as housekeeping, employee expense, repairs and maintenance, etc. should be borne irrespective of traffic movement to prevent deterioration of the assets. Moreover, charges such as custom cost recovery charges, CISF induction fee, etc. are solely based on agreements entered by KIAL with the respective central government agencies. Such expenses are also not a function of traffic movement. In addition to this IATA may kindly note that the airport handled flights as per bubble agreement and Vande Bharat schemes.

Hence, the fixed costs had to be incurred irrespective of the traffic movements.

- *Hence it is submitted that the O&M is efficient to the extent possible."*

Authority's analysis on Stakeholders' comments regarding True up of Operation and Maintenance (O&M) for the First Control Period

4.9.14 The Authority has noted the comments of AO on O&M Expenses:

i The Authority, based on its analysis of the justification and data submitted by the AO, as part of the stakeholders' comments, decides to consider the baggage screening executives submitted by the AO for determining the employee headcount and the O&M expenses for true up of the First Control Period. The Employee headcount determined by the Authority for True up of the First Control Period, are shown as per table below:

Table 35: Employee Head Count and ratio decided by the Authority

Department	Classification	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
MD's Office	Common	4	5	4	4	4
Liaison Office	Non- Aeronautical	0	1	1	1	1
Human Resources	Common	3	3	2	3	2
Finance	Common	5	5	6	6	6
Admin & Land	Common	4	3	2	2	2
Secretarial	Common	3	3	3	3	1
Engineering-Civil & Electrical	Aeronautical	18	17	17	15	14
IT & Electronics	Common	5	4	4	4	4
Commercial	Non- Aeronautical	2	3	5	5	6
Operations	Aeronautical	29	28	28	27	24
Airport Security	Common	31	31	29	35	33
ARFF	Aeronautical	67	62	62	60	55
Corporate Affairs	Common	1	1	0	0	0
Total		**172**	**166**	**163**	**165**	**152**

Department	Classification	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Direct Aeronautical Employees		114	107	107	102	93
Common employees		56	55	50	57	52
Direct Non- Aeronautical Employees		2	4	6	6	7
Common employee's apportionment						
Aeronautical		55	53	47	54	48
Non- Aeronautical		1	2	3	3	4
Total		**56**	**55**	**50**	**57**	**52**
Head Count after apportionment of Common employees						
Total Number of Aero Employees		**169**	**160**	**154**	**156**	**141**
Total Number of Non-Aero Employees		**3**	**6**	**9**	**9**	**11**
Employee Head Count ratio (Aeronautical: Non-aeronautical)		**98.28%**	**96.40%**	**94.69%**	**94.44%**	**93.00%**

ii The Authority takes cognizance of the comments raised by the AO w.r.t incurrence of higher O&M expenses in the First Control Period, being a Greenfield Airport. However, the Authority would like to clarify on the following:

- Mangaluru International Airport was benchmarked with KIA, due to its topography (being a table top Airport), located in the southern region and also having PAX which is more or less close to KIA in the aftermath of COVID -19 pandemic.
- Although, it is understandable that in case of a greenfield airport, the cost of operations may be higher in the initial years and the same would break even with the gradual growth in the passenger traffic. However, it is pertinent to note that the actual passenger throughput vis - à - vis the designed capacity (9.34 MPPA) of the Airport does not complement each other. This has resulted in a situation of over -capacity, which may eventually lead to higher operating expenses, thereby burdening the Airport users with higher tariffs.

  In the interest of the Airport Users, the Authority has rationalised the O&M expenses and hereby recommends that the AO should keep in mind the current utilization of the Airport capacity, before planning any further investment in CAPEX and also take measures to optimise the O&M expenses.
- Further, the Authority, based on the analysis of the AO's comments (as detailed in para 4.9.11), decides to consider the actual Power expenses incurred by the AO amounting to ₹ 43.66 Cr. for true up of the First Control Period, as the same has been incurred by the AO, based on the tariff determined by the Government/ Regulatory Authority.

4.9.15 The Authority has noted comments of IATA and the response of the AO on security expenses thereon.

4.9.16 AERA notes the views of IATA regarding the classification and rationalisation of O&M expenses of KIA.

Further, the Authority notes IATA's comments on OPEX of AO remaining constant during the pandemic and the AO's response thereon. The Authority is of the view that OPEX includes fixed expenses such as Payroll and other overhead costs that are based on contractual obligations of the AO and not dependent upon movement in traffic.

However, as stated at the Consultation stage (refer para 9.2.31 of this Tariff Order), the Authority expects AO to bring in efficiencies in the incurrence of O&M expenses for the benefit of airport users and in line with AERA Act, AERA Guidelines and ICAO Principles.

4.9.17 Based on the above factors, the Authority decides to consider the O&M expenses for the true up of the Second Control Period, which is as follows:

Table 36 :O&M Expenses decided by the Authority for the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	TOTAL
Employee costs	7.32	11.03	10.95	11.41	11.07	**51.78**
Power, Fuel & Water	3.58	12.49	8.83	9.48	11.01	**45.38**
Repair & Maintenance	5.75	12.89	13.67	15.7	18.08	**66.09**
Administration expenses	7.02	3.36	3.67	4.01	5.08	**23.14**
Marketing Cost	-	-	-	-	-	**-**
Security	-	0.43	0.43	0.47	0.71	**2.04**
Stores & Spares	-	-	-	-	-	**-**
Other Airport Operating Expenses	2.39	8.84	9.44	11.23	13.02	**44.92**
CISF Induction fee	-	-	-	-	-	**-**
Cargo related expenses	-	-	-	0.21	0.41	**0.62**
ORAT	1.52	-	-	-	-	**1.52**
Airport inauguration expenses	5.86	-	-	-	-	**5.86**
Total O&M Expenses	**33.44**	**49.04**	**46.99**	**52.50**	**59.37**	**241.35**

Note :The variance of ₹ 22.09 Crores between the O&M proposed by the Authority at Consultation Stage and the Tariff Order is due to increase in payroll expenses by ₹ 2.08 Crores on account of inclusion of Baggage Screener Executives in the Employee Head Count and considering actual power expenses submitted by AO resulting in increase of ₹ 20.04 Crores and negative impact of ₹ 0.02 Crores due to CSR expenses.

4.10 True up of Aeronautical Revenue

4.10.1 AO had submitted the actual Aeronautical revenue for the First Control Period, which was as follow:

Table 37: Aeronautical revenue submitted by AO for the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Landing revenues	1.63	10.93	5.11	8.27	12.88	38.82
Parking revenues	0.38	1.79	4.23	4.22	2.86	13.48
UDF revenues	3.54	51.24	14.67	29.46	52.94	151.85
Passenger service fees	-	-	-	-	-	-
Inline X-ray baggage revenues	0.95	8.26	2.82	4.83	7.34	24.20
TNLC Collection	0.52	3.89	1.59	2.26	4.35	12.61
CUTE/ CUSS/ BRS revenues	0.25	1.86	0.55	1.04	1.93	5.63

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Aerobridge revenues	0.41	2.52	1.04	1.68	2.21	7.86
Ground handling revenues	1.08	6.11	2.52	2.12	3.19	15.02
Cargo concession revenues	-	0.03	0.09	0.90	2.20	3.22
License Fee for Unpaved Land-BKFFPL	0.64	4.24	4.24	4.24	1.57*	14.93
Total	**9.39**	**90.87**	**36.86**	**59.02**	**91.47**	**287.62**

**The decrease in License Fee for Unpaved Land (BKFFPL) of FY 2022-23 is due to fair valuation of lease rental as per Ind AS 116*

4.10.2 The Authority compared the actual Aeronautical revenue submitted by the AO as per Table 37 with the projections approved in the Tariff Order for the First Control Period and the same are as follows:

Table 38: Actual Aeronautical revenue submitted by AO for the First Control period vis-à-vis the projections approved in the Tariff Order for the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Aeronautical revenue as per Tariff Order for the First Control Period (A)	79.88	182.13	206.29	232.64	262.05	**962.99**
Actual Aeronautical revenue (B) -refer Table 37	9.39	90.87	36.86	59.02	91.47	**287.62**
Variance (A-B)	70.49	91.26	169.43	173.62	170.58	**675.37**

4.10.3 The Authority noted that there was a major variance between Projected and Actual Aeronautical revenue during the First Control Period, which was attributable to lower passenger traffic and ATM due to the adverse impact of the COVID-19 pandemic on the Aviation sector.

4.10.4 The Authority reviewed the Aeronautical revenue submitted by the AO with the Audited figures for the Financial Years (FY 2018-19 to FY 20221-22) and Unaudited Figures of FY 2022-23 and proposed to consider the Aeronautical revenue as per Table 37 for True up of First Control Period. The Authority noted the actual Aeronautical revenue achieved by Kannur International Airport for the period FY 2018-19 to FY 2022-23, was based on the actual traffic data available in AAI's website.

Stakeholders' comments on True up of Aeronautical Revenue for the First Control Period

4.10.5 No comments were received from the Stakeholders on true up of Aeronautical Revenue for the First Control Period.

Authority's analysis on stakeholders' comments regarding true up of Aeronautical revenue for the First Control Period

4.10.6 The Authority notes that no comments were received from the Stakeholders regarding true up of Aeronautical Revenue for the First Control Period.

4.10.7 Based on the analysis in para 3.5.2, the Authority decides to consider the Aeronautical Revenue, after excluding Revenue from TNLC collection for the True up of the First Control Period. Further, as stated in para 4.8.7, the Authority has considered Space Rental and CAM charges from Airlines, as part of the Aeronautical Revenue.

4.10.8 Based on the above factors, the Aeronautical Revenue decided by the Authority for True up of the First Control Period of KIA is as follows:

Table 39: Aeronautical Revenue decided by the Authority for True up of First Control Period

(in ₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Landing revenues	1.63	10.93	5.11	8.27	12.88	38.82
Parking revenues	0.38	1.79	4.23	4.22	2.86	13.48
UDF revenues	3.54	51.24	14.67	29.46	52.94	151.85
Passenger service fees	-	-	-	-	-	-
Inline X-ray baggage revenues	0.95	8.26	2.82	4.83	7.34	24.20
CUTE/ CUSS/ BRS revenues	0.25	1.86	0.55	1.04	1.93	5.63
Aerobridge revenues	0.41	2.52	1.04	1.68	2.21	7.86
Ground handling revenues	1.08	6.11	2.52	2.12	3.19	15.02
Cargo concession revenues	-	0.03	0.09	0.90	2.20	3.22
License Fee for Unpaved Land-BKFFPL	0.64	4.24	4.24	4.24	1.57	14.93
A. Total	**8.87**	**86.98**	**35.27**	**56.75**	**87.12**	**275.00**
B. Reclassification from Non-aeronautical to Aeronautical revenue						
i. *Add:* CAM charges from Airlines	-	0.17	0.14	0.08	0.12	**0.50**
ii. *Add :* Space Rental from Airlines	0.14	0.59	0.64	0.80	1.20	**3.36**
B. Total	**0.14**	**0.76**	**0.78**	**0.88**	**1.32**	**3.86**
Total Aeronautical Revenue (A+B)	**9.01**	**87.74**	**36.05**	**57.63**	**88.44**	**278.87**

4.11 True up of Taxation

4.11.1 AO had submitted taxation for the First Control Period as follows:

Table 40: Taxation submitted by AO for the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	TOTAL
Aeronautical Revenue	8.32	84.74	35.89	57.93	88.96	**275.83**
Less: Operating expenses	51.64	61.78	58.59	60.04	68.50	**300.55**
EBIDTA	(43.33)	22.96	(22.70)	(2.11)	22.97	**(22.21)**
Less: Book depreciation	20.05	91.94	91.91	92.44	92.20	**388.55**
Less: Interest	30.58	81.60	84.15	88.78	100.21	**385.32**
PBT	(93.96)	(150.58)	(198.76)	(183.33)	(171.91)	**(798.55)**
Tax	-	-	-	-	-	-

4.11.2 The Authority noted that AO had incurred losses during all the five tariff years during the Second

Control Period, due to which the taxes were NIL. The Authority proposed to consider the tax as NIL for True up of First Control Period.

Table 41: Taxation considered for KIA as per the Authority at Consultation Stage

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Aeronautical Revenue (refer Table 37)	9.39	90.87	36.86	59.02	91.47	**287.62**
Less: Operating expenses (refer Table 23)	(51.64)	(61.78)	(58.59)	(60.04)	(70.31)	**(302.36)**
EBITDA	**(42.25)**	**(29.09)**	**(21.73)**	**(1.02)**	**21.16**	**(72.93)**
Less: Depreciation	(20.05)	(91.94)	(91.91)	(92.44)	(52.10)	**(348.44)**
Less: Interest	(30.58)	(81.60)	(84.15)	(88.78)	(100.21)	**(385.32)**
PBT	**(92.88)**	**(144.45)**	**(197.79)**	**(182.24)**	**(131.15)**	**(748.51)**
Tax			**0.00**			

4.11.3 The Authority proposed to consider tax as per Table 41 for True up of First Control Period and carry forward the losses while determining Aeronautical Taxes for the Second Control Period.

Stakeholders' comments on True up of Taxation for the First Control Period

4.11.4 No comments were received from the Stakeholders on true up of Taxation for the First Control Period.

Authority's analysis on stakeholders' comments on True up of taxation for the First Control Period

4.11.5 The Authority notes that no comments were received from the Stakeholders regarding true up of taxation for the First Control Period.

4.11.6 The Authority has re-computed the relevant figures, based on the Aeronautical Revenue as per Table 39 and O&M expenses as per Table 36 and the same is shown as under:

Table 42: Taxation decided by the Authority for the First Control Period

(in ₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Aeronautical Revenue (refer Table 39)	9.01	87.74	36.05	57.63	88.44	**278.87**
Less: Operating expenses (refer Table 36)	33.44	49.04	46.99	52.50	59.37	**241.34**
EBITDA	**(24.43)**	**38.70**	**(10.94)**	**5.13**	**29.07**	**37.53**
Less: Depreciation	21.98	72.25	72.49	73.03	72.92	**312.66**
Less: Interest	30.58	81.60	84.15	88.78	100.21	**385.32**
PBT	(76.99)	(115.15)	(167.58)	(156.68)	(144.07)	**(660.46)**
Tax			-			-

4.11.7 The Authority decides to consider Taxes as per Table 42 for true of the First Control Period.

4.12 True up of Aggregate Revenue Requirement (ARR) for the First Control period

4.12.1 Based on its analysis of the various building blocks, the Authority had determined the ARR and Under recovery for True up of the First Control period and same had been presented in the table below:

Table 43: ARR proposed to be considered by the Authority for true up of the First Control period at Consultation Stage

(₹ Crores)

Particulars	Formula	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Average RAB (refer Table 16)	a	694.53	1,371.37	1,325.53	1,262.49	1,192.01	
FRoR (refer para 4.7.1)	b	12.21%	12.21%	12.21%	12.21%	12.21%	
Return on Average RAB	(c) = (a) * (b)	26.02[#]	167.44	161.85	154.15	145.54	**655.01**
Depreciation (refer Table 15)	(d)	21.66	71.19	71.44	72.02	71.88	**308.18**
O&M expenses (refer Table 34)	(e)	33.44	43.92	42.02	46.43	53.45	**219.26**
Tax (refer Table 41)	(f)	-	-	-	-	-	-
Add: Under recovery of Previous Control Period	(g)	-	-	-	-	-	-
Gross ARR	(h) = (c+ d+ e+ f+ g)	81.12	282.55	275.31	272.60	270.87	**1,182.45**
NAR (refer Table 19)		9.58	25.76	12.85	24.15	23.54	**95.88**
Less 30% NAR	(i)	2.87	7.73	3.86	7.25	7.06	**28.76**
Net ARR	(j) = (h - i)	78.25	274.82	271.45	265.35	263.81	**1,153.68**
Actual Aeronautical Revenue (refer Table 37)	(k)	9.39	90.87	36.86	59.01	91.47	**287.62**
Surplus/ Deficit	l = (k-j)	(68.85)	(183.95)	(234.59)	(206.34)	(172.34)	**(866.08)**
Period of Discounting	(m)	4.31	4.00	3.00	2.00	1.00	
Discount Factor (@12.21%)	(n)	1.64	1.59	1.41	1.26	1.12	
Under/ (Over) recovery of Second Control Period as on March 31, 2024	(o) = l*(1+b)^n	(113.09)	(291.63)	(331.44)	(259.80)	(193.39)	(1,189.34)
True up of Under Recovery of Second Control Period as on March 31, 2024				**1,189.34**			

[#] *Return computed proportionately for 113 days from the date of commercial operations up to March 31, 2019*

4.12.2 The ARR proposed by the Authority was ₹ 1,189.34 Crores (refer Table 43), as against ₹ 2,109.91 (refer Table 5) crores submitted by AO. The variance was on account of the following:

i. Re-classification of assets and Exclusion of Land Development Cost from RAB ₹ 333.28 Crores along with the FA related to Land Development Cost of ₹ 72.99 Crores, due to which there was a reduction of ₹ 477.70 Crores in the Return on RAB and Depreciation derived by the Authority.

ii. Rationalisation of O&M expenses amounting to ₹ 83.10 Crores by the Authority, based on the recommendations of the O&M Study report.

iii. Non consideration of Return on Land amounting to ₹ 68.29 Crores for the First Control Period.

4.12.3 The Authority noted that Kannur International Airport had been declared as a Major Airport due to its designed capacity of 9.34 MPPA, although its actual passenger throughput volume was lesser than the threshold limit of 3.5 MPPA defined under the AERA Act 2008 read with AERA (Amendment) Act

2019 (refer para 1.1.2). Further, it was noted that the actual Aeronautical revenue achieved by the Airport during the First Control Period was significantly lesser than the Aeronautical revenue projected by the Authority in the Tariff Order for the First Control period (refer Table 38) due to adverse impact of the COVID -19 pandemic, soon after the commencement of its commercial operations in December 2018.

Stakeholders' comments on True up of Aggregate Revenue Requirement (ARR) for the First Control Period

4.12.4 No comments were received from the Stakeholders on true up of Aggregate Revenue Requirement (ARR) for the First Control Period.

Authority Analysis of True up of Aggregate Revenue Requirement (ARR) for the First Control Period

4.12.5 The Authority has noticed that there are no stakeholder's comments regarding True up of ARR for the First Control Period.

4.12.6 Based on the changes to the regulatory building blocks discussed under the above sections, the Authority has derived the ARR for true up of the First Control Period and the same is as follows:

Table 44 : ARR decided by Authority for First Control Period

(in ₹ Crores)

Particulars	Formula	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Average RAB (refer Table 16)	a	694.53	1,371.37	1,325.53	1,262.49	1,192.01	
FRoR (refer Table 18)	b	12.50%	12.50%	12.50%	12.50%	12.50%	
Return on Average RAB	(c) = (a) * (b)	26.64	171.42	165.69	157.81	149.00	**670.56**
Depreciation (refer Table 15)	(d)	21.66	71.19	71.44	72.02	71.88	**308.18**
O&M expenses (refer Table 36)	(e)	33.44	49.04	46.99	52.50	59.37	**241.35**
Tax (refer Table 42)	(f)	-	-	-	-	-	-
Add: Under recovery of Previous Control Period	(g)	-	-	-	-	-	-
Amortisation of Land Development costs (refer para 4.5.19 (i))		-	12.46	12.46	12.46	12.46	**49.84**
Gross ARR	(h) = (c+ d+ e+ f+ g)	81.73	304.11	296.58	294.79	292.72	**1,269.93**
NAR (refer Table 22)		9.44	25.01	12.08	23.27	18.60	**88.40**
Less 30% NAR	(i)	2.83	7.50	3.62	6.98	5.58	**26.52**
Net ARR	(j) = (h - i)	78.90	296.61	292.96	287.81	287.14	**1,243.41**
Actual Aeronautical Revenue (refer Table 39)	(k)	9.01	87.74	36.05	57.63	88.44	**278.87**
Under/ (Over) recovery of First Control Period	l = (k-j)	69.89	208.87	256.91	230.18	198.70	**964.55**
Period of Discounting	(m)	4.31	4.00	3.00	2.00	1.00	
Discount Factor (@12.50%)	(n)	1.66	1.60	1.42	1.27	1.13	

Particulars	Formula	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Under/ (Over) recovery of Second Control Period as on March 31, 2024	(o) = l*(1+b)^n	**116.07**	**334.57**	**365.80**	**291.32**	**223.53**	**1,331.29**
True up of Under Recovery of Second Control Period as on March 31, 2024	**1,331.29**						

4.12.7 The variance of ₹ 141.95 Crores between the Under-recovery decided by the Authority, which is ₹ 1,331.29 Crores for true up of the Second Control Period and that proposed by the Authority at the Consultation stage, which is ₹ 1,189.34 Crores on account of the following: -

i. Determination of revised FRoR as 12.50% taking into account the revised Debt Equity ratio.

ii. Consideration of Baggage Screener Executive and Power Expenses as per AO's submission resulting in increase of O&M expenses by ₹ 22.09 Crores.

iii. Amortization of Land Development Cost amounting to ₹ 49.84 Crores (refer para 4.5.19 (i)).

iv. Revision of Non-Aeronautical Revenue for FY 2022-23 based on Audited Figures resulting in reduction of ₹ 4.94 Crores for FY 2022-23 from ₹ 23.54 Crores to ₹ 18.60 Crores.

v. Exclusion of TNLC Charges of ₹ 12.61 Crores from Aeronautical Revenue (refer para 4.10.7).

vi. Reclassification of Non-aeronautical revenue to Aeronautical revenue amounting to ₹ 3.86 Cr.

4.13 Authority's decisions regarding true up for the First Control Period

Based on the material before it and its examination, the Authority decides the following with respect to True up of the First Control Period for KIA:

4.13.1 To consider true up of depreciation for the First Control period as per Table 15.

4.13.2 To consider true up of RAB for the First Control period as per Table 16.

4.13.3 To consider true up of FRoR for the First Control period as per Table 18.

4.13.4 To consider true up of Non-aeronautical revenue for the First Control Period as per Table 22

4.13.5 To consider true up of Aeronautical O&M expenses for the First Control Period as per Table 36.

4.13.6 To consider true up of Aeronautical revenue for the First Control Period as per Table 39.

4.13.7 To consider true up of Aeronautical Taxation for the First Control Period as per Table 42.

4.13.8 To consider ARR and Under recovery for True up of KIA for the First Control Period as per Table 44 and readjust the same in the ARR for the Second Control Period

EVALUATION OF MYTP FOR THE SECOND CONTROL PERIOD

5 TRAFFIC FORECAST FOR THE SECOND CONTROL PERIOD

5.1 AO's submission on Traffic for the Second Control Period

5.1.1 The historical Passenger traffic, ATM and Cargo traffic at the Airport had been shown in the table below:

Table 45: Historical Passenger, ATM and Cargo traffic at KIA

	Passenger			ATM			Cargo		
Year	**DOM**	**INT**	**TOTAL**	**DOM**	**INT**	**TOTAL**	**DOM**	**INT**	**TOTAL**
2018-19*	1,35,175	89,127	**2,24,302**	1,467	578	**2,045**	-	-	-
2019-20	7,77,660	8,05,940	**15,83,600**	9,742	5,389	**15,131**	-	-	-
2020-21	1,84,990	2,96,094	**4,81,084**	3,985	2,321	**6,306**	-	-	-
2021-22	2,76,492	5,22,630	**7,99,122**	5,674	4,136	**9,810**	21	1,538	**1,559**
2022-23	4,03,995	8,53,091	**12,57,086**	5,791	6,233	**12,024**	66	3,846	**3,912**

DOM- Domestic, INT- International

**FY 2018-19 includes 113 days starting from December 9, 2018 to March 31,2019*

5.1.2 The traffic growth rates and traffic as submitted by AO for the Second Control Period are as follows:

Table 46: Traffic growth rates and traffic proposed by AO

	Passenger Traffic			ATM			Cargo		
				GROWTH RATES					
Year	**DOM**	**INT**	**TOTAL**	**DOM**	**INT**	**TOTAL**	**DOM**	**INT**	**TOTAL**
2023-24	114%	19%	**50%**	67%	37%	**52%**	94%	40%	**41%**
2024-25	22%	12%	**16%**	19%	10%	**15%**	7 %	11%	**11%**
2025-26	17%	7%	**12%**	17%	0 %	**9 %**	7 %	11%	**11%**
2026-27	11%	7%	**9%**	8%	-2%	**4%**	7 %	11%	**11%**
2027-28	9%	7%	**8%**	9%	7%	**8%**	7%	12%	**12%**
				PROJECTED TRAFFIC					
2023-24	8,64,613.44	10,18,482.50	**18,83,095.94**	9,697.00	8,559.00	**18,256.00**	127.92	5,369.04	**5,496.95**
2024-25	10,56,123.96	11,37,467.29	**21,93,591.26**	11,529.00	9,415.00	**20,944.00**	136.97	5,985.05	**6,122.02**
2025-26	12,39,137.99	12,16,530.40	**24,55,668.39**	13,526.00	9,398.00	**22,924.00**	146.66	6,642.92	**6,789.59**
2026-27	13,78,267.41	12,95,991.31	**26,74,258.72**	14,654.00	9,247.00	**23,901.00**	157.04	7,345.07	**7,502.11**
2027-28	15,08,719.77	13,80,791.08	**28,89,510.85**	16,041.00	9,852.00	**25,893.00**	168.16	8,252.07	**8,420.22**

* *Growth rates are computed based on Actual Traffic of FY 2022-23*

5.2 Authority's examination of AO's submission on Traffic Forecast for the Second Control Period at the Consultation Stage

5.2.1 The 5-year and 3-year CAGRs had been computed for the respective periods up to FY 2022-23, starting from FY 2018-19. The table below provides the details of the CAGR for Passenger traffic, ATM and Cargo:

Table 47: CAGR for Passenger traffic, ATM and Cargo

Particulars	5-year*	3-year**
	CAGR	CAGR
Passengers:		
Domestic	31%	48%
International	76%	70%
Total Passenger Traffic	54%	27%
ATM:		
Domestic	41%	20%
International	81%	64%
Total ATM	56%	38%

* *For the period FY 2018-19 to FY 2022-23*

** *For the period FY 2020-21 to FY 2022-23*

Note: CAGR for cargo isn't provided due to 0% CAGR for both 5-year and 3-year Period.

5.2.2 The Authority noted the wide variation in traffic in the recent past, which causes CAGR for 5 years period to be the highest for International Air Traffic Movement.

5.2.3 There was a growth of 46.11% and 63.23 % in domestic passenger traffic and international passenger traffic respectively for FY 2022-23 (over previous financial year). Similarly, a growth of 2.1% and 50.70%, respectively in domestic ATM and international ATM for FY 2022-23 (over previous financial year).

5.2.4 The AO had projected a growth of 114% in domestic passenger traffic and of 19% in international passenger traffic in FY 2023-24. Likewise, it had projected a growth of 67% in domestic ATM and 37% in international ATM in FY 2023-24.

5.2.5 The revised traffic forecasts had been computed by the Authority, after considering the study and analysis by the following agencies regarding the impact of COVID-19 pandemic on the Aviation sector:

Computation of revised traffic forecasts by the Authority, considering the impact of COVID-19 pandemic

The revised traffic forecasts had been computed by the Authority, after considering the study and analysis by the following agencies regarding the impact of COVID-19 pandemic on the Aviation sector:

5.2.6 **Airports Council International (ACI)**

ACI in its recent report has analysed the impacts of COVID-19 pandemic on airports and its path to recovery:

- *Despite strong headwinds, the industry is continuing to recover as more countries ease travel restrictions and open their markets, including Japan in the Asia-pacific region. This coupled with the propensity for air travel will drive the industry's recovery, expected to reach 2019 levels in 2024.*
- *Markets like Colombia, Mexico and Nigeria welcomed a surge in demand and exceeded their 2019 levels. The United States (87% of 2019), Spain (82%), Brazil (80%) and India (75%) were among other major aviation markets also making strides to close the gap with 2019 passenger levels in the first half of 2022.*
- *Global passenger traffic in the year 2022 is expected to be 6.8 billion, representing a loss of 33.1%*

compared to the projected baseline, which is 74.4% of 2019 traffic.

- *Full recovery to 2019 levels at the global level is forecast for 2024.*

5.2.7 **International Air Transport Association (IATA)**

IATA in its report on January 9, 2023 had announced the air travel recovery continued through November 2022:

- *Total traffic in November 2022 (measured in revenue passenger kilometers or RPKs) rose 41.3% compared to November 2021. Globally, traffic is now at 75.3% of November 2019 Levels.*
- *International traffic rose 85.2% versus November 2021. The Asia-Pacific continued to report the strongest year-over-year results with all regions showing improvement compared to the prior year. November 2022 international RPKs reached 73.7% of November 2019 Levels.*
- *Domestic traffic for November 2022 was up 3.4% compared to November 2021 with travel restrictions in China continuing to dampen the global result. Total November 2022 domestic traffic was at 77.7% of the November 2019 Level*

Conclusion on traffic forecasts based on the above assumptions

5.2.8 The Authority had taken into consideration the forecasted data published by ACI and IATA cited in para 5.2.6 and 5.2.7 above for arriving at the revised traffic projections.

5.2.9 The Authority also compared the actual traffic achieved during 2022-23 (with that of the corresponding period in FY 2019-20 (Pre-COVID period) and noted that the actual International Passenger Traffic and International ATM of FY 2022-23 had surpassed the Pre-COVID levels. The details of the same are as follows:

Table 48: Comparison of Passenger, ATM and Cargo traffic at KIA between FY 2019-20 vs 2022-23

Traffic	FY 2019-20			FY 2022-23			Traffic of FY 2022-23 as a% of FY 2019-20 traffic		
	DOM	INT	TOTAL	DOM	INT	TOTAL	DOM	INT	TOTAL
PAX	7,77,660	8,05,940	**15,83,600**	4,03,995	8,53,091	**12,57,086**	52%	106%	**79%**
ATM	9,742	5,389	**15,131**	5,791	6,233	**12,024**	59%	116%	**79%**
Cargo	0	0	**0**	66	3,846	**3,912**	0%	0%	**0%**

5.2.10 The Authority, as a part of its examination had reviewed the route development initiatives submitted by the AO as part of its MYTP, which was expected to improve connectivity to existing and new destinations and upgrading of aircraft on certain routes.

The AO had submitted that it has been in discussions with the airlines to deploy capacity at Kannur. As part of KIA's route development initiatives following actions had already been taken up by the airlines:

i. Upgraded aircraft (A320) by Indigo in CNN-BLR route

ii. Start of operations in CNN-BOM route by Indigo

iii. Start of operations in CNN-AUH route by Indigo

iv. Start of operations in CNN-AUH route by Air India

v. Start operations in CNN-DXB route by Air India Express

vi. Scheduled operations in CNN-JED route by Air India Express

The AO had submitted that there was significant untapped potential in KIA's catchment and its route development initiatives were expected to facilitate airlines to tap into this potential and result in faster traffic growth in the coming years.

5.2.11 The Authority had taken cognizance of the CAGR (5-year and 3-year) derived by it as per Table 47, positive outlook provided by the Expert Agencies, the GoI 's decision to resume commercial flights, the encouraging trend in the traffic numbers reported in FY 2023-24 (YTD August 2023) and the route development initiatives undertaken by the AO (as explained in the above para). Based on the above factors, the Authority proposed to consider the Passenger traffic (Domestic and International) and Domestic ATM projected by the Airport Operator for the Second Control Period. Further, the Authority proposed to consider a growth of 7% for International ATM for FY 2025-26 and FY 2026-27 as against 0% and -2%, projected by the AO for the respective years.

5.2.12 With respect to Cargo Volume, the Authority noted that the Cargo Operations had not commenced before FY 2021-22 mainly due to COVID 19 pandemic. Further, considering the positive trend in the combined Cargo volume for the FY 2022-23, the Authority proposed to consider the Cargo volume projections submitted by the AO for all five tariff years of the Second Control Period.

5.2.13 Based on the above analysis, the traffic growth rates and the corresponding traffic for Passengers, ATM and Cargo as considered by the Authority for the Second Control Period are given in the table below:

Table 49: Traffic proposed to be considered by the Authority for the Second Control Period at Consultation Stage

Domestic Passengers (in lacs)	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**Total**
Domestic PAX submitted by AO	4.04	8.65	10.56	12.39	13.78	15.09	60.47
Domestic PAX proposed by the Authority	4.04	8.65	10.56	12.39	13.78	15.09	60.47
Y-o-Y growth of Domestic PAX submitted by AO		114%	22%	17%	11%	9%	
Y-o-Y growth of Domestic PAX proposed by the Authority		114%	22%	17%	11%	9%	
International Passengers (in lacs)	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**Total**
International PAX submitted by AO	8.53	10.18	11.37	12.17	12.96	13.81	60.49
International PAX proposed by the Authority	8.53	10.18	11.37	12.17	12.96	13.81	60.49
Y-o-Y growth of International PAX submitted by AO		19%	12%	7%	7%	7%	
Y-o-Y growth of International PAX proposed by Authority		19%	12%	7%	7%	7%	
Total passengers (in lacs)	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**Total**
Total PAX as per AO's submission	12.57	18.83	21.94	24.56	26.74	28.90	120.96
Total (Domestic and International) proposed by the Authority	12.57	18.83	21.94	24.56	26.74	28.90	120.96
Y-o-Y growth of Total PAX submitted by AO		50%	16%	12%	9%	8%	
Y-o-Y growth of Total PAX proposed by Authority		50%	16%	12%	9%	8%	

Domestic ATM (in '000)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Domestic ATM submitted by AO	5.79	9.70	11.53	13.53	14.65	16.04	65.45
Domestic ATM proposed by the Authority (A)	5.79	9.70	11.53	13.53	14.65	16.04	65.45
Y-o-Y growth of Domestic ATM submitted by AO		67%	19%	17%	8%	9%	
Y-o-Y growth of Domestic ATM proposed by Authority		67%	19%	17%	8%	9%	
International ATM (in '000)	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**Total**
International ATM submitted by AO	6.23	8.56	9.42	9.40	9.25	9.85	46.47
International ATM proposed by the Authority (D)	6.23	8.56	9.42	10.07	10.78	11.53	50.36
Y-o-Y growth of International ATM submitted by AO		37%	10%	0%	-2%	7%	
Y-o-Y growth of International ATM proposed by Authority		37%	10%	7%	7%	7%	
Total ATM (in '000s)	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**Total**
Total ATM (Domestic and International) as per AO's submission	12.02	18.26	20.94	22.92	23.90	25.89	111.92
Total ATM (Domestic and International) proposed by the Authority	12.02	18.26	20.94	23.60	25.43	27.57	115.81
Y-o-Y growth of Total ATM submitted by AO		52%	15%	9%	4%	8%	
Y-o-Y growth of Total ATM proposed by Authority		52%	15%	13%	8%	8%	
Domestic Cargo (MT in '000)	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**Total**
Domestic Cargo submitted by AO	0.07	0.13	0.14	0.15	0.16	0.17	0.74
Domestic Cargo proposed by the Authority	0.07	0.13	0.14	0.15	0.16	0.17	0.74
Y-o-Y growth of Domestic Cargo submitted by AO		94%	7%	7%	7%	7%	
Y-o-Y growth of Domestic Cargo proposed by Authority		94%	7%	7%	7%	7%	
International Cargo (MT in '000)	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**Total**
International Cargo submitted by AO	3.85	5.37	5.99	6.64	7.35	8.25	33.59
International Cargo proposed by the Authority	3.85	5.37	5.99	6.64	7.35	8.25	33.59
Y-o-Y growth of International Cargo submitted by AO		40%	11%	11%	11%	12%	
Y-o-Y growth of International Cargo proposed by Authority		40%	11%	11%	11%	12%	
Total Cargo (MT in '000)	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**Total**
Total Cargo submitted by AO	3.91	5.50	6.12	6.79	7.50	8.42	34.33
Total Cargo proposed by the Authority	3.91	5.50	6.12	6.79	7.50	8.42	34.33

Y-o-Y growth of Total Cargo submitted by AO		41%	11%	11%	11%	12%	
Y-o-Y growth of Total Cargo proposed by Authority		41%	11%	11%	11%	12%	

5.2.14 The Authority had proposed to true up the traffic volume (Passengers, ATM and Cargo) on the basis of actual traffic in the Second Control Period while determining tariffs for the Third Control Period.

5.3 Stakeholders' comments on Traffic forecasts for the Second Control Period

5.3.1 During the stakeholders' consultation process, the Authority had received comments/views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 17/ 2023-24 with respect to Traffic Forecast for the Second Control Period. The comments by stakeholders are presented below:

Other Stakeholders' comments on Traffic forecasts for the Second Control Period

5.3.2 FIA has commented the following:

<u>Para 5.2.8 and Table 41 of CP</u>

"While we appreciate that AERA has computed the traffic forecast after considering the forecasted data published by ACI and IATA (refer para 5.2.5 and 5.2.8), we request AERA to kindly conduct an independent study, which may also include demand drivers that may not have been part of report issued by IATA and ACI India.

We would also like to draw the attention of the Authority, that the trends in the recent post pandemic times may not be a reasonable benchmark, whether be it of passengers or traffic, as economic factors such as inflation or market demand / prices may not continue in the same rate or trend in the future, as the same are due to unusual factors including but not limited to the geo-political causes etc,

Hence, we request that the Authority may kindly take the same into consideration and appoint independent consultants to evaluate the same while finalising utilized the projected Annual Traffic Movement and passengers"

AO's response on the Stakeholders' comments on traffic forecasts for the Second Control Period

5.3.3 AO has responded the following to FIA's comment:

- *"In post Pandemic period, FIA's suggestion is appreciated to consider all the relevant trends, and economic factors for projecting accurate traffic figures. This will help the stakeholders to get a clear view of future scenarios and accordingly act.*
- *Accordingly, traffic projections have been revised through a in depth study considering above aspects in 2022. The traffic projections submitted for second control period are as per the study conducted. The study reports have already been shared with the authority for their reference."*

5.4 Authority's analysis on Stakeholders' comments regarding traffic forecasts for the Second Control Period

5.4.1 The Authority has examined the comments of FIA on conducting an independent study on the traffic projections. The requirement for an independent study on traffic projections depends upon the size, scale and complexity of operations at the Airport. Also, FIA has not given any comment for or against on the Traffic Proposals proposed in the Consultation Paper.

Further, the Authority has also reviewed the independent study conducted by the AO w.r.t traffic projections and also noted the route development initiatives submitted by the AO, as part of the MYTP, which is expected to improve connectivity to existing and new destinations on certain routes by the respective airlines. (refer para 5.2.10 of this Tariff Order).

Based on the above factors, the Authority has derived traffic projections for the Second Control Period and sees no reason to deviate from the proposal made by it at the Consultation stage and decides to consider traffic forecast as per Table 49 .

5.5 Authority's decisions regarding Traffic Forecast for the Second Control Period

Based on the available facts and analysis there upon, the Authority decides the following with regard to traffic forecast for the Second Control Period

5.5.1 To consider the Passenger traffic, ATM and Cargo traffic for the Second Control Period for KIA as per Table 49.

5.5.2 To true up the traffic volume (Passengers, ATM and Cargo) on the basis of actual traffic in the Second Control Period while determining tariffs for the Third Control Period

6 CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) OF KIA FOR THE SECOND CONTROL PERIOD

6.1 Background

6.1.1 RAB is an essential element in the process of tariff determination. The return to be provided on the RAB constitutes a considerable portion of the Aggregate Revenue Requirement for an Airport Operator. To encourage the participation of the private sector in airport development and operations, the investors must be fairly compensated for the capital outlays involved. At the same time, to safeguard the interests of the airport users, it must be ensured that the capital additions are efficient, their needs justified, and the return on investment are provided solely on the assets related to the core operations (i.e., Aeronautical services) of the Airport.

6.1.2 The Independent Consultant appointed by the Authority had performed an in-depth analysis of the submissions made by the Airport Operator towards Aeronautical Capital Additions, Depreciation and RAB. In this respect, the Independent Consultant had performed the following functions:

i. Conducted Site visit on February 28, 2023 to witness the physical progress of the projects.

ii. Sought and verified various technical reports, Drawings and Plans, BOQs, cost estimates and break-up, detailed justification, copies of Letter of Intent (LOI)/ Letter of Award (LOA), Purchase Orders and Work Orders, etc., provided by the Airport Operator and

iii. Sought documentary evidence and verified the process of approval of CAPEX projects including the process for award of various work orders to the contractors for such projects.

6.1.3 Based on the site visits and the review of documents as stated above, the Authority had rationalized the CAPEX projects, submitted by the Airport Operator by shifting the capitalization of some of the projects to the Third Control Period, based on the essentiality and necessity for Airport operations.

6.1.4 In the background of the facts stated above, the Authority had examined the entire CAPEX plan in detail for KIA, considering the historical traffic trends and future traffic estimates such that only essential, reasonable and efficient CAPEX was considered as part of RAB for the Second Control Period with a view to encourage the investment and maintain a balanced approach between the sustainable operations of the Airport Operator and the interest of the airport users. Further, the Authority had taken cognizance of the fact that, if any excessive CAPEX was allowed in this Control Period, it would be against the regulatory framework, as tariff would have had no link to the services/ facilities created at the Airport and the resultant high aeronautical charges would have been unfair to the ultimate users.

6.1.5 Towards this objective, the Authority had examined in detail the Aeronautical Capital Expenditure, Depreciation and RAB submitted by the Airport Operator and has been presented its views in the following order:

i. Aeronautical Capital expenditure proposed for Second Control Period

ii. Aeronautical Depreciation for the Second Control Period

iii. Regulatory Asset Base for the Second Control Period

6.2 AO's submission on Capital Expenditure (CAPEX) proposed for the Second Control Period

6.2.1 The Authority noted that the Airport Operator had submitted Aeronautical Capital Expenditure of ₹ 64.66 Crores in the MYTP for the Second Control Period, which has been shown as follows:

Table 50: Capital Expenditure projects submitted by AO for the Second Control Period

(₹ Crores)

Asset Category	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Freehold Land	-	-	-	-	-	-
Leasehold Land	-	-	-	-	-	-
Pavements	-	-	-	-	-	-
Building, Roads, Bridges, Drains and Culverts	-	-	-	-	1.60	1.60
Fire Department Equipment	-	-	-	-	-	-
Plant & Equipment	-	-	-	2.50	-	2.50
Furniture & Fittings	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-
Computer & Accessories	-	-	-	-	-	-
Office Equipment	-	-	-	-	-	-
Electrical Equipment	-	20.00	8.40	8.15	2.50	39.05
Other Assets	7.23	5.38	0.35	0.70	7.85	21.51
Total Aeronautical CAPEX	**7.23**	**25.38**	**8.75**	**11.35**	**11.95**	**64.66**

Authority's examination of Capital Expenditure (CAPEX) for the Second Control Period at Consultation Stage

6.2.2 The Authority had examined KIA's submission as per MYTP with respect to CAPEX proposed for the Second Control Period. The Authority had grouped the proposed CAPEX for the Second Control Period into the following for evaluation:

A. Capital additions projects shifted from the First Control Period to the Second Control Period.

B. Capital Addition projects proposed by the AO for the Second Control Period.

6.2.3 Based on its analysis of the construction of Integrated Cargo Terminal in para 4.5.6 (v), the Authority proposed to consider capitalisation of the Integrated Cargo Terminal Building amounting to ₹ 32.20 Crores in FY 2023-24. Accordingly, the Capital Addition projects considered by the Authority for its examination for the Second Control Period of KIA, has been shown in the table below:

Table 51: Revised CAPEX proposed for the Second Control Period

Particulars	Amount (₹ Crores)
A. Capital additions projects shifted from the First Control Period to the Second Control Period (Integrated cargo Terminal detailed in para 4.5.6 (v))	32.20
B. Capital Addition projects proposed by the AO for the Second Control Period (Refer Table 50)	64.66
Total CAPEX proposed by the AO for the Second Control Period **(A+B)**	**96.86**

6.2.4 The capital additions had been explained project-wise in the table below:

Table 52: Project wise revised Capital Expenditure submitted by the Airport Operator for the Second Control Period

(₹ Crores)

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA) / IDC	Total CAPEX (incl. FA)
A.	**Capital additions projects shifted from the First Control Period to the Second Control Period**				
A1.	**Building, Roads, Bridges, Drains & Culverts**				
	Construction of Integrated Cargo Terminal	2023-24	32.20	-	32.20
	Cargo Terminal Commissioning	2027-28	1.60	-	1.60
	Total – Building, Roads, Bridges, Drains & Culverts		**33.80**	**-**	**33.80**
B.	**Capital Addition projects proposed by the AO for the Second Control Period**				
B1.	**Plant & Equipment**				
	BDDS Equipment	2026-27	2.50	-	2.50
	Total – Plant & Equipment		**2.50**	**-**	**2.50**
B2.	**Electrical Equipment**				
	CAT-1 runway approach lighting system	2024-25	20.00	-	20.00
	2nd feeder line (33 KV Feeder from KSEB)	2026-27	5.00	-	5.00
	Green Energy Initiative	2025-26	2.50	-	2.50
		2026-27	2.50	-	2.50
		2027-28	2.50	-	2.50
	Enhancement of Power source (10 to 15 MW)	2025-26	5.00	-	5.00
	Lift Connectivity	2026-27	0.65	-	0.65
	Extra UPS for AGL-2 years after	2025-26	0.90	-	0.90
	Total – Electrical Equipment		**39.05**	**-**	**39.05**
B3.	**Other Assets**				
	Software Development & Implementation-ERP	2023-24	3.19	-	3.19
		2024-25	0.25	-	0.25
	Software Development & Implementation-AODB	2023-24	2.58	-	2.58
		2026-27	0.20	-	0.20
	Ancillary Hardware	2023-24	0.09	-	0.09
		2024-25	0.10	-	0.10
		2025-26	0.10	-	0.10
		2026-27	0.10	-	0.10
		2027-28	0.10	-	0.10
	Website & Mobile App re-designing	2023-24	0.30	-	0.30
	E-Boarding Software	2023-24	0.15	-	0.15
	CBT Software for ASTI	2023-24	0.37	-	0.37
		2024-25	0.18	-	0.18
	Digi Yatra	2024-25	1.50	-	1.50
	Centralised AOCC (with Video Wall etc)	2026-27	0.40	-	0.40
		2023-24	0.05	-	0.05

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA) / IDC	Total CAPEX (incl. FA)
	Passenger Facilities (enhanced WiFi, Information KIOSK, Passenger App, ChatBot etc)	2024-25	0.15	-	0.15
	Video Analytics Software	2024-25	0.25	-	0.25
	Body Scanners	2027-28	6.00	-	6.00
	Gate Operating System	2027-28	1.50	-	1.50
	BHS Upgradation	2025-26	0.25	-	0.25
	BMS Upgradation along with EMS	2024-25	0.45	-	0.45
	Cargo Software	2027-28	0.25	-	0.25
	Additional CCTV at grey area identified by CISF and Security Dept	2024-25	1.50	-	1.50
	Biometric AEP System	2023-24	0.50	-	0.50
		2024-25	1.00	-	1.00
	Total – Other Assets		**21.51**	**-**	**21.51**
Capital Expenditure proposed for the Second Control Period			**96.86**	**-**	**96.86**

6.2.5 The Authority while analyzing the Aeronautical Expenditure proposed by the AO for the Second Control Period, had appropriately rationalized the proposed CAPEX taking into consideration, the essentiality and necessity of the CAPEX which was required for the smooth operation of the Airport as explained in the following paragraphs.

6.2.6 The Authority noted that the Airport Operator was not required to conduct Airport User Consultation Committee (AUCC) meeting as the CAPEX for the Second Control Period was lesser than the threshold limit defined under Direction 5 of the AERA Guidelines, 2011.

6.2.7 The Authority's examination of the major Capital Expenditure projected for the Second Control Period has been explained in detail in the ensuing paragraphs:

A. Capital additions projects shifted from the First Control Period to the Second Control Period:

A1: Buildings, Roads, Bridges, Drains & Culverts – Construction of Integrated Cargo Terminal

The Authority noted that the AO had claimed ₹ 32.20 Crores for Integrated Cargo Terminal during the First Control Period and had proposed ₹ 1.60 Crores towards commissioning of Cargo Terminal in the Second Control Period.

The Authority had given its detailed analysis regarding the above project on construction of Cargo Terminal in para 4.5.6 (v). The new Cargo terminal was expected to add 5,000 Sq.m. and an additional 12,000 MT of volume. Based on its analysis of the status of completion of the project (which was 80% complete as on March 31, 2023, as confirmed by the AO vide email dated May 11, 2023), the Authority proposed to consider capitalization of Cargo Terminal Building in FY 2023-24. Further, the Authority noted that the AO had submitted in its MYTP that Cargo terminal would be commissioned in FY 2027-28 and had submitted capitalization of the cost of commissioning the Cargo Terminal in FY 2027-28. However, upon further clarification, the AO had informed vide email dated October 5, 2023 that the commissioning of the cargo terminal was projected initially as FY 2027-28 due to lower cargo traffic and lack of belly capacity at KIA due to several routes being non-operational by the primary airlines. However, the AO was envisaging faster recovery of ATMs as they were negotiating with the airlines for deployment of capacity. Based on the above factors, the AO had confirmed vide email dated October 5, 2023 that the Cargo Terminal may be commissioned in FY 2024-25 and the Authority proposed to consider the same.

Based on the above factors, the Authority proposed to consider ₹ 32.20 Crores towards construction of Integrated Cargo Terminal in FY 2023-24 and ₹ 1.60 Crores towards commissioning of Cargo Terminal in FY 2024-25.

B. Capital Addition projects proposed by the AO for the Second Control Period:

B1: Plant & Equipment- BDDS Equipment

The Authority noted that the AO proposed ₹ 2.50 Crores towards BDDS Equipment for capitalization in FY 2026-27. As per AVSEC Order no. 13/2017, Airport Operators are required to provide BDDS Equipment to ASG/ APSU for security of the Airport. KIA had bomb detection and disposal unit. However, required equipment was not available to attend a bomb threat at the airport and the AO had to take assistance of nearby Police team in the event of any bomb threat. Considering the safety and security of the Airport, the Authority proposed to consider the above capital expenditure as justifiable.

B2: Electrical Equipment

i. CAT-1 Runway Approach Lighting System

The Authority noted that the AO had proposed ₹ 20 Crores towards installation of CAT-1 Runway Approach Lighting System for capitalization in FY 2024-25. Currently, KIA had only 420m simple approach lighting system.

The Authority through its Independent Consultant examined the need through BOQ and other estimates provided by the AO, to assess the reasonableness of the cost of the project, during the visit to Kannur International Airport on February 28, 2023. It had been observed that the full-fledged lighting system needs to be installed in order to improve the safety of the landings as majority landings are from Runway 25. Considering the topography of land (average depth of land from runway level is more than 50m), the Authority noted that special arrangements are needed for fixing the lights and for its maintenance. Based on the above factors, the Authority proposed to consider the capital expenditure as justifiable.

ii. Enhancement of Power Sources

The Authority noted that the AO had proposed ₹ 5 Crores for Enhancement of Power Sources to be capitalized in FY 2025-26. The Authority noted that the existing power source at 33KV substation of Kannur airport is 2 numbers of 5 MW 33KV/11KV Transformers. Considering the increase in power requirement due to additional loads during the next 5 years, the AO was proposing to add 1 no. of 5 MW 33KV/11KV Transformer along with connected works such as 33KV/11KV panels, construction of building, connected electrical works etc.

The Authority noted that the Airport Operator was taking initiatives towards providing Solar Power plants and Energy Management Systems. Also, as no major infrastructure enhancements had been planned during the Second Control Period, there was no urgent requirement for this project. Based on the above factors, the Authority proposed to shift the capitalization of this project to the next Control Period.

iii. Second Power Feeder Line (33KV from KSEB)

The Authority noted that the AO had proposed ₹ 5 Crores for Second Power Feeder Line to be capitalized in the FY 2026-27. Currently, the power supply at Kannur Airport was fed through 33KV underground cable from KSEB (Kerala State Electricity Board) substation at Mattanur. The Authority noted that second feeder line is essential for major airports for safety of the operations, specifically at night and for enhancing the passenger comfort. Based on its examination of the details of the project the Authority considered the proposed capital expenditure as justifiable.

iv. **Green Energy Initiatives**

The Authority noted that the AO had proposed ₹ 7.50 Crores towards Green Energy Initiatives to be capitalized equally from FY 2025-26 to FY 2027-28. The AO envisaged to reduce the power and fuel expenditure by shifting the dependency on traditional power sources to 100% green energy by FY 2030. The Authority noted that as per the Study conducted by ANERT (commissioned by the AO), the estimated cost for 5,200 KW (5.2 MW) solar plant, including the levelling of the ground is approximately ₹ 30 Crores. The AO was planning to undertake this project in a phased manner and proposes to construct the solar plant with 1.5 MW capacity in the current Control Period, at an estimated cost of ₹ 7.50 Crores.

The Authority also noted that present rate for Ground Mounted Solar Power Plant was approx. ₹4 Crores to ₹5 Crores per MW, based on the experience with other similar airports. The rate, however, was subject to increase or decrease depending on various factors such as the cost of land levelling, type of solar panel, efficiency of the solar inverter, solar brand, location of panels etc. Further, in the initial stage, all other works related to Solar Plant such as development of land, cable trench, transformer yard need to be completed by the AO. Although the implementation of this project is proposed to be undertaken by the AO in phases, the commissioning of Solar Plant (with respect to related works as mentioned above) had to be completed in one go. Considering the terrain conditions of the Kannur Airport, it was presumed that the land grading charges may be high. Based on the above factors, the Authority proposed to consider the aforementioned CAPEX of ₹ 7.50 Crores for capitalization from FY 2025-26 to FY 2027-28, treat the asset as "Common" and apportion it to Aeronautical activities in the ratio of Terminal Building, i.e., 92:8 (refer para 6.2.9 on Terminal Building ratio).

B3: Other Assets

The Authority had examined the need for implementation of various IT applications for automation of Airport operations. While examining the same, justification was sought from the AO that the requirement for IT applications arises at this stage of operations, which would enhance operational efficiency and optimise the overall performance of the Airport.

i Software Development and Implementation- ERP

The Authority noted that the AO had proposed ₹ 3.44 Crores towards development and implementation of ERP Software for capitalisation in FY 2023-24 and FY 2024-25. The Authority noted that the AO had awarded the ERP implementation contract to M/s TCS for an overall cost of ₹ 11.66 Crores. Out of the total Contract value, application amount of ₹ 3.19 Crores and additional implementation cost of ₹ 0.25 Crores was proposed for capitalization in the Second Control Period. The Authority noted that ERP software would be used for both Aeronautical and Non-Aeronautical areas and therefore proposed to consider the same as "Common" and apportion to Aeronautical activities in the ratio of Terminal Building, i.e., 92:8.

ii Software Development and Implementation-AODB (Airport Operational Database)

The Authority noted that the AO had proposed ₹ 2.78 Crores towards development and implementation of AODB Software for capitalisation in FY 2023-24 and FY 2026-27. Further, the proposed AODB system which was at that time under implementation contains only basic modules such as Flight schedule management, Passenger counts, Aero Billing and related dashboards. However, in FY 2026-27, the AO had proposed to add another module, which was Resource Management System (RMS) to the AODB system. The Authority noted that the use of AODB software was essential for airports to enhance the operational efficiency, improve resource management, ensure smooth passenger flow, optimise the overall performance of the Airport and that the AO had been awarded the implementation of AODB to M/s WAISL for an overall cost of ₹ 6.93 Crores. Out of the total contract value, the AO had proposed capitalization of application amount of ₹ 2.58 Crores and additional implementation cost of ₹ 0.20 Crores in the Second Control Period and the Authority considered the same to be justifiable. The Authority proposed to consider the aforementioned capital expenditure as 100% Aeronautical.

iii Digi Yatra

The Authority noted that Digi Yatra was an initiative of MoCA to provide a paperless and hassle-free journey to passengers through biometric authentication. The AO had proposed ₹ 1.50 Crores towards installation of Digi Yatra at Kannur International Airport. The Authority noted that the AO had planned to install the same only at limited gates and had therefore, projected the cost as ₹ 1.50 Crores (which was in line with the cost incurred at other similar airports). Based on the above factors, the Authority considered the proposed CAPEX to be reasonable.

iv E-Boarding Software

The AO had proposed ₹ 0.15 Crores towards E-Boarding Software to be capitalized in FY 2023-24. The Authority noted that AO was planning to implement Digi Yatra which includes E-boarding also and therefore, the Authority proposed not to consider this CAPEX for the Second Control Period.

v Biometric Airport Entry Permit (AEP)

The Authority noted that the AO has proposed ₹ 1.50 Crores towards installation of Biometric AEP during the Second Control Period, based on the cost incurred by Cochin Airport. However, the detailed estimate for this work was yet to be prepared by the AO. The Authority noted that the cost of this system depended on various parameters such as the number of employees to whom the entry cards were to be given, the number of entry and exit gates. Therefore, it may not be appropriate to determine the cost of this system based on the expenditure incurred other airports. Further, some of the works connected with this system may be covered within the scope of Digi Yatra. However, the Authority found the requirement of the AO to be justifiable and proposed to consider the aforementioned CAPEX on an actual incurrence basis, at the time of true up of the Second Control Period subject to reasonableness and efficiency.

vi Installation of Additional CCTV at grey areas

The Authority noted that the AO had proposed ₹ 1.50 Crores towards installation of additional CCTV cameras in areas identified by CISF and security department. The Authority noted that CISF had identified multiple grey areas at Kannur International Airport where CCTV coverage was not adequate. The Authority noted that CCTV cameras were to be installed as per norms and no record of BCAS inspection was available pointing out the deficiency of CCTV cameras. In the absence of documents that would justify the requirement and cost estimates, the Authority proposed to consider the above CAPEX on actual incurrence basis, at the time of true up of the Second Control Period, while determining tariff for the Third Control Period for Kannur International Airport, subject to reasonableness and efficiency.

vii Body Scanners

The Authority noted that as per BCAS guidelines, all hypersensitive airports are required to install Body Scanners and Kannur Airport falls under the category of sensitive airports.

The Authority further noted that the AO had projected ₹ 6 Crores for 2 numbers of body scanners and had proposed to capitalize it in FY 2027-28. The Authority found the same to be reasonable and therefore, proposed to consider the same for capitalization in FY 2027-28.

viii Gate Operating System

The Authority noted that the AO had proposed ₹ 1.50 Crores towards Gate Operating System to be capitalized in FY 2027-28. The Authority noted that the AO had installed Visual Docking Guidance System (VDGS) at the airport which helps the aircrafts in navigating and stopping on the allotted parking stand. Integrating Gate Operating system with AVDGS would help in enhancing the Apron safety for inbound/ outbound aircraft. Gate Operating System would also help the airport in marking the On-Block and Off-Block time correctly which were being operated manually. The AO had obtained the quotation from M/s ADB Safegate amounting to ₹ 1.50 Crores for installation of Gate Operating System. The Authority noted that the current passenger throughput was not high and Airport had sufficient number of Passenger Boarding Bridges. Therefore, the Authority proposed to shift this CAPEX to the next Control Period.

ix BMS Upgradation with EMS

The Authority noted that the AO had proposed ₹ 0.45 Crores towards BMS upgradation with EMS to be capitalized in FY 2024-25. The Authority noted that Building Energy Management System (BEMS) was more sophisticated Energy Management System (EMS) than Building Management System (BMS). While BMS provided the ability to monitor and control all systems centrally, BEMS provided monitoring and information specifically focused on systems involving energy use and demand that facilitates managers to reduce energy consumption. Such upgraded systems were available in new buildings, aiming to enhance operational efficiency. The Authority noted that the software caters to both aeronautical and non-aeronautical infrastructure. Based on the above factors, the Authority proposed to consider capitalization of this asset in FY 2024-25, treat the asset as "Common" and apportion it to Aeronautical activities in ratio of Terminal Building, i.e., 92:8.

x Website and Mobile App re-designing

The Authority noted that the AO had proposed ₹ 0.30 Crores towards Website and Mobile App re-designing. The Authority noted that upgradation of Website and Mobile App software was required at regular intervals for its smooth functioning. The Authority further noted that the software would be used for both Aeronautical and Non-Aeronautical purposes and therefore, the Authority proposed to consider it as "Common" and apportion the same to Aeronautical activities in the ratio of Terminal Building, i.e., 92:8.

xi Ancillary Hardware, Passenger Facilities, Lift Connectivity

The Authority noted that the AO has proposed ₹ 0.49 Crores towards Ancillary Hardware, ₹0.20 Crores towards Passenger facilitation and ₹ 0.65 Crores towards Lift Connectivity to be capitalized from FY 2023-24 to FY 2027-28. The Authority noted that the AO had not provided details for the above-mentioned capital expenditures. Hence, reasonableness of the project could not be examined. However, the requirement of Hardware for installation of software could not be dispensed off. Based on the above factors, the Authority proposed to consider the above-mentioned capital expenditures on actual incurrence basis, at the time of true up of the Second Control Period subject to its reasonableness and efficiency.

6.2.8 The Authority had drawn inference from other PPP airports, regarding a trend amongst airport operators, wherein the capital projects were proposed in one Control Period and the same were postponed to the next Control Period. The Authority was of the view that such a practice was not in the interest of airport users as they would start paying higher tariffs in anticipation of enhanced services against the proposed capital expenditure, which was eventually postponed to the next Control period by the AO. Therefore, in order to ensure the efficiency and timely execution of the projects, the Authority proposed to re-adjust (reduce) 1% of the uncapitalized project cost from the ARR / target revenue, in case any particular capital project was not completed/ capitalized as per the approved capitalization schedule, while determining tariffs for the next Control Period. The Authority, further proposed that if the delay in the completion of the project was beyond the timeline mentioned in the capitalization schedule approved by the Authority, due to any reason beyond the control of the AO or its contracting agency and was properly justified, then the same would be considered by the Authority while truing up the actual cost at the time of determination of tariff for the next Control Period. The re-adjustment in the ARR/ Target Revenue was to protect the interest of the stakeholders who were paying for services provided by the AO.

Asset Allocation

6.2.9 The Authority noted that AO had submitted the Terminal Building ratio of 95%: 5% for Kannur International Airport, for the Second Control Period, for apportionment of common assets/ expenses for the current Control Period (refer para 4.5.11).

Considering the passenger profile at the Airport, the Authority was of the view that the Terminal Building ratio of 5% (Non-aeronautical area to total area) was lesser as compared to the similar airports such as Varanasi, Amritsar, Trichy, Calicut and Raipur. Therefore, the Authority proposed to consider the Terminal Building ratio of 92%:8% (Aeronautical: Non-aeronautical) as reasonable for apportionment of common assets within the Terminal Building and common O&M expenses for the Second Control Period (as stated in para 6.2.2 of the Asset Allocation Report). The same was in line with the ratio approved by the Authority for Kannur International Airport for the First Control Period, optimum Non-aeronautical area allocation of 8%-12% as recommended by IMG norms (for airports having passenger traffic of less than 10 MPPA) and that approved for other similar airports for the Second Control Period.

6.2.10 Based on the above, the Authority proposed the capital expenditure for the Second Control Period as per the table below:

Table 53: Capital Expenditure (Project-wise) proposed by the Authority for the Second Control Period at Consultation Stage

(₹ Crores)

S. No	Capital Expenditure Project	Year of Capitalisation		Capitalisation		
		Submitted by AO	Proposed by Authority	Submitted by AO (1)	Proposed by Authority (2)	Difference (3)= (2) - (1)
	A. Capital additions projects shifted from the First Control Period to the Second Control Period					
A1.	**Building, Roads, Bridges, Drains & Culverts**					
	Construction of Integrated Cargo Terminal	2022-23	2023-24	32.20	32.20	-
	Cargo Terminal Commissioning	2027-28	2024-25	1.60	1.60	-

S. No	Capital Expenditure Project	Year of Capitalisation		Capitalisation		
		Submitted by AO	Proposed by Authority	Submitted by AO (1)	Proposed by Authority (2)	Difference (3)= (2) - (1)
	Total – Building, Roads, Bridges, Drains & Culverts			**33.80**	**33.80**	-
	B. Capital Addition projects proposed by the AO for the Second Control Period					
B1.	**Plant & Equipment**					-
	BDDS Equipment	2026-27	2026-27	2.50	2.50	-
	Total – Plant & Equipment			**2.50**	**2.50**	-
B2.	**Electrical Equipment**					-
	CAT-1 runway approach lighting system	2024-25	2024-25	20.00	20.00	-
	2nd feeder line (33 KV Feeder from KSEB)	2026-27	2026-27	5.00	5.00	-
	Green Energy Initiative	2025-26	2025-26	2.50	2.30	(0.20)
		2026-27	2026-27	2.50	2.30	(0.20)
		2027-28	2027-28	2.50	2.30	(0.20)
	Enhancement of Power source (10 to 15 MW)	2025-26	-	5.00	-	(5.00)
	Lift Connectivity	2026-27	-	0.65	-	(0.65)
	Extra UPS for AGL-2 years after	2025-26	2025-26	0.90	0.90	-
	Total – Electrical Equipment			**39.05**	**32.80**	**(6.25)**
B3.	**Other Assets**					-
	Software Development & Implementation- ERP	2023-24	2023-24	3.19	2.94	(0.25)
		2024-25	2024-25	0.25	0.23	(0.02)
	Software Development & Implementation- AODB	2023-24	2023-24	2.58	2.58	-
		2026-27	2026-27	0.20	0.20	-
	Ancillary Hardware	2023-24	-	0.09	-	(0.09)
		2024-25	-	0.10	-	(0.10)
		2025-26	-	0.10	-	(0.10)
		2026-27	-	0.10	-	(0.10)
		2027-28	-	0.10	-	(0.10)
	Website & Mobile App re-designing	2023-24	2023-24	0.30	0.27	(0.03)
	E-Boarding Software	2023-24	-	0.15	-	(0.15)
	CBT Software for ASTI	2023-24	2023-24	0.37	0.37	-
		2024-25	2024-25	0.18	0.18	-
	Digi Yatra	2024-25	2024-25	1.50	1.50	-
	Centralised AOCC (with Video Wall etc)	2026-27	2026-27	0.40	0.40	-
	Passenger Facilities (enhanced WiFi, Information KIOSK, Passenger App, ChatBot etc)	2023-24	-	0.05	-	(0.05)
		2024-25	-	0.15	-	(0.15)
	Video Analytics Software	2024-25	2024-25	0.25	0.25	-
	Body Scanners	2027-28	2027-28	6.00	6.00	-
	Gate Operating System	2027-28	-	1.50	-	(1.50)
	BHS Upgradation	2025-26	2025-26	0.25	0.25	-
	BMS Upgradation along with EMS	2024-25	2024-25	0.45	0.41	(0.04)
	Cargo Software	2027-28	2027-28	0.25	0.25	-

S. No	Capital Expenditure Project	Year of Capitalisation		Capitalisation		
		Submitted by AO	Proposed by Authority	Submitted by AO (1)	Proposed by Authority (2)	Difference (3)= (2) - (1)
	Additional CCTV at grey area identified by CISF and Security Dept	2024-25	-	1.50	-	(1.50)
	Biometric AEP System	2023-24	-	0.50	-	(0.05)
		2024-25	-	1.00	-	(1.00)
	Total – Other Assets			**21.51**	**15.83**	**(5.68)**
Capital Expenditure proposed for the Second Control Period				**96.86**	**84.93**	**(11.93)**

Year-wise Capitalization of Assets is as follows *(₹ Crores)*:

FY 2023-24*	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
38.36	24.17	3.45	10.40	8.55	**84.93**

**₹ 32.20 Crores of CAPEX pertains to FY 2023-24 and has been 80% completed.*

6.2.11 The Authority had proposed to consider the capitalization of Aeronautical expenditure for Kannur International Airport for the Second Control Period as ₹ 84.93 Crores, as per above table.

6.3 Depreciation for the Second Control Period

The Airport Operator's submission on Depreciation for KIA for the Second Control Period

6.3.1 The Airport Operator followed the policy of determining the rates of depreciation based on the 'useful life' of different asset classes. While submitting the Multi-Year Tariff Proposal for the Second Control Period for KIA, the Airport Operator had considered the rates of depreciation approved by the Authority vide Order No. 35 dated January 12, 2018, and Amendment No. 01 to Order No. 35 / 2017-18 on 'Determination of Useful Life on Airport Assets'.

6.3.2 Depreciation had been computed separately on opening block of assets and on the proposed additions.

6.3.3 For the additions to RAB, the Airport Operator had calculated the depreciation from the Financial Year, which was subsequent to the year in which the capitalization had been made.

6.3.4 The depreciation amount submitted by the Airport Operator for the Second Control Period had been presented in the table below:

Table 54: Depreciation submitted by the Airport Operator for KIA for the Second Control Period

(₹ Crores)

Asset Category	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Freehold Land	11.11	11.11	11.11	11.11	11.11	55.55
Leasehold Land	0.86	0.86	0.86	0.86	0.86	4.29
Pavements	9.06	9.06	9.06	9.06	9.06	45.31
Building, Roads, Bridges, Drains and Culverts	27.93	27.93	27.93	27.93	27.93	139.67
Fire Department Equipment	2.02	2.02	2.02	2.02	2.02	10.09
Plant & Equipment	3.32	3.32	3.32	3.32	3.51	16.81
Furniture & Fittings	1.42	1.42	0.98	-	-	3.82
Vehicles	0.06	0.06	0.04	0.04	0.03	0.24
Computer & Accessories	0.05	-	-	-	-	0.05
Office Equipment	0.05	-	-	-	-	0.05
Electrical Equipment	24.29	24.29	25.96	26.66	27.34	128.54
Other Assets	0.06	1.52	2.59	2.66	2.84	9.67
Financing Allowance- Depreciation	14.54	14.54	14.54	14.54	14.54	72.71
TOTAL	**94.78**	**96.14**	**98.42**	**98.21**	**99.24**	**486.79**

Authority's examination of Depreciation for the Second Control Period at Consultation Stage

6.3.5 The Authority noted that Opening RAB had been revised from ₹ 1,777.86 Crores (submitted by the Airport Operator, refer para 4.2.1) to ₹ 1,156.08 Crores (refer Table 14) based on adjustments made to the RAB and mentioned as per the para 7.4 and Table 19 of the *"Study on allocation of assets between Aeronautical and Non-Aeronautical Assets for KIA"*. The Authority further, noted that on account of revision to the Opening RAB, the depreciation for the Second Control Period would also be revised accordingly.

6.3.6 The Authority had considered the depreciation as 50%, on the proposed additions to the RAB in the year of capitalization (assuming the asset may had been capitalized in the middle of the year).

6.3.7 Considering the above changes in the value of opening gross block of assets and proposed capital expenditure, the Authority proposed the following depreciation for the Second Control Period.

Table 55: Depreciation proposed by the Authority for KIA for the Second Control Period at Consultation Stage

(₹ Crores)

Asset Category	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Freehold Land	-	-	-	-	-	-
Leasehold Land	1.05	1.05	1.05	1.05	1.05	**5.23**
Pavements	9.60	9.60	9.60	9.60	9.60	**48.02**
Building, Roads, Bridges, Drains and Culverts	27.84	28.38	28.40	28.40	28.40	**141.44**
Fire Department Equipment	2.21	2.21	2.21	2.21	2.20	**11.04**
Plant & Equipment	1.94	1.93	1.93	2.08	1.58	**9.46**
Furniture & Fittings	1.44	1.42	1.38	0.16	0.03	**4.43**
Vehicles	0.03	-	-	-	-	**0.03**
Computer & Accessories	0.06	0.05	0.00	-	-	**0.12**
Office Equipment	0.05	0.00	0.00	0.00	-	**0.06**

Asset Category	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Electrical Equipment	27.99	29.88	29.48	30.45	31.35	**149.15**
Other Assets	1.05	2.40	2.80	2.94	4.02	**13.22**
TOTAL	**73.27**	**76.94**	**76.87**	**76.89**	**78.24**	**382.21**

6.4 Regulatory Asset Base (RAB) for the Second Control Period

AO's submission on RAB for the Second Control Period

6.4.1 The AO had submitted RAB for the Second Control Period as follows:

Table 56: RAB proposed by the Airport Operator for KIA for the Second Control Period

(₹ Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Opening RAB (1)	2,045.39	1,957.83	1,887.08	1,797.56	1,710.85	
Capital Additions (2)	7.23	25.38	8.9	11.5	12.1	**65.11***
Depreciation (3)	94.78	96.14	98.42	98.21	99.24	**486.79**
Closing RAB (4) = [(1) +(2) – (3)]	1,957.83	1,887.08	1,797.56	1,710.85	1,623.71	
Average RAB = [(1) + (4)]/2	**2,001.61**	**1,922.46**	**1,842.32**	**1,754.20**	**1,667.28**	

**Difference of ₹ 0.45 Crores was noted in CAPEX considered by the AO for computing RAB. Further, CAPEX pertaining to Cargo Terminal amounting to ₹ 32.20 Crores has been shifted from the First Control Period to the Second Control Period.*

Authority's examination of RAB for the Second Control Period at Consultation Stage

6.4.2 Combining all its propositions, RAB proposed to be considered by the Authority for determination of Aeronautical tariff for the Second Control Period was as follows:

Table 57: RAB proposed by the Authority for KIA for the Second Control Period at Consultation Stage

(₹ Crores)

Particulars	Ref.	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Opening RAB (1)		1,156.09	1,121.17	1,068.41	994.99	928.50	
Capital Additions (2)	Table 53	38.36*	24.17	3.45	10.40	8.55	**84.93**
Depreciation (3)	Table 55	73.27	76.94	76.87	76.89	78.24	**382.21**
Closing RAB (4) = [(1) +(2) – (3)]		1,121.17	1,068.41	994.99	928.50	858.81	
Average RAB = [(1) + (4)]/2		**1,138.63**	**1,094.79**	**1,031.70**	**961.75**	**893.65**	

** This includes ₹ 32.20 Crores of CAPEX pertaining to Cargo Terminal shifted from the First Control Period to the Second Control Period.*

6.4.3 The Authority proposed to consider RAB for the Kannur International Airport for the Second Control

Period as detailed in Table 57.

6.5 Stakeholders' comments on Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base for the Second Control Period

6.5.1 During the stakeholders' consultation process, the Authority had received comments/views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 17/ 2023-24 with respect to Capital Expenditure, Depreciation and RAB for the Second Control Period. The comments by stakeholders are presented below:

AO's comments on Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base for the Second Control Period

6.5.2 AO has commented the following:

- *"The capital expenditure considered in the second control period are solely to ensure compliance with operational, security and safety elements. KIAL has taken necessary steps, in consultation with relevant stakeholders, to minimize the capital expenditure in the next control period. KIAL has included only those inevitable mandatory expenditures related to ensure the safety and security standards of the airport as tabulated below:*

Capex heads removed by Authority in CP	KIAL's comment on the need for CAPEX
Enhancement of Power source (10 to 15 MW)	KIAL is expecting monetization of land assets in the second control period thereby which various new establishments may come at the airport. Therefore, to cater to the power requirement of such new establishments, KIAL is planning to enhance the power source from 10 MW to 15 MW towards the mid of the second control period.
E-Boarding Software	As per the order issued by BCAS, AVEC order no.05/2020, KIAL is required to install E-boarding software at the airport to ensure seamless operation and safety.
Passenger Facilities (enhanced Wi-Fi, Information KIOSK, Passenger App, Chatbot etc.)	KIAL plans to invest in improving the passenger experience at the airport such as Enhanced Wi-Fi, Information KIOSK, Passenger App, Chatbot, etc. Measure to enhance customer experience is critical in growth of airport.
Gate Operating System	KIAL plans to invest in gate operating system software to efficiently utilize the data from visual docking guidance system (VDGS). With this software, the data and operational statistics of VDGS may be used at larger scale to improve operational efficiency.
Additional CCTV at grey area identified by CISF and Security Dept	CISF team at KIAL has identified multiple grey areas wherein the CCTV coverage is inadequate. This hampers the security and safety at the airport. KIAL plans to procure additional CCTV cameras to address this issue in the second control period. This is critical to ensure safety and security in airport premises and operations.
Biometric AEP System	As part of BCAS guidelines on Design, Implementation, and maintenance of access control system, KIAL is required to install biometric AEP system. KIAL is planning to undertake this installation in the second control period.

- *The airport has taken due consideration to avoid any unwanted capital expenditure. Hence KIAL humbly requests authority to kindly consider the expenses as submitted."*

Other Stakeholders' comments on Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base for the Second Control Period

6.5.3 FIA has commented the following:

"FIA submits that, the entire ecosystem needs to be operationally efficient, which can be implemented, amongst other things by considering the following:

Para 6.2.10 of CP

- *We request that AERA applies the normative norms for the capex projects as mentioned under AERA Order No. 7/2016-17 dated 13th June, 2016 in order to keep the overall cost control and efficiencies in capex projects.*

  In addition to above, in order to support the airlines to continue and sustain its operations, it is requested that all non-essential capital expenditure proposed by Airport operator be put on hold/ deferred, unless deemed critical from a safety or security compliance perspective.

  We request AERA to ensure that all aeronautical capex is efficient and without any unreasonable excesses, such that stakeholders, including passengers, do not pay for services/ facilities which are not being availed by the stakeholders or passengers.

Para 6.1.2 of CP

- *We note that AERA has conducted an in-depth analysis of the submissions made by the Airport operator by an independent consultant, which is appreciated.*

  Further, as observed by AERA itself in para 14.2.2 of the CP the significant mismatch in the designed capacity of the airport, i.e., the airport is designed for 9.4 MPPA.

  However, their actual reported passenger throughput volume is only 1.59 MPPA for FY 2019-20, which is lesser than the threshold limit of 3.5 MPPA defined under the AERA Act 2008 for making KIA a major airport. AERA vide Public Notice 17/2019-20 dated March 16th, 2020 notified KIA as a major airport and determined the tariff for First Control Period. Further, as mentioned in para 5.2.9 and table 40 of the CP, the traffic for FY22-23 is still lower than the traffic for FY19-20.

  In this regard, FIA submits that there is an apparent design flaw in the infrastructure and planning on the part of KIA, due to which the tariff for First Control Period was high, and KIA has proposed a significant increase for the Second Control Period, which should not be allowed.

  In view of the above, it is requested that AERA should:

  (a) consider imposing a penalty of 1% (or higher as deemed fit) towards the cost incurred for Capex. KIA should also be directed to encourage their traffic in the upcoming years to justify the designed capacity.

  (b) to conduct an independent study for determining the efficient and reasonable Capex for Second Control Period before issuing the final tariff order.

Para 6.2.8 of CP

- *We agree with AERA's proposal that an adjustment of 1% (or higher of the project cost from the ARR, as deemed fit), made by AERA for capital expenditure projects is/are not completed/capitalised as per the approved capitalisation schedule. Such adjustments can be made by AERA during the tariff determination process for the Second Control Period*

Para 6.2.9 of CP

- *AERA has considered the Terminal Building Ratio ('TBLR') of 92:8 for the Second Control Period. However, considering that Kannur is tourist destination and have potential of higher non-aero revenue, the non-aeronautical ratio proposed by KIA appears to be on the lower side, and also as compared to the other similar airports such as Varanasi, Amritsar, Trichy, Calicut and Raipur.*

Further, keeping in view the fact that KIA have underutilized infrastructure and terminal space which can be better utilised towards increasing their non-aeronautical activities. We request AERA to allot the best possible ratio towards NAR as deemed appropriate. In view of that, we request AERA to:

a) To consider the highest possible non-aeronautical allocation in case of KIA.

b) To undertake detailed scrutiny examination with the assistance of an independent study for asset allocation, which is a standard practice done by AERA for all other PPP model airports on or before the tariff determination.

FIA submits that this study will assist to ensure correct assessment of allocation of assets, which is a standard practice followed by AERA.

Para 6.3.6 Table 49 of CP

- *In this regard, we request AERA to seek for more justification from KIA on the depreciation of assets and scrutinize the depreciation rates instead of basing it solely on opening RAB.*

We further request to conduct an independent study on depreciation, as it does not provide clarity on the percentage of depreciation applied.

***Fuel Infrastructure Charges at KIA** – Order Number 11/2019-20: Charges for Fuel Infrastructure.*

It may be noted that before privatization of airports, there were no such charges related to fuel infrastructure and into plane which were levied on the airlines. The Fuel Farm at the airport was developed by the Oil Marketing Companies (OMCs) and they were also refueling aircrafts as per the respective airlines' requirements. Airlines are/were only paying for ATF uplifted at each of the airports at an agreed product price to OMCs.

Since privatization of airports, two new charges related to fuel have been levied;

First 'Fuel Infrastructure Charges' (FIC) and

Second 'Into Plane Charges' (ITP) at all the Privatized airports.

At a lot of Privatized airports, fuel infrastructure has been bought over by the airport operator or its Joint Venture (JVs) / Holding / Subsidiary / Sister Subsidiary companies from the OMCs at a very low price.

The investments made in fuel farms are also through multi-layered transactions between / among airport operators or their Joint Ventures or their Holding / Subsidiary / Sister Subsidiary companies (or business associates by whatever name called). A lot of legal entities have been formed by the airport operator as Joint Venture (JVs) or Holding /Subsidiary / Sister Subsidiary companies with multiplicity of agreements. As a result of multiple layers of companies and transactions, there is no transparency and on top of it, multiple layers of overheads are loaded into the costs. In addition, royalty / revenue share to the airport operator or its JV / Holding / Subsidiary / Sister Subsidiary companies is also added in proposed FIC and ITP charges.

FIC and ITP including royalty and / or revenue share, along with GST thereon, is charged by the airport operator from OMCs. OMCs include these charges in the cost of fuel. Once these charges become the cost of fuel, they attract 'non-creditable' Excise Duty @ 11% and 'non-creditable' VAT which may vary from 1% to 29%. Average VAT rate is ~ 17% in India. As ATF is outside GST, there is no 'Input Tax Credit' (ITC) on GST paid on FIC and ITP.

Due to this circuitous billing cost of FIC and ITP become 1.53 times i.e. airlines end up paying 53% higher cost and there is no tax credit available to the airlines. It is a burden on the beleaguered airlines which are suffering from huge losses to the tune of > Rs. 23,500 cr in FY 2022.

Example:

FIC / ITP (including royalty / revenue share of airport operator)	*100.00*
GST	*18.00*
Total	*118.00*
Excise Duty @ 11%	*12.98*
Total with Excise Duty	*130.98*
VAT @ average rate of 17%	*22.27*
Total cost with excise duty and VAT	*153.25*

It is clear from the above example that against the original assumed cost of Rs.100 towards FIC and ITP, airlines end up paying Rs. 153.25 i.e. 53.25% additional cost and there is no tax credit against the same. Had these charges which are 'Aero' in nature as per AERA Act 2008, been charged directly by the airport operator from the airlines i.e. Rs. 118 including GST, airlines would have got ITC against GST and net cost to airlines would have been ~ Rs. 100 only.

The current method of circuitous billing of FIC and ITP suffers from the following:

1. Makes the whole process non-transparent

2. Against the concept of 'Ease of Doing Business'

3. Increases cost for the airlines and is against the principle of 'Making Aviation Affordable and Sustainable'.

4. Against the vision of Hon'ble Prime Minister of India, Shri Narendra Modi that he would like to see 'Hawai Chappal Wale, Hawai Jahaj Mein' as the high cost will be passed on the common man by the Airlines

5. There is application of tax on tax, which is fundamentally wrong and adds to Airlines cost.

In addition to the above, it is pertinent to note that there are number of other infrastructure services / facilities like aircraft taxiways, runways, fire services and bird scarers etc., for which there is no separate charge as they are part of airport infrastructure however their separate charges for ATF in the shape of for FIC and ITP charges, which is a contradiction. In this context, reference may be drawn from the abolishment of Fuel Throughput Charges (FTC), which were being earlier charged as separate charges for provisioning of ATF but were subsequently abolished.

The FTC were being charged by the Airport Operators from the airlines through OMCs with the above circuitous billing mechanism with ultimate non creditable cost of Rs. 153.25 to the airlines.

Both the Ministry of Civil Aviation (MoCA) and AERA have abolished FTC vide their order dated 08 January 2020 and 15 January 2020 respectively. Subsequently their revenues have been recalibrated by AERA and there has been no loss to the airport operators. In view of all the above facts, it is recommended that FIC and ITP be abolished, and necessary calibration may be done in the revenue for airport operators for fuel farms and into plane operations. This will in turn *help the airlines to address the long pending issue of circuitous billing.*

Thus, it is requested that pricing for Fuel Farm Tariff (Fuel Infrastructure Cost, Aircraft Defueling and Re-fueling of defueled products) may kindly not be accepted and recalibrated in line with FTC into other airport charges and help and support airlines with to address long pending circuitous tax billing.

We would also like to urge AERA to devise methods or pass an order stating that FIC and ITP should be directly invoiced by fuel farm operator or the services providers to the airlines to avoid circuitous billing and for the sake of 'Ease of doing businesses and 'Transparency'.

This will also help in avoiding unnecessary tax on tax. It is submitted that the AERA to please consider the pre-operative expenses for the purpose of RAB which are eligible for capitalization as per Indian Accounting Standards to avoid overstatement of RAB and consequently return and depreciation. Further, we request AERA to clarify that whether the treatment of pre-operative expenses is in accordance with I-GAAP which is not explained or clarified in CP.

6.6 AO's responses to stakeholders' comments on Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base for the Second Control Period

6.6.1 AO has responded to FIA's comments regarding the cost control and efficiencies in capex projects as under:

- *"The capital expenditure considered in the second control period are solely to ensure compliance with operational, security and safety elements. Majority of capital expenditure planned for second control period are basis guidelines/directives from the respective government authority. KIAL has taken necessary steps, in consultation with relevant stakeholders, to optimize the capital expenditure in the second control period. KIAL after thorough due diligence has included only those expenditures which shall ensure the efficiency, safety and security standards of the airport*
- *The AERA Order No.7/2016-17 was issued by the Authority after taking into consideration, the CAPEX cost of KIAL as per the information provided to the Authority prior to issue of the Order."*

6.6.2 AO has responded to FIA's comments regarding the mismatched designed capacity as under:

- *It may be kindly noted that the airport was designed and constructed as per the directive from the Ministry to construct a world class airport with cutting edge infrastructure (refer Annexure -B). In depth demand study was conducted by independent consultant, and the same were also reviewed and approved by AERA. However, the external challenges faced by the airport in subsequent years were not in control of any stakeholder. Hence it is imperative to factor in the same before drawing inferences on the traffic throughputs.*
- *As per the demand study Kannur was projected to achieve a traffic of 1.6 million in the first year of operation. In actuals the airport achieved 1.58 million in FY20 despite the challenges faced by airport to attract airlines such as Jet airways and Air India who were facing internal challenges of their own.*
- *FY20 was the only year of uninterrupted operation post which the pandemic severely impacted the operations of the airport. After the pandemic the airport had to also face challenges due to lack of PoC and grounding of anchor airline.*
- *The airport never obtained the opportunity to grow the traffic due to reasons not in the control of the airport, despite achieving the projected traffic in the first year.*

- *It may be noted that the classification of major airport is based on the threshold design capacity. Accordingly, Kannur Airport was declared as a major airport in the Amendment to public notice 17/2019-20 dated 16th March 2020.*

6.6.3 AO has responded to FIA's comments regarding the Non Aeronautical ratio as under:

- *Due to fluctuations in traffic, several non-aeronautical concessions have vacated in the first control period, and KIAL had to induct new concessionaires with revised terms afresh. This resulted in further drop of non-aeronautical revenue. The total non- aeronautical revenue for first control period is INR 220.9 per passenger. This is due to higher non- aero revenue generated during COVID-19 inflicted years (FY 21 and FY 22) because of COVID-19 tests and medical centers set up at the airport. Such revenue accounted for 56% of the total non-aeronautical revenue for FY22. This is not a consistent revenue stream. The total non-aeronautical revenue for the first control period after removing the same will amount to only INR 46.5 Crore. KIAL is undertaking a slew of measures to enhance the non aero revenue. As a result of ongoing initiatives, the traffic is expected to increase in the upcoming years thereby resulting in higher non aero revenue. Focused efforts are being deployed to attract anchor airline which can support strong and stable traffic growth on long term basis.*

6.6.4 AO has responded to FIA's comments regarding the depreciation rates as under:

- *The depreciation rates used by KIAL are as per the guidelines on useful life provided by the authority vide order no. 35/2017-18 dated January, 2018 read with amendment No. 01 to Order No. 35 on 'Determination of Useful Life on Airport Assets'.*

6.6.5 AO has responded to FIA's comments regarding the terminal building ratio as under:

- *It is observed that the terminal building ratio for the first and second control period has been revised to 92:8. KIAL humbly requests the authority to reconsider the same given the fact that the airport is situated in a non-metro city containing a population with limited spending capacity as compared to Metro or Tier I airports. Moreover, due to impact of COVID on the passenger traffic, many non-aeronautical concessionaires had vacated in the first control period. Hence, the actual utilization of the assets for non-aero activities could not be optimized even after lot of efforts. As per the actuals, the terminal building ratio is 94.5:5.5 and details of the same has already been shared with the authority. KIAL requests the authority to kindly consider the terminal building ratio on actuals.*

6.6.6 AO has responded to FIA's comments regarding the FIC and ITP as under:

- *The charges pertaining to FIP and ITP are not relevant to the MYTP review of KIAL. The same may be considered separately in the tariff determination of respective ISP."*

6.7 Authority's analysis on stakeholders' comments regarding Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base for the Second Control Period

6.7.1 The Authority has noted the comments of the AO regarding the capital expenditure for the Second Control Period.

i. In this regard, the Authority reiterates that as part of its examination during the consultation stage, the Authority had assessed the capital expenditure submitted by the AO with respect to its essentiality, reasonableness and has considered majority of the capital expenditure proposals submitted by the AO.

ii. Only some of the capital expenditure amounting to ₹ 11.93 Cr. (which is only 12% of the total CAPEX submitted by the AO for the Second Control Period) have not been considered by the Authority for this Control Period. The above CAPEX pertains to assets such as Enhancement of

Power Source, E-Boarding software, passenger facilities, Gate Operating system, Biometric AEP system, CCTV etc. Also, out of the above mentioned ₹ 11.93 Cr, majority of the CAPEX have either been shifted to the next Control Period or had been proposed to be considered on actual incurrence basis.

iii. Further, it is pertinent to note that the Authority has considered the majority of the capital expenditure incurred by the AO for the First Control Period.

6.7.2 The Authority has examined the comments of FIA on conducting an independent study on the efficient capital expenditure of KIA for the Second Control Period. In this regard, the Authority has the following views:

i. The Authority has examined in depth the CAPEX proposals submitted by the AO for the Second Control Period, through its Independent Consultant, sought clarifications on the essentiality and the reasonableness of the proposed CAPEX and has considered only such capital expenditure that are essential from safety/ security/ operational requirements.

ii. Regarding levying penalty of 1% on the CAPEX, the Authority would like to state that, at the consultation stage, the Authority had proposed to re-adjust 1% of the uncapitalized project cost from the ARR / target revenue, in case any particular capital project is not completed/ capitalized as per the approved capitalization schedule, while determining tariffs for the next Control Period (refer para 6.2.8 of this Tariff Order). As in the case of KIA, the Authority has also stated about the mismatch between the designed capacity of the Airport and its actual passenger throughput and directed KIA to optimize its expenses.

However, it is pertinent to note that KIA is a greenfield airport, wherein it takes time to achieve growth in passenger traffic, so as justify the designed capacity.

Based on the above factors, the Authority decides to re-adjust 1% of the uncapitalized project cost from the ARR / target revenue as re-adjustment in case any particular capital project is not completed/ capitalized as per the approved capitalization schedule, while determining tariffs for the next Control Period.

iii. The Authority notes FIA's comments on the Terminal Building ratio. As stated at the Consultation stage (refer para 9.2.2 of this Tariff Order), considering the passenger profile at the Airport and based on the recommendations of the IMG norms which states that the optimum Non-aeronautical area allocation for airports having passenger traffic of less than 10 MPPA, should be in the range of 8% to 12%, the Authority had determined the Terminal Building ratio as 92%:8%. Further, this ratio has been determined in line with the approach generally followed for other similar Airports and based on the recommendations of the Independent Study on Allocation of Assets between Aeronautical and Non-aeronautical assets for KIA.

With the gradual increase in passenger traffic, the Authority may revise the Terminal Building ratio for the future Control Periods of KIA.

iv. The Authority had verified application of depreciation rates by the AO in line with the Order No. 35/ 2017-18 dated January 12, 2018, and Amendment No. 01 to Order No. 35 / 2017-18 on 'Determination of Useful Life on Airport Assets'. Further, discrepancies noted in the computation of depreciation by the AO, had also been addressed by the Authority (refer note to Table 14 of the Tariff Order).

v. The Authority noted FIA's detailed comments regarding taxes charged on FIC and ITP levied by the Airports. The Authority would like to highlight that taxes are levied by the Ministry of Finance and are beyond AERA's domain. Further, FIC and ITP are not part of MYTP/ Tariff rate card submission of KIA, thereby the same is not relevant for tariff determination of KIA for the Second Control Period.

vi. Pre-operative expenses have not been included in the MYTP submitted by the AO for the Second Control Period. Therefore, the application of accounting principles w.r.t IGAAP does not arise.

In view of the above, the Authority does not see any reason to deviate from its proposal made by it, at the Consultation stage and decides to consider Capital Expenditure as per Table 53, Depreciation as per Table 55 and RAB as per Table 57.

6.7.3 The Authority notes that the Airport Operator would be eligible to claim GST Input Tax Credits on procurement of certain movable property. The Authority expects that the Airport Operator would properly account for such credits in its submissions in accordance with Chapter V of The Central Goods And Services Tax Act, 2017 at the time of true up of the RAB for the Second Control Period. The Authority may examine the accounting of input tax credits and make necessary adjustments in this regard at the time of determination of tariffs for the Third Control Period.

6.8 Authority's decisions regarding Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base (RAB) for the Second Control Period

Based on the material before it and based on its analysis, the Authority decides the following with regard to CAPEX, Depreciation and Regulatory Asset Base for the Second Control Period.

6.8.1 To consider the Terminal Building ratio of 92:8 in line with the recommendation of Assets Allocation Study report IMG norms and as approved by AERA for other similar Airports.

6.8.2 To adopt the capitalization of Aeronautical Expenditure for the Second Control Period in accordance with Table 53.

6.8.3 To reduce (adjust) 1% of the uncapitalized project cost from the ARR in case any particular capital project is not completed capitalized as per the approved capitalization schedule. The same will be examined during the true up of the Second Control Period, at the time of determination of tariff for the Third Control Period.

6.8.4 To true up the Aeronautical Capital expenditure based on actuals, cost efficiency and reasonableness, at the time of determination of tariff for the Third Control Period.

6.8.5 To adopt Aeronautical Depreciation as per Table 55 for the Second Control Period.

6.8.6 To true up the Depreciation of the Second Control Period based on the actual asset additions and actual date of capitalization during the tariff determination of the Third Control Period.

6.8.7 To consider average RAB for the Second Control Period for KIA as per Table 57.

6.8.8 To true up the RAB based on actuals at the time of tariff determination for the Third Control period.

7 FAIR RATE OF RETURN (FRoR) FOR THE SECOND CONTROL PERIOD

7.1 AO's submission on FRoR for the Second Control Period

Cost of equity

7.1.1 The Airport Operator had evaluated the applicable Cost of equity. Based on this study, the Airport Operator had considered the Cost of equity as 16.00%.

7.1.2 The AO made the following submissions regarding equity and cost of equity for the Second Control Period:

"AO has considered a cost of equity of 16% in line with the decision of AERA for KIA in the First Control Period tariff order. Since the KIA received only one year of full operation due to the unprecedented impact of the pandemic, we request AERA to consider the same cost of equity for the second control period also.

Further, AO expects an additional equity infusion to the tune of INR 150 Crore in the FY 2024 which shows the stakeholder's keen interest in taking every possible initiative to recover from the pandemic impact on the airport."

Cost of debt

7.1.3 The Cost of debt of KIA is the actual weighted average cost of debt incurred by AO on Security Deposit, the existing Term Loan and Funded Interest Term Loan (FITL).

7.1.4 The Airport Operator had submitted that the Cost of debt for the First Control Period was 9.3% p.a. The audited financial statements of Kannur International Airport Limited for the year disclosed that it had an interest rate of 9.3% p.a. Further, it had also raised Funded Interest Term Loan from addition to FY 2021 for interest rate of 10.30 % p.a.

7.1.5 The AO was obligated to start the repayment of loans, borrowed in the first control period for funding its capital expenditure and interest servicing, from January 2023. The borrowing cost of this facility was 9.3% p.a.

7.1.6 The AO's submission on outstanding debt and cost of debt for the Second Control Period were as given in the table below.

Table 58: Cost of Debt computation as per Airport Operator's submission for the Second Control Period

Debt (in INR cr.)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Total Closing Debt	1,192.83	1,133.42	1,048.17	940.43	819.21
Average Debt	1,207.36	1,163.12	1,090.80	994.30	879.82
Cost of Debt (%)	**9.40%**	**9.40%**	**9.40%**	**9.40%**	**9.40%**

The Weighted average cost of capital

7.1.7 Based on the above, the Authority proposed to consider the following FRoR for the Second Control Period for AO:

Table 59: Cost of equity computation as per Airport Operator's submission

Particulars	%
Weighted Average Cost of Debt (A)	9.40%
Share of Equity (B)	56.50%
Cost of Equity (C)	16%
FRoR for the Second Control Period (B*C+A*(1-B))	**13.10%**

7.2 Authority's Examination of FRoR for the Second Control Period at Consultation Stage

Cost of equity

7.2.1 The Authority had commissioned independent studies for the evaluation of the cost of capital separately, in case of each PPP Airport, namely DIAL, MIAL, GHIAL, BIAL, and CIAL through a premier institute, namely IIM Bangalore and proposed to use these study reports as a basis, to the extent applicable and relevant, to ascertain the Cost of equity of the AO for the Second Control Period.

7.2.2 The independent study reports had been drawn from the international experience of airports and their conclusions had been evaluated to the extent comparable with KIA in terms of hybrid till, ownership structure, size, scale of operations and regulatory framework. The median and average Cost of equity arrived at by the independent study reports are 15.16% and 15.18%, respectively, as shown in the table below:

Table 60: Computation of Cost of equity as per IIM Bangalore independent study reports

Particulars	CIAL	MIAL	BIAL	DIAL	GHIAL	Average
Risk-free rate **(A)**	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%
Equity beta **(B)**	0.9427	0.9391	0.9732	0.9296	0.9442	0.94576
Equity risk premium **(C)**	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%
Cost of equity $A + B * C$	15.16%	15.13%	15.40%	15.05%	15.17%	**15.18%**
Average Cost of Equity						**15.18%**

7.2.3 The above independent study reports had used the Capital Asset Pricing Model (CAPM) and a notional gearing (Debt: Equity) ratio of 48:52 to determine the levered Equity beta and accordingly, derive the Cost of equity.

7.2.4 Based on the above reports, the Authority proposed the Cost of equity of 15.18% for KIA for the Second Control Period.

Cost of debt

7.2.5 The Authority noted that the Airport Operator had considered Cost of debt at 9.40% for the Second Control Period based on its current borrowing rate from Joint lending agreement and loan agreement of Canara Bank, SIB, and Federal bank at the interest rate of 9.30% p.a. and Funded Interest rate of 10.30% p.a.

7.2.6 Further the Authority had also noted that average bank lending rate of public sector banks and scheduled commercial banks as per the Reserve Bank of India's publication of June 2023 had been in the range of 9.19% to 9.82% p.a.[1] The Authority had also noted that the average cost of debt of other five PPP

[1] https://www.rbi.org.in/rbi-sourcefiles/lendingrate/LendingRates.aspx

airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL was 8.96%.

7.2.7 Accordingly, the Authority had considered the Cost of Debt of 9% for the computation of the Fair Rate of Return.

Fair Rate of Return

7.2.8 Based on the above, the Authority proposed to consider the following FRoR for the Second Control Period for KIA:

Table 61: Fair Rate of Return proposed by the Authority for the Second Control Period at Consultation Stage

Parameter	%
Weighted average gearing of equity(**A**)	52.00%
Weighted average gearing of debt (**B**)	48.00%
Cost of equity (**C**)	15.18%
Cost of debt (**D**)	9.00%
Fair Rate of Return for the Second Control Period (E= A*C+(1-A) *D)	**12.21%**

7.3 Stakeholders' comments on Fair Rate of Return (FRoR) for the Second Control Period

7.3.1 During the stakeholders' consultation process, the Authority had received comments/views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 17/2023-24 with respect to Fair Rate of Return (FRoR) for the Second Control Period. The comments by stakeholders are presented below:

AO's comments on Fair Rate of Return (FRoR) for the Second Control Period

7.3.2 AO has commented the following:

- *"COVID19 pandemic has exposed the vulnerable side of the aviation sector and displayed the enormous risk and uncertainty travel industry faces in case of such events. Its severe impact on the airport financials can be seen not only in the Indian airports but also across the global airports. The pandemic impact on Kannur International Airport was even more severe, as the airport had just commenced its operations in December 2018, and had only one year of uninterrupted operations i.e., FY 2020 before pandemic outbreak.*
- *KIAL would like to point out that Kannur airport was at its growing phase and several routes were yet to be mature when the unprecedented pandemic outbreak occurred. The pandemic has increased the risk of the airport sector and it has to be accounted by the Authority accordingly in the cost of equity especially for greenfield airports which commenced operations close to pandemic outbreak.*
- *KIAL also underlines that along with the challenges faced during pandemic, the airport's traffic recovery was significantly affected with impacts of the following events:*
  a) *Suspension of flight operations and further restricted operations due to capacity restrictions and bubble agreements on international sectors.*
  b) *Grounding of anchor airline has impacted passenger traffic growth*
  c) *Grounding of aircrafts due to engine supply chain issues*
  d) *Lack of PoC status which limits any capacity addition*

- *COVID -19 impacted initial growth and traffic, thereby affecting the profitability of the airport which entails a higher risk profile.*
- *Authority proposed 12.21% as FroR for KIAL, on basis of benchmarking study done with PPP airports including CIAL, MIAL, BIAL, DIAL and GHIAL. However, the benchmark airports are established airports operating in Tier-I cities. Moreover, the airports considered are not greenfield airports. Therefore, the cost of capital for such airports is comparatively lower in the present conditions. Comparing the same with KIAL, which is a greenfield airport may not be a levelled comparison. Moreover, KIAL would like to highlight the following decision by the authority in BIAL's tariff order No. 18/2018-19 for the second control period, para 14.2.4:" The authority noted that there were no adverse scenarios affecting the risk assessment of BIAL airport, on the contrary, very favorable traffic and profitability had been witnessed for the past 3 years from the time of issue of MYTP-CP1. Considering the past operations, profitability and established traffic base, the authority proposed to consider return on equity at 16% for BIAL for the second control period". In light of authority's view of the conditions required for a greenfield airport to avail a return of equity of 16%, KIAL is of the view that the risk profile of aviation industry has increased when compared to 2018 and Kannur airport being a greenfield airport operating from a non-metro city under adverse conditions which significantly elevates its risk profile should also be allowed a return of equity of 16%.*
- *The order on determination fair rate of return as per the independent study done by IIM Bangalore was published on 5 March 2019. The risk-free rate and equity risk premium considered in the IIM Bangalore independent study does not consider the increased risk that the aviation sector is facing post covid era. The risk profile for greenfield airports have greatly increased. KIAL requests the authority to kindly reconsider the same.*
- *Similarly, KIAL notes that FroR allowed for AAI airports is 14% despite the fact that AAI airports have least risk due to sovereign holding. Whereas the Authority has proposed 12.21% as FroR for KIAL which has used higher equity for financing the development of airport and other capital expenditure. Given the nature of ownership of AAI and KIAL, cost of equity for KIAL is bound to be higher than AAI. However, AERA has adopted a lower cost of equity for KIAL.*
- *Kannur airport has equity share of 54% and the capital structure of Kannur airport is distinctive with involvement of large number of individuals participating in the equity of the airport. The airport is a unique entity established with equity participation from the Government of Kerala, NRIs, Industrialists, Financial Institutions and Airport Service Providers, with around 9050 shareholders. This can be related to higher cost of equity compared to other airports.*
- *Similarly, the cost of debt approved by the authority is 9% which is lesser than the prevailing cost of debt as of December 2023. At present the actual cost of debt has increased to ~10%.*

Lender	Interest rate- Term loan	Interest rate- FITL
CANARA BANK	10.15%	11.25%
SOUTH INDIAN BANK	9.2%	10.3%
FEDERAL BANK LTD	10.7%	11.7%

- *The debt equity ratio of Kannur Airport is 59% : 41% as per audited financial statements of FY 2022-23 and therefore the Airport's challenges as stated under 6 (B) (iii) coupled with lower FroR considered by the Authority for the second control period will be a huge challenge to achieve the* *target gearing ratio of other PPP airports in view of continuing airport losses. Hence, KIAL requests AERA to consider cost of equity of 16% and cost of debt based on actual figures considering abovementioned facts and the depth of losses the airport has endured from its inception phase itself. "*

Other Stakeholders' comments on Fair Rate of Return (FRoR) for the Second Control Period

7.3.3 FIA has commented the following:

Para 7.2.3, 7.2.8 and Table 53 of CP

"It is observed that AERA has considered FRoR of 12.21%, with cost of equity at 15.18%, cost of debt at 9%, which is the net of income tax return, calculated on the basis of cost of equity and debt.

However, it may be noted, that AERA in the recent times, have approved lower FRoR for AAI airports (Third Control Period), such as Chennai (11.98%), Pune (11.68%), and Cochin (11.63%) (i.e., neighboring airports to KIA).

Further, it may be noted that as per Para 7.2.3 of the CP, AERA have proposed to consider the notional debt to equity ratio of 48%:52% in line with the target gearing ratio being considered in case of other PPP airports.

In view of the above, it is submitted that AERA should re-consider equity return of 15.18% due to it being enormously high rate of return.

In this regard, AERA may consider:

(a) to conduct an Independent Equity and FROR study;

(b) consider the fact that airport industry in India has been established, hence the risk is lower as this is a cost-plus margin business.;

(c) to review the financial closures details, debt to equity ratio based on actual weighted average rather than a notional percentage.

Further, it is to be noted, that while such fixed/ assured return favours the service provider/airport operators, it creates an imbalance against the airlines, which are already suffering from huge losses and are bearing the adverse financial impact through higher tariffs.

Due to such fixed/assured returns, Airport Operators have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines.

Without prejudice to the above:

1) In the present scenario any assured return on investment to any services providers, in excess of six (6) % (including those on past orders) will be onerous for the airlines, i.e., being at par with reasonable returns on other investments after tax based on the current economic situation of worldwide run-away inflation coupled with rising and historic interest rates offered by banks.

2) In case AERA is unable to accept our recommendation mentioned above, AERA is requested to conduct an independent study for determination of FRoR to be provided to the Airport operator. Such independent study can be exercised by the powers conferred under the AERA Act and in line with studies being conducted by AERA in case of certain major airport operators."

7.4 AO's responses to other stakeholders' comments on Fair Rate of Return (FRoR) for the Second Control Period

7.4.1 AO has responded to FIA's comments as under

- *"COVID-19 pandemic has exposed the vulnerable side of aviation sector and displayed the enormous risk and uncertainty the travel industry faces in case of such events. Its severe impact on the airport financials can be seen not only in the Indian airports but also across the global airports. The impact of pandemic on Kannur International Airport was even more severe, as the airport had just commenced its operations in December 2018, and had only one year of uninterrupted operations i.e., FY 2020 before pandemic outbreak.*
- *KIAL would like to point out that Kannur airport was at its growing phase and several routes were yet to be mature when the unprecedented pandemic outbreak occurred. The pandemic has increased the risk of green field airports and naturally the same must be accounted in the cost of equity especially for those greenfield airports which commenced operations close to pandemic outbreak.*
- *KIAL also underlines that along with the challenges faced during pandemic, the airport's traffic recovery was significantly affected with impacts of the following events:*
  - *a) Suspension of flight operations and further restricted operations due to capacity restrictions and bubble agreements on international sectors*
  - *b) Grounding of anchor airline has impacted passenger traffic growth*
  - *c) Grounding of aircrafts due to engine supply chain issues*
  - *d) Lack of PoC status which limits any capacity addition*
- *Airports such as Pune and Chennai are established brownfield airports with mature traffic flow and strong catchment potential as they are tier I/Metro Cities. Moreover, there is huge difference in the shareholding patterns of these airports when compared to Kannur. Pune and Chennai are AAI owned airports with sovereign shareholders as opposed to Kannur which has equity participation from Government of Kerala, NRIs, Industrialists, Financial Institutions and Airport Service Providers, with around 9050 shareholders. Similarly, the cost of debt approved by the authority is 9% which is lesser than the actual cost of debt, 9.3% for term loan and 10.3% for funded interest term loan. Airports such as Chennai and Pune can obtain better competitive lending rates due to lower risk profile unlike KIAL.*
- *The cost of capital is individual to the risk profile of a particular airport. The airport industry being established has less impact on the overall cost of capital as can be seen from the actual cost of capital of KIAL.*
- *In light of above changes in the risk profile and current market conditions, KIAL humbly requests the authority to consider the cost of capital as submitted by the Airport Operator."*

7.5 Authority's analysis on stakeholders' comments regarding FRoR for the Second Control Period

7.5.1 The Authority has examined the comments of the AO on Cost of Equity, Cost of Debt and provides its views as under:

i Cost of Equity:

a) The Authority had commissioned an Independent Study for evaluation of Cost of Equity through a premier institute, namely IIM Bangalore, for 5 PPP airports such as DIAL, MIAL, GHIAL, BIAL, and CIAL and used these Study reports as a basis, to the extent applicable and relevant, to ascertain the Cost of equity of the AO for the Second Control Period.

b) The Authority believes that the Cost of Equity for the purpose of determination of FRoR has to be fairly consistent across PPP airports so that there is uniformity of evaluation of their inherent financial risk, and compensation for the same in the form of return on RAB.

c) The Authority has noted the various challenges listed out by the Airport Operator. It is also to be noted that airport operators in India have certain inherent advantages and protections built into the tariff determination process and airport management, some of which are highlighted below:

- The tariff determination methodology incorporates adequate return on airport operator's gross fixed assets investment, as well as O&M expenses and other building blocks in setting tariff.
- The tariff determination mechanism also ensures the true up of certain building blocks on actual basis in the tariff determination process.
- There is a well-documented, stable and publicly notified regulatory regime for tariff determination and the proceedings are conducted in a transparent manner in compliance with AERA Act and other relevant guidelines.
- The Government of India, through the Ministry of Civil Aviation and various regulatory agencies, provides adequate support and guidance on all operational, safety, airline, connectivity and stakeholder related matters.
- Similarly, the relevant State Governments help the AO by the way of allotment of land on concessional rates in many of the cases and take responsibility for connectivity to the airports.

d) The FRoR has to be computed in a consistent manner taking into account long-term business and financial risk parameters, which are reasonably applicable to the industry as a whole. It would not be appropriate for short-term factors such as Covid-19 pandemic, or prejudge future risk probabilities arising from competitive dynamics, and to incorporate these into the FRoR computation.

e) With respect to AO's comments on Cost of Equity allowed to AAI airports, the Authority hereby clarifies that the Cost of Equity allowed to AAI airport is 14%, which is even lesser than that considered for PPP Airports.

In view of the above, the Authority does not see any reason to revise the Cost of Equity determined for Kannur International Airport

ii Cost of Debt:

a) The Authority has considered a reasonable cost of borrowing of 9%, based on the approach followed uniformly with all the PPP airports. Also, the Authority notes that the average cost of debt of other five PPP Airports viz., DIAL, MIAL, HIAL, BIAL and CIAL is 8.96%.

Based on the above views on Cost of Equity and Cost of Debt, and the notional Debt Equity ratio of 48:52, the Authority decides to retain the FRoR at 12.21% for KIA for the Second Control Period, as proposed at the Consultation stage (refer para 7.2.8 of this Tariff Order).

7.5.2 The Authority has examined the comments of FIA and provides its views as under:

i Regarding FIA's comment which states that *"In the present scenario any assured return on investment to any services providers, in excess of six (6) % (including those on past orders) will be onerous for the airlines ....*", the Authority is of the view that the Airport is a long-term asset and in addition to that, the Airport Operators which operate in a Regulated market cannot be penalized for the performance of other sectors in the Value Chain, which are operating in an unregulated market.

ii The Authority has noted FIA's comments on conducting an independent study for determination of FRoR for the AO and would like to state that the Authority had commissioned independent studies for the evaluation of cost of equity separately, in case of each PPP Airport, namely DIAL, MIAL, GHIAL, BIAL and CIAL through a premier institute, namely IIM Bangalore and had used the study reports as a basis, to the extent applicable and relevant, to ascertain the Cost of equity of KIA for the Second Control Period.

7.6 Authority's decisions regarding FRoR for the Second Control Period

Based on the materials before it and based on its analysis, the Authority decides the following:

7.6.1 To consider the Cost of Equity at 15.18% as per the CAPM formula.

7.6.2 To consider the notional debt to equity (gearing) ratio of 48%:52% in line with the target gearing ratio being considered in the case of other PPP airports.

7.6.3 To consider the cost of debt of 9% for the Second Control Period.

7.6.4 To consider FRoR of 12.21% for the Second Control Period based on above mentioned Cost of equity, Cost of debt and Gearing ratio.

8 INFLATION FOR THE SECOND CONTROL PERIOD

8.1 AO's submission on Inflation for the Second Control Period

8.1.1 The AO had submitted the estimation of the WPI inflation based on RBI's Survey of Professional Forecasters on Macroeconomic Indicators dated 08 June 2022. i.e., 10% (the estimated WPI inflation) for the Second Control Period:

8.2 Authority's examination on Inflation for the Second Control Period at Consultation Stage

8.2.1 The Authority proposed to consider the recent "Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 83" released on August 10, 2023 published by the Reserve Bank of India (RBI). Accordingly, the Authority proposed to consider the mean of WPI inflation forecasts (All Commodities) for FY 2024 till FY 2028 as given in the 83rd round of survey of professional forecasters on macroeconomic indicators of RBI.

8.2.2 The Authority had assumed that the inflation rate would be stable and remain constant from FY 2025 till FY 2028. Accordingly, the following table shows the inflation rates as proposed by the Authority for the Second Control Period for Kannur International Airport.

Table 62: Inflation rates proposed by the Authority for the Second Control Period for Kannur Airport at Consultation Stage

Particulars	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
WPI inflation	0.10%	4.0%	4.0%	4.0%	4.0%

8.3 Stakeholders' comments on Inflation for the Second Control Period

8.3.1 During the stakeholders' consultation process, the Authority had received comments/views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 17/2023-24 with respect to Inflation for the Second Control Period. The comments by stakeholders are presented below:

Other Stakeholders' comments on Inflation for the Second Control Period

8.3.2 IATA has commented the following:

"We appreciate the rate of inflation being adjusted to 4% by the Authority."

8.4 AO's responses to other stakeholders' comments on Inflation for the Second Control Period

8.4.1 AO has responded to IATA's comments as under

"The inflationary increase considered for Kannur airport for similar years is different to the increase approved for Mangalore international airport as shown below:

Description	FY 24	FY 25	FY 26
KIAL	0.1%	4%	4%
MIA	5%	5%	5%

The inflation is calculated at a national level and the same cannot be different for the same years in adjacent airports.

Hence KIAL requests non-discriminatory treatment as far inflation to O&M expenses are considered."

8.5 Authority's analysis on stakeholders' comments regarding Inflation for the Second Control Period

8.5.1 The Authority notes the comments of IATA on inflation rates and the AO's response thereon and provides its views as follows:

- The Authority had applied inflation rates for Mangaluru International Airport, based on the results of the "Survey of Professional Forecasters on Macroeconomic Indicators – Round 79" released on December 7, 2022 published by the Reserve Bank of India (RBI), which was the latest report, prevalent at the time of issuance of Tariff Order for the First Control Period for MIA (Order No. 38 dated January 12, 2023).
- Based on the approach uniformly followed across all airports, the Authority decides to consider the Inflation rates as per Round 86 of the Survey of professional forecasters on macroeconomic indicators of RBI (which is the latest report, currently available).

8.5.2 In view of the above, the Authority decides to consider the mean of WPI inflation forecasts (All Commodities) for FY 2024 till FY 2028, as per Round 86 of the Survey of professional forecasters on macroeconomic indicators of RBI, for the Second Control Period for Kannur International Airport. The same is presented as follows:

Table 63 : Inflation rate decided by the Authority for the Second Control Period

Particulars	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
WPI inflation	0.20%	3.8%	3.8%	3.8%	3.8%

8.6 Authority's decisions regarding inflation for the Second Control Period

Based on the material before it and its analysis, the Authority decides the following with regard to Inflation for the Second Control Period:

8.6.1 To consider Inflation in the Second Control Period for Kannur International Airport as detailed in Table 63.

9 OPERATION AND MAINTENANCE (O&M) EXPENSES FOR THE SECOND CONTROL PERIOD

9.1 AO's submission on Operation and Maintenance (O&M) Expenses for the Second Control Period

9.1.1 AO in its MYTP submission had stated that the Aeronautical Operation and Maintenance (O&M) expenses for the Second Control Period had been estimated based on the following assumptions:

- Employee costs, Administration, Security, Vehicle running and other operational expenses had been segregated into Aeronautical and Non-Aeronautical activities in the proportion of number of employees providing Aeronautical and Non-aeronautical services.
- Repair and Maintenance Expenses, and housekeeping expenses had been segregated into Aeronautical and Non-Aeronautical activities, based on the ratio of terminal building.
- Power, Fuel and water charges had been considered based on actuals.
- Custom cost recovery charges, Aviation MET charges, CNS-ATM charges and Cargo handling expenses had been considered as Aeronautical expenses.
- FY 2022-23 had been considered as the base year and relevant growth percentages had been applied over the same to estimate expenses for the other Financial Years.

The AO had submitted the following categories of O&M expenses in its MYTP submission:

Table 64: O&M expenses (category wise) claimed by the Airport Operator in the MYTP for the Second Control Period

Type of O&M Expense	Expense Category
Employee Expenses	Manpower Expenses
Aeronautical Operating Expenses	Repair and Maintenance Expenses
	Security Expenses
	Power & Fuel Expenses
	Utility Expenses
	Operation & Maintenance Expenses
	Housekeeping Expenses
	Operating Expenses
	Insurance
	Communication, Navigation and Surveillance expenses
	Trolley Retrieval Services and
	Aviation Meteorological Services
Other Expenses	Cargo handling and other cargo related expenses
	Administrative Expenses
	Legal, professional and consultancy charges
	Postage, printing & Stationery expenses
	Rent
	Travelling Expenses

9.1.2 The AO had segregated the O&M expenses into Aeronautical, Non-aeronautical and Common expenses. Allocation ratios had been used to further segregate the Common expenses into Aeronautical and Non-aeronautical categories. The basis adopted by the AO for allocation and segregation of O&M expenses is as follows:

Table 65: Segregation of O&M expenses into Aeronautical and Non-aeronautical expenses and the basis of allocation as per Airport Operator's submission

Expense Category	Expense classification	Allocation Basis	Aeronautical	Non-aeronautical
Manpower Expenses	Common	Employee Head Count Ratio	93.33%	6.67%
Security Expenses	Common	Employee Head Count Ratio	93.33%	6.67%
Other Operational Expenses	Common	Employee Head Count Ratio	93.33%	6.67%
Repair and Maintenance Expenses	Common	Terminal Building Ratio	94.5%	5.5%
Other Utility Expenses	Common	Terminal Building ratio	94.5%	5.5%
Operation & Maintenance Expenses	Common	Terminal Building ratio	94.5%	5.5%
Housekeeping Expenses	Common	Terminal Building ratio	94.5%	5.5%
Insurance	Common	Terminal Building ratio	94.5%	5.5%
Power & Fuel Expenses	Aeronautical	-	100%	0%
Communication, Navigation and Surveillance expenses	Aeronautical	-	100%	0%
Trolley Retrieval Services	Aeronautical	-	100%	0%
Aviation Meteorological Services	Aeronautical	-	100%	0%
Cargo handling and other cargo related expenses	Aeronautical	-	100 %	0%
Consultancy charges	Aeronautical	-	100 %	0%
Rent	Common	Terminal Building ratio	94.5%	5.5%
Postage, printing & Stationery expenses	Common	Employee Head Count Ratio	93.33%	6.67%
Legal, Professional and Recruitment charges	Common	Employee Head Count Ratio	93.33%	6.67%
Travelling Expenses	Common	Employee Head Count Ratio	93.33%	6.67%
Administrative Expenses	Common	Employee Head Count Ratio	93.33%	6.67%
Insurance	Common	Terminal Building Ratio	94.5 %	5.5%
Marketing Cost	Aeronautical	-	100 %	0%

9.1.3 The total Aeronautical O&M expenses submitted by the AO for the Second Control Period had been presented as follows:

Table 66: Total Aeronautical Operation and Maintenance (O&M) expenses submitted by the Airport Operator for Second Control Period

(₹ Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Aeronautical Operating Expenses						
Manpower expenses	11.16	11.72	12.31	12.92	13.57	**61.68**
Repair and Maintenance expenses	1.64	1.76	1.94	2.13	2.35	**9.83**
Security	0.56	0.62	0.68	0.75	0.82	**3.43**
Power and Fuel	13.15	14.43	15.87	17.46	19.20	**80.11**
Operations & Maintenance Expenses	11.26	11.00	12.10	38.31	39.64	**112.31**
Other utility expenses	0.69	0.75	0.82	0.90	0.99	**4.15**
House Keeping	11.54	12.69	13.96	15.36	16.89	**70.45**
Other operational expenses	0.13	0.07	0.08	0.08	0.09	**0.45**
Aviation Meteorological Support Services	1.19	1.19	1.19	1.19	1.19	**5.95**
Communication, Navigation and Surveillance and Air Traffic Management Services	1.63	1.08	0.54	0.66	0.41	**4.32**
Land lease expenses	-	-	-	-	0.01	**0.01**
Trolley Retrieval Services	0.42	0.46	0.51	0.56	0.62	**2.57**
Aeronautical Operating Expenses (A)	**53.38**	**55.77**	**59.99**	**90.32**	**95.78**	**355.25**
Other Expenses						
Cargo handling charges	0.33	0.37	0.41	0.45	0.50	**2.05**
Other cargo related expenditure	0.10	0.11	0.12	0.13	0.15	**0.61**
Administrative Expenses	6.90	7.59	8.35	9.19	10.10	**42.14**
Marketing cost	0.88	2.02	2.30	2.60	2.95	**10.75**
Consultancy Charges	2.42	2.66	2.93	3.22	3.54	**14.77**
CSR Expenditure	-	-	0.25	0.88	1.40	**2.53**
Employee Training expenses	0.18	0.20	0.22	0.24	0.27	**1.12**
Rent	0.03	0.03	0.03	0.03	0.03	**0.17**
Other Expenses (B)	8.43	10.32	11.68	13.53	15.40	**59.36**
Total Aeronautical O&M Expenses (A+B)	**61.81**	**66.09**	**71.67**	**103.85**	**111.19**	**414.61**

9.1.4 The growth rates assumed by the Airport Operator for total Aeronautical O&M expenses had been presented in the tables below:

Table 67: Growth rates for total Aeronautical Operation and Maintenance (O&M) expenses submitted by the AO for the Second Control Period

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Aeronautical Operating Expenses (A)					
Manpower expenses	5%	5%	5%	5%	5%

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Repair and Maintenance expenses	3%	7%	10%	10%	10%
Security	10%	10%	10%	10%	10%
Power and Fuel	7%	10%	10%	10%	10%
Operations & Maintenance Expenses	15%	-2%	10%	217%	3%
Other utility expenses	20%	7%	10%	10%	10%
House Keeping	10%	10%	10%	10%	10%
Other operational expenses	81%	-45%	10%	10%	10%
Trolley Retrieval Services	10%	10%	10%	10%	10%
Other Expenses (B)					
Cargo handling charges	20%	11%	11%	11%	12%
Other cargo related expenditure	10%	10%	10%	10%	10%
Administrative Expenses	10%	10%	10%	10%	10%
Marketing cost	-	130%	14%	13%	13%
CSR Expenditure	-	-	-	259%	58%
Employee Training expenses	10%	10%	10%	10%	10%

9.2 Authority's examination of Operation and Maintenance (O&M) Expenses for the Second Control Period at Consultation Stage

The Authority had examined the basis and estimation of O&M expenses submitted by the AO for the Second Control Period. The Authority noted that the AO had analyzed O&M expenses considering infrastructure requirements, personnel costs, equipment maintenance, utilities, security measures and other costs. The Authority had conducted a detailed analysis of O&M expenses submitted by the AO and its allocation into Aeronautical and Non-Aeronautical expenses.

Allocation Ratios

9.2.1 The following ratios had been analyzed and recomputed by the Authority for appropriate segregation of Common expenses between Aeronautical and Non-Aeronautical for the Second Control Period.

Terminal Building Ratio

9.2.2 The Authority observed that AO had considered the terminal building ratio of 94.5%:5.5% based on the terminal building ratio approved in the tariff order for the First Control Period. The Authority examined the Terminal Building ratio submitted by the AO and proposed to consider the Terminal Building Ratio of 92%:8% for the Second Control Period, in accordance with the recommendations of IMG norms (which had recommended the Non-aeronautical area within the terminal building for airports having passenger traffic of less than 10 MPPA to be in the range of 8% to 12% of the total terminal area), Independent Study report on Allocation of Assets of KIA and the ratio considered by AERA in the past for other similar airports.

Gross Fixed Assets Ratio

9.2.3 The Authority noted that AO had submitted the Gross Fixed Assets Ratio based their Terminal Building ratio and allocation of assets into Aeronautical and Non-Aeronautical. The Authority based on the revised Opening RAB, Terminal Building Ratio and allocation of assets into Aeronautical and Non-Aeronautical had re-computed the Gross Fixed Assets Ratio as follows:

Table 68: Gross Fixed Assets ratio proposed by the Authority for the Second Control Period at Consultation Stage

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Aeronautical Gross Block (A)	1,502.59	1,488.41	1,467.68	1,474.63	1,472.78
Non-Aeronautical Gross Block (B)	79.93	79.93	79.93	79.93	79.93
Total Gross Block (C=A+B)	1,582.52	1,568.34	1,547.62	1,554.57	1,552.72
Gross Fixed Assets Ratio (A/C)	**94.95%**	**94.90%**	**94.84%**	**94.86%**	**94.85%**
Average Gross Fixed Assets Ratio	**94.88%**				

Employee Head Count Ratio

9.2.4 The AO had segregated the Manpower Expenses between Aeronautical and Non-Aeronautical in the employee ratio of 93.33%:6.67% for the Second Control Period, which had been derived based on the headcount of Aeronautical and Non-Aeronautical staff within the airport. The Aeronautical Employee Headcount claimed by the AO was presented below:

Table 69: Aeronautical Employee Head Count submitted by the Kannur International Airport Operator for the Second Control Period

Particulars	Classification	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
MD's Office	Common	4	4	4	4	4
Human Resources	Common	2	2	2	2	2
Finance	Common	6	6	6	6	6
Admin & Land	Common	2	2	2	2	2
Secretarial	Aeronautical	1	1	1	1	1
Engineering-Civil & Electrical	Aeronautical	14	14	14	14	14
IT & Electronics	Aeronautical	4	4	4	4	4
Operations	Aeronautical	24	24	24	24	24
Airport Security	Common	31	31	31	31	31
ARFF	Aeronautical	55	55	55	55	55
Total Aeronautical Employee Head count submitted by AO		**142**	**142**	**142**	**142**	**142**
Non-aeronautical employees		10	10	10	10	10
Total Employee Headcount of submitted by AO		**152**	**152**	**152**	**152**	**152**
Employee Headcount Ratio submitted by AO		93.33%	93.33%	93.33%	93.33%	93.33%
5-year Average of Total Employee Headcount Ratio submitted by AO		93.33%				

The Airport Operator had not projected any growth in the Employee Headcount for the Second Control Period. The AO had considered the Aeronautical Employee Headcount of FY 2022-23 for the entire Second Control Period. Based on the above factors, the Authority had considered the Aeronautical Headcount derived by it for FY 2022-23 (which was 128 as per Table 26) for projecting the Employee Headcount for the Second Control Period.

The Employee Headcount Ratio derived by the Authority for the Second Control Period is shown in the Table below:

Table 70: Aeronautical Employee Head Count of the Airport Operator and the Revised EHCR proposed by the Authority for the Second Control Period at Consultation Stage

Department	Classification	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
MD's Office	Common	4	4	4	4	4
Liaison Office	Non- Aeronautical	1	1	1	1	1
Human Resources	Common	2	2	2	2	2
Finance	Common	6	6	6	6	6
Admin & Land	Common	2	2	2	2	2
Secretarial	Common	1	1	1	1	1
Engineering-Civil & Electrical	Aeronautical	14	14	14	14	14
IT & Electronics	Common	4	4	4	4	4
Commercial	Non- Aeronautical	6	6	6	6	6
Operations	Aeronautical	24	24	24	24	24
Airport Security	Common	19	19	19	19	19
ARFF	Aeronautical	55	55	55	55	55
Total		**138**	**138**	**138**	**138**	**138**
Direct Aeronautical Employees		93	93	93	93	93
Common employees		38	38	38	38	38
Direct Non- Aeronautical Employees		7	7	7	7	7
Common employee's apportionment						
Aeronautical		35	35	35	35	35
Non- Aeronautical		3	3	3	3	3
Total		**38**	**38**	**38**	**38**	**38**
Head Count after apportionment of Common employees						
Total Number of Aero Employees		**128**	**128**	**128**	**128**	**128**
Total Number of Non-Aero Employees		**10**	**10**	**10**	**10**	**10**
Revised Employee Headcount Ratio of AO, derived by the Authority		**93.00%**	**93.00%**	**93.00%**	**93.00%**	**93.00%**
5-year Average of Revised Employee Headcount Ratio of AO, derived by Authority		**93%**				

The Authority proposes to consider the Employee Headcount ratio of 93:7, as shown in the above table.

Summary of Allocation ratios proposed by the Authority for the Second Control Period

9.2.5 The Allocation ratios proposed by the Authority for the Second Control Period are as follows:

Table 71: Allocation ratios proposed by the Authority for the Second Control Period at Consultation Stage

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Terminal Building Ratio	92%	92%	92%	92%	92%
Gross Fixed Assets Ratio	94.95%	94.90%	94.84%	94.86%	94.85%
Employee Head Count Ratio	93%	93%	93%	93%	93%

Classification and Allocation of O&M expenses

9.2.6 The Authority's proposal for allocation of total Aeronautical O&M expenses of KIA as compared to that submitted by the Airport Operator had been summarized in the table below:

Table 72: Allocation of Total Aeronautical O&M expenses for Airport Operator proposed by the Authority for the Second Control Period at Consultation Stage

Expense Category	Allocation claimed by AO	Allocation proposed by Authority
Manpower Expenses	93.33%	93%
Security Expenses	93.33%	93%
Operating Expenses	93.33%	93%
Repair and Maintenance Expenses	94.50%	92%
Utility Expenses	94.50%	92%
Operation & Maintenance Expenses	94.50%	92%
Housekeeping Expenses	94.50%	92%
Power & Fuel Expenses	100%	100%
Communication, Navigation and Surveillance expenses	100%	-
Trolley Retrieval Services	100%	100%
Aviation Meteorological Services	100%	100%
Cargo handling and other cargo related expenses	100%	100%
Land Lease Expenses	100%	100%
Rent	94.50%	92%
Postage, printing & Stationery expenses	93.33%	93%
Legal, Professional and Recruitment charges	93.33%	93%
Travelling Expenses	93.33%	93%
Administrative Expenses	93.33%	93%
Marketing Cost	100%	Gross Fixed Assets Ratio

Examination of O&M Expenses and its allocation into Aeronautical and Non-Aeronautical expenses at Consultation Stage

9.2.7 The Authority had examined the O&M expenses submitted by the AO for the Second Control Period. The Authority had considered the unaudited financials of FY 2022-23, as the basis for determining the projected O&M expenses for the Second Control Period of KIA.

The Authority in the following paragraphs presented its analysis of each expense category and its corresponding allocation, organized in the following sequence:

a) Inflationary increase

b) Manpower expense and its allocation

c) Repairs and Maintenance and its allocation

d) Security expense and its allocation

e) Power and Fuel expense and its allocation

f) Utility expense and its allocation

g) Operation and Maintenance and its allocation

h) Housekeeping and its allocation

i) Cargo related expense and its allocation

j) Administrative expense and its allocation

k) Marketing expense and its allocation

Inflationary increase

9.2.8 The Authority, on examination of the submission made by AO, noted that WPI Inflation of 10% had been considered towards all expenses. However, the Authority in its detailed analysis in Chapter 8, proposed to consider WPI inflation of 4% Y-o-Y published in the results of the 83rd round of the Survey of Professional Forecasters on Macroeconomic Indicators released on August 10, 2023.

Manpower expenses

9.2.9 The Authority, while examining the Airport Operator's submission towards Manpower expenses noted the following:

i. **Manpower Expenses** – The Airport Operator had submitted the following projected salary cost per employee per annum and increase in the total employee headcount:

a. Salary cost projected per annum - The Airport Operator had submitted a weighted average employee cost of ₹ 7.14 lacs per annum for FY 2021-22 and projected an increase of 5% year-on-year (Y-o-Y) for the Second Control Period. As per the submission of the Airport Operator, the weighted average employee cost of ₹ 7.14 lacs per annum had been derived after considering the actual salary cost of all employees such as Managing Director, Engineers, Human Resource, Finance, IT, Security, etc.

Based on the above factors, the Authority proposed to consider the weighted average employee salary cost of ₹ 7.14 lacs per annum in FY 2021-22 as reasonable. Further, the Authority proposed to consider the growth rate of 5% Y-o-Y in the Manpower expenses, submitted by the AO for the Second Control Period.

b. Employee Headcount - – Based on the analysis provided under para 9.2.4, the Authority proposed to consider the Employee Headcount as shown in Table 70.

The Employee cost proposed by the Authority for KIA for the Second Control Period, based on the Aeronautical Employee Headcount derived by the Authority, was as follows:

Table 73: Manpower Cost of Aeronautical Employees proposed by the Authority, based on the revised Head Count for the Second Control Period at Consultation Stage

Particulars	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Aeronautical Employee Headcount claimed by AO	No.	142	142	142	142	142	
Growth % claimed by the AO	%	5%	5%	5%	5%	5%	
Manpower Cost of employees claimed by the AO	₹ in Crores	11.16	11.72	12.31	12.92	13.57	**61.68**
Aeronautical Employee Head count proposed by the Authority	No.	128	128	128	128	128	
Growth % proposed by the Authority	%	5%	5%	5%	5%	5%	
Manpower Cost of employees proposed by the Authority	₹ in Crores	10.10	10.60	11.13	11.69	12.27	**55.80**

Employee Training Expenses

9.2.10 The Authority noted that AO had segregated the Employee Training expenses in the Employee ratio, i.e., 93.33:6.67, which the Authority proposed to re-allocate in the Employee ratio of 93:7 (Refer Table 71).

Repair and Maintenance expenses

9.2.11 The Authority examined the expenses towards Repairs and Maintenance and noted that the AO proposed Repair and Maintenance expenses of ₹ 9.83 Crores for the Second Control Period showing an increase of 3% and 7% in first 2 tariff years of the Second Control Period and an increase of 10% year-on-year for remaining 3 years on repair and maintenance expenditure for the Second Control Period. The R&M expenses proposed by the Kannur International Airport were within the limit of 6% of Opening Net Block (RAB) of each tariff year in the Second Control Period.

Based on the above factors, the Authority proposed to consider the R&M expenses submitted by the AO for the Second Control Period.

9.2.12 Further, the Authority noted that the AO had segregated the other repair and maintenance expenses in the Terminal Building Ratio, i.e., 94.5:5.5. However, the Authority proposed to consider re-allocate the Repairs and Maintenance expenses in the ratio of 92:8.

Security expenses

9.2.13 The Authority noted that AO had proposed a 10% year-on-year increase in the Security expenses for the Second Control Period. Considering that Security expense increase based on growth in traffic, the Authority noted that the 10% growth proposed by AO was reasonable and proposed to consider the same.

The Authority observed that the AO had segregated Security expenses in the Employee ratio, i.e., 93.33:6.67 and considered the same as reasonable.

Power & Fuel Expenses

9.2.14 The Authority noted that AO had considered the Power & fuel expenses as Aeronautical, which the

Authority found to be reasonable.

9.2.15 The Authority noted that AO had proposed a 7% increase in the Power & Fuel expenses in the first tariff year and further 10% year-on-year increase for the remaining 4 tariff years in the Second Control Period. The AO had proposed the Power & Fuel expenses of ₹ 80.11 Crores considering the 7% growth in first tariff year of Second Control Period and 10% year-on-year growth in remaining 4 tariff years.

Table 74: Recovery of utility costs from Concessionaires

(₹ Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Power & Fuel Costs claimed by AO (A)	13.15	14.43	15.87	17.46	19.20	**80.11**
Utility costs recovered from Concessionaires by AO (B)	0.95	1.05	1.15	1.27	1.39	**5.81**
% of recovery from Concessionaire (B/A)	7.22%	7.28%	7.25%	7.27%	7.24%	**7.25%**

The AO had projected the power and fuel costs amounting to ₹ 80.11 Crores which also includes the utilities costs incurred by Concessionaires, which had been recovered by the AO (which was 7.25% of the total power costs incurred by AO as per above table). The Authority noted that the power recovery percentage was significantly lower than that of comparable airports. The Authority was of the view that with the gradual increase in the Non-Aeronautical operations, the AO could increase the power recovery from the Concessionaires. Accordingly, the Authority proposed to consider power recoveries at a notional rate of 25%, while determining tariff for the next Control Period.

Based on the above factors, the Authority proposed to consider the growth of 5% year-on-year for the Power & Fuel expenses for the Second Control period.

Operation & Maintenance Expenses

9.2.16 The Authority noted that the AO had submitted ₹ 112.31 Crores of Operation and Maintenance Expenditure for the Second Control Period which included the Operation and Maintenance Expenses amounting to ₹ 62.31 Crores (which mainly consisted of AMC and other miscellaneous expenses) and Runway surface maintenance of ₹ 50 Crores to be incurred during FY 2026-27 and FY 2027-28 (₹ 25 Cr. to be incurred in each of the above 2 Financial Years).

The Authority was of the view that the runway resurfacing/ recarpeting might be carried out at an interval of 7 to 10 years (as per the practice generally followed in all airports). However, the periodicity depends on various factors such as weather conditions, surface movements, materials used for resurfacing etc. Considering the fact that Kannur is in a heavy rainfall area and the runway had been constructed over high depth of earth filling on undulated hilly surface, there might be chances of secondary and unequal settlement which could deteriorate the runway surface. Although, the runway work was completed in the year 2017, it was put to use only by the end of FY 2018-19. Further, the Authority noted that Kannur International Airport began its commercial operations in December 2018 and soon after, its operations were curtailed due to COVID-19 pandemic, whereby, the runway was not been utilized fully. Also, currently, there seemed to be no deterioration in the runway surface. Hence, the Authority proposed not to consider the expenses towards Runway surface maintenance in this Control Period.

However, if due to any urgent requirement, the AO undertakes the work of runway resurfacing/ recarpeting in the Second Control Period the same might be considered on actual incurrence basis, subject to efficiency and reasonableness, by the Authority at the time of true up of the Second Control Period, while determining tariff for the next Control Period.

The Authority noted that AO had segregated the Operation & Maintenance expenses in the Terminal Building Ratio, i.e., 94.5:5.5, which the Authority had re-allocated based on the Terminal Building Ratio of 92:8 (Refer Table 71).

Post re-allocation of Operation and Maintenance expenses in the Terminal Building ratio of 92:8, the Authority derived the Operation and Maintenance expenses of ₹ 60.66 Crores, which was proposed to consider for the Second Control Period.

Other utility Expenses

9.2.17 The Authority noted that the AO has submitted ₹ 4.15 Crores of other utility expenses which represents the water charges and had projected the growth of 10% year-on-year growth for the Second Control Period. The Authority proposed to consider the inflationary effect on the utility expenses year-on-year across the Second Control Period, as followed in other similar airports.

The Authority noted that AO has segregated the other utility expenses in the Terminal Building Ratio, i.e., 94.5:5.5, which the Authority had re-allocated based on the Terminal Building Ratio of 92:8 (Refer Table 71).

Aviation Meteorological Services, Land lease expenses, Trolley Retrieval Services and Cargo handling expenses

9.2.18 The Authority noted that the AO has submitted ₹ 5.95 Crores of Aviation Meteorological Services. The Aviation Meteorological Service charges refers to the reimbursement of salary cost and support service charges payable on monthly basis to Indian Meteorological Department (IMD) by the AO for the aviation meteorological services provided to the airport and is based on the Memorandum of Understanding (MOU) entered between AO and IMD. The AO had availed the Aviation Meteorological Services for the smooth functioning of the Airport and based on the agreed terms. Based on the above factors, the Authority proposed to consider the same as reasonable.

The Authority noted that the AO has considered the Aviation Meteorological Services, Land lease expenses, Trolley retrieval services and cargo handling charges as Aeronautical, which the Authority finds to be reasonable.

Administrative Expenses

9.2.19 The Authority noted that the AO has submitted ₹ 42.14 Crores for Administrative expenses towards postage & courier, printing & stationery, legal & professional, recruitment, travelling, consultancy and insurance charges. The Authority noted that the AO had projected 10% year-on-year growth for the Administrative expenses. The Administrative expenses submitted by the Airport Operator for the Second Control Period is as follows:

Table 75: Administrative expenses submitted by Airport Operator for the Second Control Period

(₹ Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Administrative Expenses	0.14	0.16	0.17	0.19	0.21	**0.87**
Insurance	1.43	1.57	1.73	1.90	2.09	**8.71**
Consultancy	2.42	2.66	2.93	3.22	3.54	**14.77**
Miscellaneous Expenses	0.40	0.44	0.48	0.53	0.58	**2.43**
Postage & Courier Charges	0.06	0.07	0.07	0.08	0.09	**0.36**
Printing & Stationery Charges	0.18	0.19	0.21	0.24	0.26	**1.08**
Legal & Professional Fees	1.45	1.59	1.75	1.93	2.12	**8.83**
Recruitment Expenses	0.14	0.16	0.17	0.19	0.21	**0.87**
Travelling Expenses	0.69	0.76	0.84	0.92	1.01	**4.21**
Total	**6.90**	**7.59**	**8.35**	**9.19**	**10.10**	**42.14**

9.2.20 The Authority had analyzed each component of the Administrative Expenses and the same was as follows:

Table 76: Administrative Expenses proposed by the Authority at Consultation Stage

(₹ Crores)

Particulars	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total	Basis considered by the Authority
Administrative Expenses	0.14	0.16	0.17	0.19	0.21	**0.86**	Administrative expenses pertaining to office expenses such as, communication charges, telephone charges, bank charges, meeting expenses, newspapers and periodicals, refreshment, etc. The AO had proposed 10% year-on-year growth, which the Authority considered to be reasonable.
Insurance	1.43	1.57	1.73	1.90	2.09	**8.71**	Insurance costs pertains to insurance of all the assets at the Airport. The AO had allocated the insurance cost based on TB Ratio and had considered growth of 10% year-on-year. The Authority proposed to re-allocate the cost based on Gross Fixed

Particulars	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total	Basis considered by the Authority
							Assets Ratio, as it covers all the assets of the Airport.
Consultancy	1.21	1.33	1.46	1.60	1.77	**7.36**	Consultancy expenses projected by the AO pertains to appointment of consultants for route development initiatives, airline marketing, debt restructuring, and assessment of capital expenditure projects in Second Control Period (SCP). The AO had projected an increase of 10% year-on-year for the SCP. The Authority noted that the AO has projected Consultancy expenses for the SCP based on the actual expenses of FY 2022-23 which majorly consist of consultancy fees for route development, tariff determination, marketing plan for target carriers, traffic projections etc. As these were one-time service requirements, which may not be recurring in the current control period, the same may not be an appropriate basis for projecting consultancy expenses for the Second Control Period. Therefore, the Authority proposed to consider ₹ 7.39 Crores (which is about 50% of the Consultancy expenses claimed by the AO) for the Second Control Period.
Miscellaneous Expenses	0.08	0.09	0.10	0.10	0.12	**0.48**	Miscellaneous expenses projected by the AO pertains to refreshments and miscellaneous expenses. The AO had shown the increase of 10% year-on-year for the SCP. The Authority notes that AO has incurred only ₹ 0.07 Crores towards

Particulars	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total	Basis considered by the Authority
							Miscellaneous expenses for FY 2022-23. On the above basis, the Authority had derived the Miscellaneous expenses for the Second Control period, by considering 10% Y-o-Y growth on the actual expense of FY 2022-23.
Postage & Courier Charges	0.06	0.06	0.06	0.07	0.07	**0.32**	Postage & Courier and Printing & Stationery expenses pertains to the office expenses and the AO had shown the increase of 10% year-on-year for the SCP. The Authority proposed to increase the estimates by 4% annually, in line with the Inflation rate (WPI) from FY 2024-25.
Printing & Stationery Charges	0.18	0.18	0.19	0.20	0.21	**0.96**	
Legal & Professional Fees	1.36	1.41	1.46	1.52	1.58	**7.32**	The AO had submitted the increase of 10% year-on-year for Legal & Professional charges. The Authority noted that the legal expenses were not considered as a passthrough expense. Therefore, the Authority proposed to exclude the Legal expenses and consider only the Professional expenses (which includes Ind AS consultancy Fee , Consent Fee of Pollution Control Board, Audit Fee etc.) for the Second Control Period. The Authority proposed to increase the estimates by 4% annually, in line with the Inflation rate (WPI) from FY 2024-25, considering the fact that these may include long term contracts.
Recruitment Expenses	-	-			-	-	Recruitment expenses pertains to hiring of employees and AO has shown

Particulars	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total	Basis considered by the Authority
							increase of 10% year-on-year. The Authority noted that the AO has projected the only same Employee Headcount for all the tariff years for the SCP. As there is no increase in projected headcount, the Authority proposed not to consider the recruitment expenses for the Second Control Period.
Travelling Expenses	0.69	0.72	0.74	0.77	0.80	**3.72**	Travelling expenses pertains to travel of employees and other consultants and AO had shown increase of 10% year-on-year. The Authority proposed to increase the estimates by 4% annually, in line with the Inflation rate (WPI) from FY 2024-25.
Total	**5.13**	**5.50**	**5.91**	**6.36**	**6.84**	**29.74**	

The Authority noted that the AO has segregated the Administrative expenses in the Employee ratio of 93.33:6.67, which the Authority proposed to re-allocate in the revised Employee ratio of 93:7.

Marketing Cost

9.2.21 The Authority noted that the AO had considered the Marketing Cost as Aeronautical. Since, marketing cost promotes both Aeronautical and Non-Aeronautical revenues, the Authority proposed to re-allocate the marketing cost in Gross Fixed Assets Ratio for the Second Control Period.

The Authority noted that the AO has submitted ₹ 10.75 Crores towards Marketing cost in the Second Control Period and had projected the growth of 130% in Marketing cost during FY 2024-25 and 13%-14% from FY 2025-26 to FY 2027-28. The Authority had approved the marketing cost of ₹ 10.75 Crores in the Tariff Order of the First Control Period, but the AO had not incurred any expense towards marketing during the First Control Period due to COVID-19 pandemic. Therefore, the AO had submitted the same in the Second Control Period, as it needs to spend on marketing activities to enhance the visibility of the Airport. Based on the above factors, the Authority proposed to consider Marketing costs for the Second Control Period. Further, the Authority had derived the Marketing costs as ₹ 10.20 Crores, after the re-allocation of the marketing cost as Common and its apportionment to Aeronautical expenses in the ratio of Gross Fixed Assets.

CSR Expenditure

9.2.22 The Authority noted that the CSR Expenditure was estimated in accordance with the statutory requirements under the Companies Act, 2013, viz., 2% of the average profits of the preceding 3 financial years. The Authority further noted that the AO has incurred losses of ₹ 748.51 Crores during the First Control Period which can be carried forward up to 8 years. Considering the traffic growth and carry forward of losses, the Authority was of the view that the AO may not be able to generate sufficient profits in the Second Control Period. Since, CSR Expenditure is dependent upon the profitability of the individual years of operation, the same may be evaluated and trued up at the time of determination of tariff for the next Control Period.

Rent

9.2.23 The Authority noted that the AO has submitted ₹ 0.17 Crores of rent expenses for the liaison office of Kannur International Airport in Thiruvananthapuram. The Authority had reviewed the rent agreement and notes that the expenses projected by the AO is as per the terms of the agreement and hence, the Authority proposed to consider the same for the Second Control Period.

The Authority noted that AO has segregated the Rent in the Terminal Building Ratio, i.e., 94.5:5.5, which the Authority had re-allocated in the Terminal Building Ratio of 92:8 (Refer Table 71).

Housekeeping expenses

9.2.24 The Authority noted that the AO had submitted ₹ 70.45 Crores of Housekeeping expenses, which included housekeeping charges for Integrated Terminal Building, ATC Building, administrative office and other ancillary buildings. The Authority noted that the AO has awarded the contract for housekeeping services to various vendors and projected 10% year-on-year growth towards Housekeeping expenses for the Second Control Period. The Authority noted that the housekeeping contract does not include any clause on the escalation of rates. Therefore, the Authority proposed to consider the actual cost as per the contract for the First Tariff year and adjust it with inflationary increase for the remaining 4 tariff years.

Communication, Navigation and Surveillance and Air Traffic Management Services (CNS-ATM)

9.2.25 The Authority noted that AO had submitted ₹ 4.32 Crores towards CNS-ATM Services. The Authority noted that AO had projected the CNS-ATM charges showcasing the negative growth in first 3 tariff years of the Second Control Period. The Authority noted that AAI provides the CNS-ATM services at the Kannur International Airport on 'quarterly cost recovery' basis and the same was based on the terms and conditions of the agreement entered into between AAI and AO (as per Clause 5.1.1 and 7.4 of the Agreement between AO and AAI). As per the agreement, the AO was required to reimburse AAI for the difference in cost incurred in providing CNS-ATM services and revenue earned for the same services.

This Tariff Order discusses the determination of tariffs for Aeronautical services at the Airport excluding ANS, as tariff for ANS is presently regulated by the Ministry of Civil Aviation for all the airports. Therefore, all the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining the tariff for ANS services. Further, the tariff for ANS services is determined at the Central level by the Ministry of Civil Aviation to ensure uniformity across the Airports in the Country. Hence, AERA determines tariff for Aeronautical services of the Airport Operator, by excluding the assets, expenses and revenues from ANS. Hence, the Authority proposed to not consider the CNS-ATM charges proposed by the AO.

Cargo handling expenditure

9.2.26 The Authority noted that the AO had submitted ₹ 2.05 Crores towards Cargo handling expenditure for the Second Control Period. The AO had started its Cargo operations in October 2021, from an interim cargo facility and the operations were presently continuing from the same facility. It was noted that the international imports had commenced only in May 2022 and the international cargo represents approx. 99% of the total cargo volume handled by the AO. The Authority noted that the AO had projected the Cargo handling charges based on the projected Cargo volume for the Second Control Period. The AO had derived the cargo related expenditure based on the projected Cargo volume and the existing tariff for Cargo operations. Based on the above factors, the Authority proposed to consider the Cargo handling expenditure as reasonable.

Other Cargo handling expenditure

9.2.27 The Authority noted that the AO has submitted ₹ 0.61 Crores towards Other Cargo handling expenditure for the Second Control Period. The Authority noted that the expense included internet charges and outsourcing charges with respect to Cargo Operations. Based on the above factors, the Authority proposed to consider the same as reasonable.

9.2.28 Based on the above observations, the Authority, had derived the total Aeronautical O&M expenses of KIA for the Second Control Period and the same is as follows:

Table 77: Operation and Maintenance (O&M) Expenses proposed by the Authority for Airport Operator for the Second Control Period at Consultation Stage

(₹ Crores)

Particulars	FY 2023-24*	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Aeronautical O&M Expenses						
Manpower expenses	10.10	10.60	11.13	11.69	12.27	**55.80**
Repair and Maintenance expenses	1.60	1.72	1.89	2.08	2.29	**9.57**
Security	0.56	0.62	0.68	0.75	0.82	**3.43**
Power and Fuel	10.38	10.85	11.34	11.85	12.38	**56.79**
Operations & Maintenance Expenses	10.97	10.71	11.78	12.96	14.25	**60.66**
Other utility expenses	0.68	0.70	0.73	0.76	0.79	**3.66**
House Keeping	9.90	10.30	10.71	11.14	11.58	**53.62**
Other operational expenses	0.13	0.07	0.08	0.08	0.09	**0.45**
Aviation Meteorological Support Services	1.19	1.19	1.19	1.19	1.19	**5.95**
Communication, Navigation and Surveillance and Air Traffic Management Services	-	-	-	-	-	**-**
Land lease expenses	-	-	-	-	0.01	**0.01**
Trolley Retrieval Services	0.42	0.46	0.51	0.56	0.62	**2.57**
Cargo handling charges	0.33	0.37	0.41	0.45	0.50	**2.05**
Other cargo related expenditure	0.10	0.11	0.12	0.13	0.15	**0.61**
Administrative Expenses	5.13	5.50	5.91	6.36	6.84	**29.74**
Marketing cost	0.84	1.92	2.18	2.47	2.80	**10.20**
CSR Expenditure	-	-	-	-	-	**-**
Employee Training expenses	0.18	0.20	0.22	0.24	0.27	**1.12**
Rent	0.03	0.03	0.03	0.03	0.03	**0.17**
Total Aeronautical O&M Expenses	**52.52**	**55.35**	**58.91**	**62.73**	**66.88**	**296.38**

* *Projections for FY 2023-24 had been derived based on unaudited financials of FY 2022-23.*

9.2.29 As can be seen above, the total O&M expenses proposed by the Authority for Second Control Period was ₹ 296.38 Crores.

9.2.30 Based on above considerations, the Authority proposed the following growth rates in Operation and Maintenance (O&M) expenses for Aeronautical Operating expenses, as compared to the projections submitted by the Airport Operator.

Table 78: Growth rates in O&M expenses considered by the Authority for the Second Control Period at Consultation Stage

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Manpower expenses	-	5%	5%	5%	5%
Repair and Maintenance expenses	-	7%	10%	10%	10%
Security	-	10%	10%	10%	10%
Power and Fuel	-	5%	5%	5%	5%
Other utility expenses	-	4%	4%	4%	4%
House Keeping	-	10%	10%	10%	10%
Trolley Retrieval Services	-	7%	7%	8%	8%
Other cargo related expenditure	-	5%	5%	5%	5%
Administrative Expenses	-	7%	10%	10%	10%
Employee Training expenses	-	10%	10%	10%	10%

9.2.31 The Authority expected AO to bring in efficiencies in the incurrence of O&M expenses for the benefit of airport users and in line with AERA Act, AERA Guidelines and ICAO Principles.

9.3 Stakeholders' comments on Operation & Maintenance Expenses for the Second Control Period

9.3.1 During the stakeholders' consultation process, the Authority had received comments/views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 17/ 2023-24 with respect to Operation and Maintenance Expenses for the Second Control Period. The comments by stakeholders are presented below:

AO's comments on Operation and Maintenance Expenses for the Second Control Period

9.3.2 AO has commented the following:

- *"KIAL notes that the Authority has highlighted concern regarding headcount of screeners vs junior managers and has reduced no. of employees to rationalize manpower and operational & maintenance expenses.*
- *KIAL point out that, in FY 22 and FY23 baggage screening executives have been promoted to junior manager. However, they perform the same function of baggage screening as mentioned in the response to authority's proposal on the same point in true up of manpower cost for first control period.*
- *As a measure to rationalize housekeeping and manpower expenses, it can be observed that KIAL has rationalized on any additional hiring in second control period.*
- *KIAL requests the authority to approve the headcounts as submitted by airport.*
- *As per MYTP submitted by KIAL, runway resurfacing expense has been considered in FY27 and 28. However the authority has proposed to remove the said expense. The runway at airport was constructed in 2018. As per standards, runway recarpeting needs to be done in interval of 7 to 10*

years to ensure safe aircraft operations. Further the decision to resurface the runway is not solely based on the operations but also based on the aging of bitumen. Since it is a critical element in ensuring safe operations at the airport, KIAL proposes to conduct a study to assess the wear and tear of the runway asset in FY 27. Based on the same, KIAL shall take the decision to resurface the runway. Therefore, KIAL request authority to approve portion of expense (50%, amounting to estimated INR 25 Crore) for runway recarpeting in FY 28 and the remaining INR 25 Crore shall be incurred by KIAL in FY 29 in the tariff submission for third control period."

Other Stakeholders' comments on Operation & Maintenance Expenses for the Second Control Period

9.3.3 FIA has commented the following:

"In Para 9.2.14 of CP,

- *While we are in agreement with AERA that as KIA gradually expands its Non-aeronautical operations, it should also proportionately increase the power recovery charges from Concessionaires. Thus, KIA is requested to constitute a committee to verify the bills relating to Power expenses and submit a report on the same to AERA, for greater transparency*

Para 9.2.13, 9.2.30 Table 68, 69 of CP

- *FIA submits that, in para 9.2.30, AERA for the purposes of estimating manpower expenses have considered a 5% growth rate, which is quite high. Further FIA requests AERA to not provide such huge escalations, for the following:*

  i Repairs & Maintenance expenses (between approx. 7% to 10 %)

  ii Housekeeping Expenses (approx. 10% YoY)

  iii Para 9.2.13 Security expenses. (approx. 10% YoY).

AERA and Airport operator have proposed Rs. 3.43 Cr as security expenses as per Table 68 of the CP. However, as it is understood that expenses of this nature are funded through National Aviation Security Fees Trust (NASFT). In this regard, we request the Authority to clarify the burden of such expense on the airline, as the end user/customer is already paying Aviation Security Fee ('ASF').

Further, it is to be noted that:

a) The percentage of manpower cost proposed by AERA is high as there has been no terminal expansion or manpower additions in case of KIA. It is also important to highlight that the manpower expenditure is semi- fixed in nature and does not increase proportionately. Hence, any increase may only be done with scrutiny and proper justification, that may be achieved by way of an independent study.

b) AERA accepts that to assess the accuracy, reasonableness and estimate of expenses in the Second Control Period of a greenfield airport is challenging and O&M expenses is one of the key building blocks.

c) FIA appreciates AERA for conducting the study on 'efficient Operation and Maintenance expenses' for the First Control Period to analyse the need of O&M incurred, which showcased that there was an overall deviation of 34.10% in the total O&M approved for First Control Period versus the incurred cost (para 17.2.4 of the CP).

In view of the above, it is submitted that the current estimated O&M expenses requires further scrutiny by way of an Independent Study in this Control Period, so the same deviation is not reported for

Second Control Period, which will result in over recovery of ARR in next control period under garb of True up.

FIA wishes to highlight that the same has been proven in cases of other PPP Airports like DIAL, MIAL, BIAL that while truing up the O&M in subsequent control periods, it always leads to over-estimation which has been observed leading to higher tariff in past control periods. We further submit that, while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, the Airport operator on the other hand seems to have incurred/will incur incremental expenses which may not appear prudent considering the significant losses incurred by the aviation sector.

In view of the aforementioned reasons, we request AERA to conduct an independent study for determining the true value of the O&M expenses before approving the tariff for the Second Control Period"

9.4 AO's responses to other stakeholders' comments on Operation & Maintenance Expenses for the Second Control Period

9.4.1 AO has responded to FIA's comments as under:

i *"The escalation provided in manpower expenses is 5% which is in line with the prevailing consumer price inflation project by RBI in Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 83.*

ii *Security and housekeeping expenses largely consist of manpower expenses. An industry standard for escalation is 10% and the same has been approved by the authority for other similar airports.*

iii *The security at the airport has to be ensured in addition to personnel in CISF. This is done considering the Airport asset is quite expansive and over a hilly terrain. Hence the airport has deployed third party security personnel to ensure the safety and security at the airport. Such measures are in line with that followed in other major airports such as DIAL, MIAL, CIAL and BIAL.*

iv *The amount of manpower for the second control period has already been provided in table no. 60 in consultation paper No. 17/2023-24. As can be seen from the table KIAL has optimized the hiring plan in the second control period. The increase that is considered is primarily for the increase of salaries and wages in line with the consumer price inflation.*

v *Regarding FIA's view.on the deviation of 34.1% in the total O&M approved for First Control Period versus the actual incurred cost. KIAL would like to highlight the reason for deviation because at the time of estimation of O&M expense in the first control period several costs were not considered as follows:*

a. CNS-ATM Charges (INR 22.1 Cr)

b. Customs cost recovery charges (INR 43.5 Cr)

c. ORAT (INR 1.52 Crore)

d. Airport inauguration charges (INR11.72 Cr)

e. Cargo related expenses (INR 0.62 Cr)

f. CISF induction fee (INR 9.8 Cr)

g. Aviation Meteorological Support Service charges (INR 4.86 Cr) vi *Above expenses are unavoidable and most of the major expenses are as per agreements with respective central government agencies for provision of specialized services at the airport.*

vii *Projection of operations and maintenance expenses at brownfield airports can be done with fairly good accuracy due availability of historical data. Such is not the case with KIAL since it is a greenfield airport. In the first control period, several O&M expenses were estimated basis the expenses seen in other similar airports such as CIAL. This is also one of the reasons for higher deviation.*

viii *It may be noted that the ARR for first control period is not recovered completely due to impact of COVID. With the proposed tariffs the ARR for second control period cannot be recovered. So, the concern of over recovery of ARR is also not applicable.*

ix *Comparison of O&M expense of KIAL with established airports such as DIAL, MIAL and BIAL may not be applicable. They are established brownfield airports whose expenditures are spread across a mature traffic flow. The expenditure in greenfield airports in the initial years are bound to be high.*

In light of above argument, it is unfair to compare KIAL to established airports in the country and expect KIAL to achieve in the initial years of severely interrupted operations the benchmark figures of NAR, O&M, etc. which other airports have achieved through decades of uninterrupted operations."

9.5 Authority's analysis on stakeholders' comments regarding Operation & Maintenance Expenses for the Second Control Period

9.5.1 The Authority has noted the comments of the AO on the operation and maintenance expenses projected for the Second Control Period.

i. As discussed in para 4.9.14 of this Tariff Order, the Authority based on its analysis of the justification and data submitted by the AO, as part of the stakeholders' comments, decides to consider the baggage screening executives and accordingly, re-estimated the headcount of Security staff for true up of the First Control Period and has also determined the Manpower headcount for the Second Control Period. The same is shown in the table below:

Table 79: Revised Aeronautical Employee Head Count decided by the Authority

(in Numbers)

Department	Classification	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
MD's Office	Common	4	4	4	4	4
Liaison Office	Non- Aeronautical	1	1	1	1	1
Human Resources	Common	2	2	2	2	2
Finance	Common	6	6	6	6	6
Admin & Land	Common	2	2	2	2	2
Secretarial	Common	1	1	1	1	1
Engineering-Civil & Electrical	Aeronautical	14	14	14	14	14
IT & Electronics	Common	4	4	4	4	4
Commercial	Non- Aeronautical	6	6	6	6	6
Operations	Aeronautical	24	24	24	24	24
Airport Security	Common	33	33	33	33	33
ARFF	Aeronautical	55	55	55	55	55
Total		**152**	**152**	**152**	**152**	**152**

Department	Classification	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Direct Aeronautical Employees		93	93	93	93	93
Common employees		52	52	52	52	52
Direct Non- Aeronautical Employees		7	7	7	7	7
Common employee's apportionment						
Aeronautical		48	48	48	48	48
Non- Aeronautical		4	4	4	4	4
Total		**52**	**52**	**52**	**52**	**52**
Head Count after apportionment of Common employees						
Total Number of Aero Employees		**141**	**141**	**141**	**141**	**141**
Total Number of Non-Aero Employees		**11**	**11**	**11**	**11**	**11**
Revised Employee Headcount Ratio of AO, derived by the Authority		**93.00%**	**93.00%**	**93.00%**	**93.00%**	**93.00%**
5-year Average of Revised Employee Headcount Ratio of AO, derived by Authority	**93%**					

ii. Regarding AO's comments on Runway resurfacing expenses, the Authority had given its detailed views at the Consultation stage (refer para 9.2.16 of this Tariff Order). Although, the runway work was completed in the year 2017, it was put to use only by the end of FY 2018-19. Further, it is noted that Kannur International Airport began its commercial operations in December 2018 and soon after, its operations were curtailed due to COVID-19 pandemic, whereby, the runway has not been utilized fully and currently, there seems to be no deterioration in the runway surface (as noted by the Authority during the site visit along with AO's technical team and through its Independent Consultant). Based on these factors, the Authority decides not to consider the expenses towards Runway surface maintenance in the Current Control Period.

However, if due to any urgent requirement, the AO undertakes the work of runway resurfacing/ recarpeting in the Second Control Period the same will be considered on actual incurrence basis, subject to efficiency and reasonableness, by the Authority at the time of true up of the Second Control Period, while determining tariff for the next Control

9.5.2 The Authority notes the comments from FIA and the AO's response thereon.

i Regarding Power recovery charges, AERA is also of the view that with the gradual increase in the Non-Aeronautical operations, the AO should increase the power recovery from the Concessionaires (as stated in para 9.2.15 at the Consultation stage).

ii Regarding FIA's comments on Manpower costs, the Authority hereby clarifies that the AO has not increased the manpower headcount for the Second Control Period and the Authority has only considered 5% Y-o-Y increase in the payroll expenses, claimed by the AO.

iii Regarding Security expenses, the Authority would like to state that some of the expenses can be funded through ASF and the AO is advised to verify the same. The Authority would only consider those expenses that are not covered under ASF, for the purpose of determination of tariff.

iv Regarding FIA's comments on rationalisation of expenses, the Authority would like to emphasize that it has examined in detail each component of the O&M expenses submitted by the AO, with respect to essentiality and reasonableness and has considered only the O&M expenses that are needed for meeting the operational requirements of the Airport.

It is also pertinent to note that there are several factors such as inflation and ageing of assets which have an impact on the various O&M expenses.

v Regarding FIA's comments on conducting an Independent Study on O&M expenses, the Authority reiterates that it had already commissioned an Independent Study to determine Efficient O&M expenses and based on the recommendations of the Independent Study, had also rationalised the O&M expenses of KIA for true up of the First Control Period.

Further, the independent study encompasses parameters such as passenger traffic, topography, terminal building area, airside infrastructure, gross block of assets etc. of the Airport.

The recommendations of the Independent Study were applied by the Authority, while reviewing and rationalising O&M expenses for the Second Control Period for KIA.

9.5.3 Based on the above analysis, the O&M expenses decided by the Authority are as follows:

Table 80 : O&M Expenses decided by the Authority for the Second Control Period

(In Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Aeronautical O&M Expenses						
Manpower expenses	11.12	11.68	12.26	12.88	13.52	**61.46**
Repair and Maintenance expenses	1.60	1.72	1.89	2.08	2.29	**9.57**
Security	0.56	0.62	0.68	0.75	0.82	**3.43**
Power and Fuel	10.38	10.85	11.34	11.85	12.38	**56.79**
Operations & Maintenance Expenses	10.97	10.71	11.78	12.96	14.25	**60.66**
Other utility expenses	0.68	0.70	0.73	0.76	0.79	**3.65**
House Keeping	9.92	10.30	10.69	11.09	11.52	**53.51**
Other operational expenses	0.13	0.07	0.08	0.08	0.09	**0.45**
Aviation Meteorological Support Services	1.19	1.19	1.19	1.19	1.19	**5.95**
Communication, Navigation and Surveillance and Air Traffic Management Services	-	-	-	-	-	-
Land lease expenses	-	-	-	-	0.01	**0.01**
Trolley Retrieval Services	0.42	0.46	0.51	0.56	0.62	**2.57**
Cargo handling charges	0.33	0.37	0.41	0.45	0.50	**2.05**
Other cargo related expenditure	0.10	0.11	0.12	0.13	0.15	**0.61**
Administrative Expenses	5.14	5.51	5.91	6.35	6.82	**29.72**
Marketing cost	0.84	1.92	2.18	2.47	2.80	**10.20**
CSR Expenditure	-	-	-	-	-	-
Employee Training expenses	0.18	0.20	0.22	0.24	0.27	**1.12**
Rent	0.03	0.03	0.03	0.03	0.03	**0.17**
Total Aeronautical O&M Expenses	**53.58**	**56.43**	**60.01**	**63.86**	**68.04**	**301.92**

Note: The variance between the O&M Expenses proposed by the Authority at the Consultation Stage and the tariff Order is due to inclusion of Baggage Screener Executive as per AO's submission for the Second Control Period resulting in the increase of the Manpower Expenses by ₹ 5.66 Crores in the Second Control Period.

9.6 Authority's decisions regarding Operations & Maintenance Expenses for the Second Control Period

Based on the material before it and on its examination, the Authority decides the following with regard to O&M expenses for the Second Control Period:

9.6.1 To consider O&M Expenses for the Second Control Period as per Table 80.

9.6.2 To consider the O&M expenses incurred by the Airport Operator during the Second Control Period subject to reasonableness and efficiency, at the time of tariff determination for the next Control Period.

10 NON-AERONAUTICAL REVENUE FOR THE SECOND CONTROL PERIOD

10.1 AO's submission on Non-aeronautical revenue for the Second Control Period

10.1.1 The AO had submitted that the Non-Aeronautical Revenues for the Second Control Period have been forecasted based on agreements entered with various Concessionaires, traffic projections and inflation. The AO had submitted NAR under the following streams:

i. **Monthly Lease Rental:** Lease rentals were charges paid to AO for the area leased for the specific business operation. The lease rental had been calculated on the basis of existing contractual terms with the respective nonaeronautical business entity. Lease rentals are assumed to have an escalation of 10% annually.

ii. **Space Rentals:** The AO had assumed an escalation rate of 10% on the existing contracts of Space Rental.

iii. **Revenue share from Concessionaire:** This signified the share of total revenue accrued to the entity that was payable to AO. The revenue share from concessionaires was assumed to increase in the same growth rate as that of passenger traffic. It was also assumed that the average purchase value would increase by 5% to account for the retail inflation.

iv. **Minimum Monthly Guarantee (MMG):** MMG contracts majorly consist of retail contracts. The concessionaire was supposed to pay a fixed monthly guarantee to AO till the traffic crosses the threshold as prescribed in the respective contract. The projections for MMG were done on the basis of respective contract terms.

v. **Common Area Maintenance (CAM):** CAM charge was collected by AO from concessionaires for maintenance of area allotted to the concessionaire. This was projected as per the terms in the contract. It was assumed to have an annual escalation of 10%.

vi. **Interest Income:** Interest income had been forecasted based on deposit rates and the last year's closing cash and cash equivalent balance.

10.1.2 Based on the above factors, the Non-aeronautical revenue submitted by the Airport Operator for KIA is given in the table below:

Table 81: Non-aeronautical revenue submitted by Airport Operator for KIA for the Second Control Period.

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
1. Passenger Related Services						
Car Parking Revenue Share	1.18	1.38	1.54	1.68	1.81	**7.58**
Car Parking Toll Collection	1.12	1.30	1.46	1.59	1.71	**7.17**
Pre-Booked Taxi Collection – Agency	0.71	0.82	0.92	1.01	1.09	**4.55**
Sale of Visitors Entry Pass	0.06	0.06	0.06	0.06	0.06	**0.30**
2. Revenue Share from Concessionaire	**9.06**	**17.49**	**20.60**	**23.57**	**26.74**	**97.46**
3. Other Revenue						
Monthly License	3.10	3.07	3.22	3.45	3.69	**16.54**
Monthly Guarantee Fee	0.83	0.86	0.94	1.04	1.14	**4.81**
Space Rental Charges	4.61	5.34	5.88	6.46	7.11	**29.40**
CAM Charges	0.84	0.91	0.99	1.07	1.16	**4.97**

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Utility Charges	0.95	1.05	1.15	1.27	1.39	**5.81**
Other Income including interest Income	5.24	10.14	10.26	12.48	13.91	**52.02**
Total Non-aeronautical Revenue (1+2+3)	**27.70**	**42.42**	**47.02**	**53.66**	**59.82**	**230.62**

10.1.3 The growth assumed by the AO had been presented in the table below:-

Table 82: Growth rates assumed by AO for Non-aeronautical revenue

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Passenger Related Services					
Car Parking Revenue Share	39.07%	16.49%	11.95%	8.90%	8.05%
Car Parking Toll Collection	39.07%	16.49%	11.95%	8.90%	8.05%
Pre-Booked Taxi Collection – Agency	39.07%	16.49%	11.95%	8.90%	8.05%
Sale of Visitors Entry Pass	0.00%	0.00%	0.00%	0.00%	0.00%
Revenue Share from Concessionaire	49.52%	93.07%	17.75%	14.40%	13.47%
Other Revenue					
Monthly License	26.87%	-0.92%	4.83%	6.93%	7.13%
Monthly Guarantee Fee	10.84%	3.05%	10.00%	10.00%	10.00%
Space Rental Charges	37.56%	15.80%	10.00%	10.00%	10.00%
CAM Charges	80.05%	8.37%	8.50%	8.62%	8.73%
Utility Charges	10.00%	10.00%	10.00%	10.00%	10.00%
Other Income including interest Income	(17.37)%	93.67%	1.21%	21.60%	11.47%

10.2 Authority's examination of Non-aeronautical revenue for the Second Control Period at Consultation Stage

10.2.1 The Authority noted that the AO's projection of Non-aeronautical revenues for the Second Control Period of ₹ 230.62 Crores, constitutes nearly 56% of total O&M expenses (₹ 414.61 Crores) projected by AO for the Second Control Period.

10.2.2 The Authority had considered Unaudited figures submitted by AO for FY 2022-23 for deriving projected Non-aeronautical revenue for the Second Control Period.

Monthly Lease Rental

10.2.3 The Authority had noted that the AO had applied 10% Y-o-Y growth rate only on certain components of Monthly lease rentals such as pre-paid taxi. Whereas on other components such as Telecommunication, ATM etc., the AO had not considered any increase, while determining projected NAR for the Second Control Period. The Authority had therefore re-computed Monthly lease rentals for the Second Control Period by considering a 10% Y-o-Y growth for all the revenue categories under lease rentals, by taking cognizance of the projected growth in the passenger traffic and likelihood of increase in the area allotted for Non-aeronautical operations (which may be in the range of 8% to 10%, in line with the IMG norms and as followed in other similar airports).

Space Rental

10.2.4 The Authority noted that Space Rental has been considered based on AO's existing space rental contracts and has proposed 10% Y-o-Y for the Second Control Period. Based on the above factors, the Authority considers the projection towards Space rental to be reasonable.

Revenue share from Concessionaire

10.2.5 Revenue share from Concessionaire includes revenue from Pre-Paid Taxi, Retail Outlets, Lounge, Baggage Wrapping Services etc. and other passenger related services. Considering the positive outlook of the GDP growth predicted by the GoI, increase in the consumer spending pattern and passenger traffic, the growth rate as per AO's submission had been considered to be reasonable. Therefore, the Authority proposed to consider a growth rate as projected by AO for Second Control Period.

Minimum Monthly Guarantee (MMG)

10.2.6 The Authority had noted that MMG contracts might have no further growth, as the same was linked to the growth in the passenger traffic, which might happen towards the end of the Second Control Period. Based on the above factors, the Authority had considered the projections towards MMG to be reasonable.

Common Area Maintenance (CAM)

10.2.7 The Authority had noted that the CAM charge depends on the area allotted to the Concessionaire. With the likelihood of increase in the area allotted for Non-aeronautical operations, the Authority proposed to consider 10% increase in CAM for the Second Control Period, in line with its projection of Monthly Lease Rentals (as explained in para 10.2.3).

Utility Charges

10.2.8 The Authority had noted that Utility Charges recovered from Concessionaires were in the nature of expenses and should not be considered as revenue. Based on the same, the Utility charges recovered from Concessionaires had been excluded from the Non Aeronautical Revenue and adjusted against the Power and Water charges included as part of the O&M Expenses for the Second Control Period.

Other Income Including Interest Income

10.2.9 The Authority had noted that Other Income includes Deferred income on fair valuation of financial liabilities, Miscellaneous Income, Reversal of TNLC charges by AAI, realization of debtors written off in the previous years and reversal of provision for impairment on debtors, interest income earned on the Cash and Cash Equivalent and Insurance claim received and Net (gain) / loss on Foreign currency.

10.2.10 The Airport Operator had considered an interest rate of 7.00% for the calculation of interest income for the Second Control Period. The Authority had considered the prevailing interest rates of major scheduled banks for Fixed Deposits (as per Table below) and found AO's assumption of 7.00% to be reasonable.

Table 83: Prevailing rates of select major banks at Consultation Stage

Banks	**Interest Rates on Fixed Deposit**
Axis Bank	6.75%- 7.25%
ICICI Bank	6.70%- 7.20%
HDFC Bank	6.75%- 7.25%
SBI Bank	5.75%- 6.80%

Note: Rates for tenure in the range of 9-15 months had been considered. The rates as per the official websites of the banks as on August 3, 2023

Table 84: Non-aeronautical revenues proposed by the Authority for Kannur International Airport for the Second Control Period at Consultation Stage

(In ₹ Crores)

Particulars	FY 2023-24*	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
1. Passenger Related Services						
Car Parking Revenue Share	1.18	1.38	1.54	1.68	1.81	**7.58**
Car Parking Toll Collection	1.95	2.15	2.36	2.60	2.86	**11.92**
Pre-Booked Taxi Collection – Agency	1.05	1.16	1.27	1.40	1.54	**6.42**
Sale of Visitors Entry Pass	0.28	0.31	0.34	0.38	0.41	**1.73**
2. Revenue Share from Concessionaire	**9.06**	**17.49**	**20.60**	**23.57**	**26.74**	**97.46**
3. Other Revenue						
Monthly License	4.36	4.79	5.27	5.80	6.38	**26.60**
Monthly Guarantee Fee	0.83	0.86	0.94	1.04	1.14	**4.81**
Space Rental Charges	8.93	9.82	10.81	11.89	13.08	**54.53**
CAM Charges	0.50	0.55	0.61	0.67	0.74	**3.08**
Other Income including interest Income	5.24	10.14	10.26	12.48	13.91	**52.02**
Total Non-aeronautical Revenue (1+2+3)	**33.39**	**48.65**	**54.01**	**61.49**	**68.61**	**266.15**

**Derived based on the Unaudited figures of FY 2022-23*

Table 85: Growth rates in Non-aeronautical revenue proposed by the Authority at Consultation Stage

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Passenger Related Services					
Car Parking Revenue Share	0.00%	16.49%	11.95%	8.90%	8.05%
Car Parking Toll Collection	10.00%	10.00%	10.00%	10.00%	10.00%
Pre-Booked Taxi Collection – Agency	10.00%	10.00%	10.00%	10.00%	10.00%
Sale of Visitors Entry Pass	10.00%	10.00%	10.00%	10.00%	10.00%
Revenue Share from Concessionaire	49.07%	93.07%	17.75%	14.40%	13.47%
Other Revenue					
Monthly License	10.00%	10.00%	10.00%	10.00%	10.00%
Monthly Guarantee Fee	0.00%	0.00%	0.00%	0.00%	0.00%
Space Rental Charges	10.00%	10.00%	10.00%	10.00%	10.00%
CAM Charges	10.00%	10.00%	10.00%	10.00%	10.00%

Authority proposed to consider Non-aeronautical revenues for the Second Control Period for KIA as per Table 84.

10.3 Stakeholders' comments on Non-aeronautical revenue for the Second Control Period

10.3.1 During the stakeholders' consultation process, the Authority had received comments/views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 17/2023-24 with respect to Non-aeronautical revenue for the Second Control Period. The comments by stakeholders are presented below:

AO's comments on Non-aeronautical revenue for the Second Control Period

10.3.2 AO has commented the following:

- *"KIAL note that, authority has increased the total non- aeronautical revenue for second control period from INR 230.62 Cr (which can be indicated as INR 190.4 per passenger) to INR 266.15 Cr.*
- *The total non- aeronautical revenue for first control period is INR 220.9 per passenger. This is due to higher non- aero revenue generated during COVID-19 inflicted years (FY 21 and FY 22) because of COVID-19 tests and medical centers set up at the airport. Such revenue accounted for 56% of the total non-aeronautical revenue for FY22. This is not a consistent revenue stream. The total non-aeronautical revenue for the first control period after removing the same will amount to only INR 46.5 Crore. During years of uninterrupted operations per pax revenues achieved in FY 20 and FY 23 were ~INR 163 and ~INR 187 per passenger.*

KIA- FCP	FY 19	FY 20	FY 21	FY 22	FY 23	Total
NAR in Cr	9.58	25.76	12.85	24.15	23.54	**95.88**
Total passenger (million)	0.22	1.58	0.48	0.8	1.26	**4.34**
NAR per passenger	435.45	163.04	267.71	301.88	186.83	**220.92**
Remark	*Various concessions signed*	*Unconstrained year*	*COVID affected year*	*COVID affected year*	*Unconstrained year*	

- *Due to fluctuations in traffic, several non-aero concessions have vacated, and KIAL had to induct new concessioners with revised terms. This resulted in further drop of non-aeronautical revenue.*
- *In view of above facts, it is evident that the non-aeronautical revenue estimated by KIAL is already on the higher side. Hence, KIAL request authority to consider the time required for the airport to recover the traffic and accordingly consider the non-aeronautical revenue estimates as submitted by KIAL in the MYTP."*

Other Stakeholders' comments on Fair Rate of Return (FRoR) for the Second Control Period

10.3.3 FIA has commented the following:

Para 10.1.2, 10.2, Table 73 & 74 of CP

"It is observed that the Non-Aeronautical Revenues ('NAR') projected by KIA is substantially low and conservatively estimated, with a standard approach without detailed thought to each line item. It is requested that KIA explores all avenues to maximize revenue from the utilisation of terminal building for non-aeronautical purposes.

There appears to be scope of considerable improvement in increasing the NAR. It may be noted that the entire NAR growth is driven by passenger growth, which has been considered based on estimates and not based on any independent study by AERA.

FIA would further like to highlight that the WPI inflation has been considered for inflationary increase, however the revenue from NAR is coming from passengers and in the case of F&B, retail, duty free, actual inflation is much higher than WPI. We also would request AERA to provide clarity for not considering CPI/Food Inflation in this regard.

It may be noted that, in other PPP Airports like DIAL, MIAL, BIAL, while truing up the NAR in subsequent control periods have always been the under-estimation and leads to higher tariff in the control periods.

Kerala is widely recognized as one of the most popular tourist destinations globally. With airlines being the preferred mode of travel, the city's air traffic is expected to increase drastically.

Accordingly, we request AERA:

a) to mandate KIA to enter into suitable agreements with concessionaires to exploit the potential/ growth of NAR at KIA.

b) to kindly undertake detailed examination with the assistance of an independent study on the NAR before the tariff determination of the FCP.

c) to further determine and re-assess their estimates in line with other comparable airports. It may also include the impact of the tourism lineage that Kerala has to increase their NAR in accordance with the submissions above.

AERA is requested to ensure no adjustments are proposed to NAR which are not dependent on traffic but are derived from agreements with concessionaires. "

10.4 AO's responses to other stakeholders' comments on Non-aeronautical revenue for the Second Control Period

10.4.1 AO has responded to FIA's comments as under

- *"It may be kindly noted that comments on several aspects are solely based on comparison of KIAL to established brownfield airports such as DIAL, MIAL and BIAL which have mature traffic flows.*
- *Non aeronautical revenue for greenfield airports in the initial years are majorly contributed by the departing and arrival traffic at the airport. As mentioned before KIAL did not had a chance to have an uninterrupted control period since its inception in December 2018. After successful operation in FY20, the traffic at the airport was severely impacted due to COVID-19. While this impacted the ability of the airlines to stabilize the traffic in several of the newly started international and domestic routes, the loss of traffic led to many non-aeronautical concessionaires vacating the airport. This situation is unique to KIAL in India wherein an airport is facing such disruptive impacts in the second year of operations.*
- *The entire NAR is not projected based solely on traffic growth. The revenue head 'revenue share from concessionaires' is the sole component which is a function of traffic flow. Other components such as lease rental, MAG and CAM charges have been projected based on contracted values, all of which have already been duly submitted to the authority during the MYTP review for detailed analysis.*
- *In light of above argument, it is unfair to compare KIAL to established airports in the country. It may be unreasonable to expect KIAL to achieve in the initial years of severely interrupted operations, the benchmark figures of NAR, O&M, etc. which other established airports have achieved through decades of uninterrupted operations.*

It may be noted that the non-aeronautical revenue are not under-estimated and KIAL expects a healthy revenue stream from non-aeronautical activities once the traffic stabilizes and matures."

10.5 Authority's analysis on stakeholders' comments regarding Non-aeronautical revenue for the Second Control Period

10.5.1 The Authority notes the comments of AO on the Non-aeronautical revenue for the Second Control Period and has the following views:

- The Authority had considered at the Consultation stage, most of the revenue components such as Revenue from Concessionaire, Space Rental, Minimum Monthly Guarantee as per the growth rate projections submitted by the AO. Only in few revenue components such as Monthly Lease Rental and Common Area Maintenance, the Authority had applied 10% Y-o-Y growth rate, as it was noted that the AO has applied 10% growth rate only on certain components of the Monthly lease rentals (refer Para 10.2.3 of the Tariff Order).
- Also, it is pertinent to note that the Authority had considered the actual figures submitted by AO for FY 2022-23 for deriving projected Non-aeronautical revenue for the Second Control Period. Whereas the AO had considered projected/ estimated NAR of FY 2022-23 in their MYTP for deriving the NAR for the Second Control Period. Due to the above factors, the NAR projected by the Authority is higher than that submitted by the AO in the MYTP.

In the view of the above, the Authority finds no reason to deviate from the proposal made by it, at the consultation stage with respect to projection of NAR for the Second Control Period.

10.5.2 The Authority has noted the comments of FIA on NAR and the response of the AO, thereon:

- As stated at the Consultation stage, the Authority noted that the AO's projection of NAR is nearly 56% of its O&M expenses projected for the Second Control Period (refer para 10.2.1 of this Tariff Order).

  Further, after the Authority's examination, the NAR (determined as ₹ 234.40 Cr. as per Table 86) for the Second Control Period constitutes nearly 77% of the O&M expenses (which is determined as ₹ 301.11 Cr., as per Table 80)

  Thereafter, the growth in passenger traffic had been factored into while estimating NAR for passenger related revenue such as Revenue Share from Concessionaire.

- The Authority had duly examined the basis for projecting each component of the NAR (Passenger related and Others, which are based on Contracts) at the Consultation stage and had determined the NAR for the Second Control Period, which was even higher than that submitted by the AO.

  Based on the above factors, the Authority decides to retain its proposal made at the Consultation stage with respect to projection of NAR for the Second Control Period for KIA.

10.5.3 The Authority has re-computed Non-aeronautical Revenue of KIA for the Second Control Period by considering Audited Financials of FY 2022-23.

10.5.4 Also, the Authority has reclassified the revenue projected on Space Rentals and CAM charges from Airlines, from Non-aeronautical to Aeronautical Revenue (as explained in para 4.8.7) and has accordingly recomputed the Non-aeronautical revenue. The same is as follows:

Table 86: Non-aeronautical Revenue decided by the Authority for the Second Control Period

(in ₹ Crores)

Particulars	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**Total**
1. Passenger Related Services						
Car Parking Revenue Share	1.18	1.38	1.54	1.68	1.81	**7.59**
Car Parking Toll Collection	1.95	2.15	2.36	2.60	2.86	**11.92**
Pre-Booked Taxi Collection – Agency	1.05	1.16	1.27	1.40	1.54	**6.42**
Sale of Visitors Entry Pass	0.28	0.31	0.34	0.38	0.41	**1.73**
2. Revenue Share from Concessionaire	**9.06**	**17.49**	**20.6**	**23.57**	**26.74**	**97.46**
3. Other Revenue						**-**
Monthly License	3.87	4.26	4.68	5.15	5.67	**23.63**
Monthly Guarantee Fee	-	-	-	-	-	**-**
Space Rental Charges	4.70	5.17	5.69	6.25	6.88	**28.69**
CAM Charges	0.64	0.70	0.77	0.85	0.93	**3.90**
Miscellaneous Income	0.21	0.21	0.21	0.21	0.21	**1.03**
Other Income including interest Income	5.24	10.14	10.26	12.48	13.91	**52.03**
A. Total Non-aeronautical Revenue (1+2+3)	**28.18**	**42.96**	**47.73**	**54.57**	**60.96**	**234.40**
B. Reclassification from Non-aeronautical to Aeronautical revenue						
i. *Less* : Space Rental from Airlines	1.32	1.45	1.60	1.76	1.93	**8.05**
ii. *Less* : CAM Charges from Airlines	0.13	0.14	0.16	0.18	0.19	**0.80**
Total – B	1.45	1.60	1.76	1.93	2.12	**8.85**
Total Non-aeronautical Revenue (A-B)	**26.73**	**41.37**	**45.97**	**52.64**	**58.84**	**225.55**

Note: The variance amounting to ₹ 40.60 Crores between Non- aeronautical revenue considered by the Authority at the Consultation stage (which is ₹ 266.15 Cr.) and that decided by the Authority, as per the above table, is on account of the following reasons:

i. Considered the actual revenue for FY 2022-23 (based on Audited Financials of FY 2022-23) amounting to ₹ 18.60 Crores and based on the same, the Non-aeronautical revenue has been determined for the other tariff years.

ii. Certain components such as CAM charges and Space rentals from Airlines (as per para 10.5.4) have been re-classified from Non-aeronautical Revenue to Aeronautical Revenue.

Table 87: Growth rates in Non-aeronautical revenue decided by the Authority

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Passenger Related Services					
Car Parking Revenue Share	0.00%	16.49%	11.95%	8.90%	8.05%
Car Parking Toll Collection	10.00%	10.00%	10.00%	10.00%	10.00%
Pre-Booked Taxi Collection – Agency	10.00%	10.00%	10.00%	10.00%	10.00%
Sale of Visitors Entry Pass	10.00%	10.00%	10.00%	10.00%	10.00%
Revenue Share from Concessionaire	49.07%	93.07%	17.75%	14.40%	13.47%
Other Revenue					
Monthly License	10.00%	10.00%	10.00%	10.00%	10.00%
Monthly Guarantee Fee	0.00%	0.00%	0.00%	0.00%	0.00%
Space Rental Charges	10.00%	10.00%	10.00%	10.00%	10.00%
CAM Charges	10.00%	10.00%	10.00%	10.00%	10.00%

10.6 Authority's decisions regarding Non-aeronautical revenue for the Second Control Period

Based on the material before it and its analysis, the Authority decides the following with regard to Non-aeronautical revenue for the Second Control Period:

10.6.1 To consider Non-aeronautical revenues for the Second Control Period for KIA as per Table 86.

11 TAXATION FOR THE SECOND CONTROL PERIOD

11.1 AO's submission on Taxation for the Second Control Period

11.1.1 The AO has submitted that the computation of income tax on aeronautical income, has been made on the prevailing Income Tax laws and rules.

11.1.2 AO has calculated the revenue generated from Regulated services, Non-aeronautical revenue Aeronautical operating expenses, interest and financing charges, and depreciation on Straight Line Method (SLM) of assets as per the Income Tax Act. After calculating the Profit Before Tax (PBT), a tax rate of 34% was applied, after setting off prior losses. The Aeronautical taxes submitted by AO are shown in the table below:

Table 88: Taxation submitted by AO for the Second Control Period

(₹ Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Aeronautical revenues	206.45	245.62	274.99	304.55	328.00	**1,359.61**
Operational expenditure	61.81	66.09	71.67	103.85	111.19	**414.61**
Depreciation	94.78	96.14	98.42	98.21	99.24	**486.79**
Interest	107.09	103.16	96.71	88.10	77.88	**472.94**
PBT	(57.23)	(19.77)	8.19	14.39	39.68	**(14.74)**
Tax Rate Applicable	*34.00%*	*34.00%*	*34.00%*	*34.00%*	*34.00%*	
Tax	-	-	1.43	2.51	6.93	**10.87**

11.2 Authority's examination of Taxation for the Second Control Period at Consultation Stage

11.2.1 The Authority noted that AO has incurred prior period losses amounting ₹ 748.51 Crores during the First Control Period (refer Table 41).

11.2.2 Further, the Authority had taken cognizance of the fact that Aeronautical Taxation is dependent upon the tariff rate card approved by the Authority for Kannur International Airport for the current Control Period. Therefore, the Authority proposed to determine the Aeronautical taxes for the current Control Period after its examination of the Tariff Rate Card submitted by the AO for the current Control Period (which is within 7 days from the date of issuance of the Consultation Paper), post the completion of stakeholders' consultation process.

11.2.3 At the Consultation stage, the Authority proposed to consider the Aeronautical taxes claimed by the AO amounting to ₹ 10.87 Crores. (refer Table 88)

11.3 Stakeholders' comments regarding Taxation for the Second Control Period

11.3.1 No comments were received from the Stakeholders on true up of traffic for the Second Control Period.

11.4 Authority's analysis on stakeholders' comments regarding Taxation for the Second Control Period

11.4.1 The Authority notes that no comments were received from the Stakeholders regarding taxation for the Second Control Period

11.4.2 Based on the revised Aeronautical Revenue, O&M expenses the taxation decided by the Authority is as follows:

Table 89: Taxation decided by the Authority for the Second Control Period

(in Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	TOTAL
Aeronautical Revenue	117.82	209.34	245.97	284.48	325.35	**1,182.96**
Less: Operating expenses	**53.58**	**56.43**	**60.01**	**63.86**	**68.04**	**301.92**
Less: Book depreciation	73.36	75.65	75.10	74.97	75.25	**374.32**
Less: Interest	107.09	103.16	96.71	88.1	77.88	**472.94**
PBT	**(116.21)**	**(25.90)**	**14.15**	**57.55**	**104.19**	**33.78**
Prior Period Losses (refer Table 42)	**(660.46)**					
Profit/ (Loss) Before Tax after set off of prior period losses (A)	**(776.67)**	**(25.90)**				**(802.57)**
Set off of Prior period losses (B)	-	-	**(14.15)**	**(57.55)**	**(104.19)**	**(175.89)**
Profit/ (loss) after setting off prior period losses (A-B)						**(626.68)**
Tax rate (%)	25.17%	25.17%	25.17%	25.17%	25.17%	
Tax	-	-	-	-	-	-

11.5 Authority's decisions regarding Taxation for the Second Control Period

Based on the material before it and based on its analysis, the Authority decides the following with regard to Taxation for the Second Control Period.

11.5.1 To consider the Taxation for the Second Control Period for KIA as per Table 89.

11.5.2 To true up the aeronautical tax amount appropriately taking into consideration all relevant facts at the time of tariff determination for the Third Control Period.

12 QUALITY OF SERVICE FOR THE SECOND CONTROL PERIOD

12.1 AO's submission on Quality of Service for the Second Control Period

12.1.1 The AO had not made any submissions related to Quality of Service as part of its MYTP submission made in March, 2023.

12.2 Authority's examination of Quality of Service for the Second Control Period at Consultation Stage

12.2.1 The Authority had noted that:

- As per section 13(1) (a)(ii) of the AERA Act, 2008, the Authority shall determine the tariff for aeronautical services taking into consideration - "the service provided, its quality and other relevant factors."
- As per section 13(1) (d) of the AERA Act, 2008, the Authority shall "monitor the set performance standards relating to quality, continuity and reliability of service as may be specified by the Central Government or any authority authorized by it in this behalf;"

12.2.2 The Airport Operator had not shared the details on the ASQ ratings of the Airport for the First Control Period, as no ASQ survey was conducted since the commencement of the Airport (i.e. from FY 2018-19), as such surveys could not be conducted due to the adverse impact of Covid-19 pandemic.

12.2.3 The Authority had noted that Kannur International Airport is a newly constructed Airport, hence ASQ ratings were not available. The Authority would review the Quality-of-Service parameters based on the ASQ ratings achieved by KIA and would action as appropriate at a later stage. Therefore, the Authority did not propose any adjustment towards tariff determination for the Second Control Period on account of quality of service of KIA.

12.3 Stakeholders' comments on Quality of Service for the Second Control Period

12.3.1 No comments were received from Stakeholders regarding Quality of Service for the Second Control Period.

12.4 Authority's analysis on stakeholders' comments on Quality of Service for the Second Control Period

12.4.1 The Authority notes that no comments were received from the Stakeholders regarding Quality of Service for the Second Control Period. The Authority from AO's email dated February 26, 2024 notes that KIA has entered into an agreement with Airports Council International (ACI) in December 2023 with respect to ASQ Surveys Participation, with the objective of achieving a rating of 4.99 out of 5. Towards this end, the AO has informed that it has initiated efforts towards collecting passenger feedback through feedback registers and emails, and introduced internal objective surveys from December 2023. Based on the above factors, the Authority has decided to consider the Quality of Service consistent with the proposal made in the Consultation Paper No. 17/2023-24 as shown above. Further, the Authority directs AO to conduct ASQ Survey on Quality/ Performance Standard urgently and the outcome of the Survey report be submitted to the Authority.

12.5 Authority's decisions regarding Quality of Service for the Second Control Period

Based on the material before it and based on its analysis, the Authority decides the following with regard to Quality of Service for the Second Control Period:

12.5.1 Not to consider any adjustment towards tariff determination for the Second Control Period with regard to Quality of Service.

13 RETURN ON LAND FOR THE SECOND CONTROL PERIOD

13.1 AO's submission on Return on Land cost for the Second Control Period

13.1.1 The AO had claimed the following Return on Land cost for Kannur International Airport for the Second Control Period:

Table 90 : Kannur International Airport's Submission on Return on Land for the Second Control Period

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Land Cost	167.31	167.31	167.31	167.31	167.31
Aero Ratio (%)	*94.50%*	*94.50%*	*94.50%*	*94.50%*	*94.50%*
Aero Land	158.11	158.11	158.11	158.11	158.11
Yearly Cost of Debt (%)	*9.39%*	*9.39%*	*9.39%*	*9.39%*	*9.39%*
Return on Land	15.92	15.92	15.92	15.92	15.92
Total Return on Land for the control Period	**79.60**				

13.2 Authority's examination of Return on land for the Second Control Period at Consultation Stage

13.2.1 The AO had initially acquired 1,192.18 acres of land at a value of ₹ 316 Crores for development of phase 1 of the airport from the Government of Kerala through Kerala Industrial Infrastructure Development Corporation (KINFRA), the nodal agency for land acquisition appointed by the Government and carried out development of the airport on approx. 500 acres of such land.

The proportionate value for 631.38 acres of land used for Aeronautical activities works out to ₹ 167.31 Crores and the same was considered by the Authority for providing return on the cost of land.

13.2.2 As stated in para 4.5.6 (ii), the Authority had proposed not to consider Land Development costs amounting to ₹ 333.28 Crores, as part of RAB or as part of Land cost (for which Return was provided as per Order No. 42/ 2018-19) for true up of the First Control Period of the AO. Accordingly, the land development costs had not been considered for computation of Return on Land for the Second Control Period.

13.2.3 As per Land Return Order No. 42/2018-19 dated March 5, 2019, for Land purchased by airport operating company either from private parties or from government, the compensation would be by way of equated annual installment computed at actual cost of debt or SBI rate plus 2% whichever is lower over a period of 30 years.

The Authority had considered 9.00 % as the cost of debt (refer para 7.2.7) for computing the Return on Land.

13.2.4 Based on the above facts, the Authority had re-computed the Return on the cost of Land as follows:

Table 91 : Return on Land for the Second Control Period as proposed by the Authority at the Consultation Stage

(In Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Land Cost	167.31	167.31	167.31	167.31	167.31
Terminal Building ratio (%)	*92%*	*92%*	*92%*	*92%*	*92%*

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Aero Land	153.93	153.93	153.93	153.93	153.93
Yearly Cost of Debt (%)	9.00%	9.00%	9.00%	9.00%	9.00%
Return on Land	14.98	14.98	14.98	14.98	14.98
Total Return on Land for the Second Control Period	**74.90**				

** Return Value = Equated Annual Instalment computed at actual cost of debt*
*& Equated Annual Instalment= [Cost*Rate*(1+Rate) ^30] [(1+Rate) ^30-1]*

13.3 Stakeholders' comments on Return on Land for the Second Control Period

13.3.1 During the stakeholders' consultation process, the Authority had received comments/views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 17/ 2023-24 with respect to Return on Land for Second Control Period. The comments by stakeholders are presented below:

AO's comments on Return on Land for the Second Control Period

13.3.1 AO has commented the following:

- *"Cost of debt proposed for calculating return on land by the authority is 9%. The actual cost of debt currently for KIAL is ~10% as opposed to 9% proposed by the authority. The details of prevailing interest rates are as follows:*

Lender	Interest rate- Term loan	Interest rate- FITL
CANARA BANK	10.15%	11.25%
SOUTH INDIAN BANK	9.2%	10.3%
FEDERAL BANK LTD	10.7%	11.7%

- *As seen from the table above, the actual cost of debt for KIAL is significantly higher than the assumed cost of debt.*
- *As per Order 42/2018-19 para 4.1.4, the cost of debt to be considered for calculation of return on land shall be 'actual cost of debt or SBI base rate plus 2% whichever is lower'. As per the information in SBI website (Base Rate - Historical Data - Interest Rates (sbi.co.in)), the prevailing average base rate in 2023 is 10.10% which is significantly higher than the cost of debt approved by Authority. Moreover, KIAL would also like to highlight that in CIAL's tariff order No. 08/2020-21 for third control period, para 8.2.12, the Authority has considered the actual cost of debt for determining the return on land instead of the notional cost of debt. Hence, KIAL request the Authority to consider the cost of debt on actuals as submitted by KIAL."*

Other Stakeholders' comments on Return on Land for the Second Control Period

13.3.2 No comments were received from the Stakeholders on Return on Land for the Second Control Period.

13.4 Authority's analysis on stakeholders' comments on Return on Land for the Second Control Period

13.4.1 The Authority has given its detailed views on the Cost of Debt in 7.5.1 (ii) of this Tariff Order and the same may be referred to.

13.5 Authority's decisions relating to Return on Land for the Second Control Period

Based on the material before it and based on its analysis, the Authority decides the following with regard to Return on Land for the Second Control Period:

13.5.1 To consider Return on Land as per Table 91.

14 AGGREGATE REVENUE REQUIREMENT (ARR) FOR THE SECOND CONTROL PERIOD

14.1 AO's submission on ARR for the Second Control Period

14.1.1 The summary of ARR had been presented in the table below.

Table 92: ARR submitted by AO for the Second Control Period

(₹ Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Average RAB	1,686.09	1,606.94	1,526.80	1,438.69	1,351.76	
FRoR	13.10%	13.10%	13.10%	13.10%	13.10%	
Return on RAB	220.92	210.55	200.05	188.50	177.11	**997.12**
Return on Land	15.92	15.92	15.91	15.91	15.89	**79.55**
Depreciation	94.78	96.14	98.42	98.21	99.24	**486.79**
Operational & Maintenance Cost	61.81	66.09	71.67	103.85	111.19	**414.61**
Tax	-	-	1.43	2.51	6.93	**10.88**
Non-Aeronautical Revenue	27.70	42.42	47.02	53.66	59.82	**230.62**
NAR cross-subsidy	8.31	12.73	14.11	16.10	17.95	**69.19**
True of Previous Control Period	2,109.91	-	-	-	-	**2,108.73**
Aggregate Revenue Requirement (ARR)	**2,495.00**	**375.97**	**373.38**	**392.89**	**392.42**	**4,029.66**
Actual aeronautical revenues	204.02	243.36	272.90	302.66	326.32	**1,349.25**
Discount offered to airlines - other than RCS	-	-	-	-	-	**-**
Adjusted aeronautical revenues for discounts	204.02	243.36	272.90	302.66	326.32	**1,349.25**
Surplus (+)/ Deficit (-)	(2,290.98)	(132.61)	(100.48)	(90.23)	(66.11)	**(2,680.41)**
Discount factor	1.85	1.64	1.45	1.28	1.13	**7.34**
PV of surplus (+)/ deficit (-)	(4,240.20)	(217.01)	(145.37)	(115.42)	(74.77)	**(4,792.77)**

14.2 Authority's examination of Aggregate Revenue Requirement (ARR) for the Second Control Period at Consultation Stage

14.2.1 The observations and proposals of the Authority across the regulatory building blocks impacts the computation of ARR and Yield. With respect to each element of the regulatory building blocks considered by AO in computation of ARR and Yield in the table above, the Authority proposed to consider the regulatory building blocks as discussed in the previous chapters.

14.2.2 The Authority noted that KIA being a Greenfield Airport had incurred huge capital expenditure in the First Control Period. However, the air traffic and airport operations of KIA were severely impacted by COVID 19 pandemic, soon after the commencement of its commercial operations in December 2018. This had resulted in a higher ARR/ Under-recovery in the First Control Period. Further, the existing traffic base was not sufficient for the complete recovery of ARR in the current Control Period and this would require a significant increase in tariff, which was likely to adversely impact the recovery of air traffic.

In this regard, the Authority had drawn reference to the guiding principles issued by the International Civil Aviation Organization ("ICAO") on charges for Airports and Air Navigation Services (ICAO DoC 9082), which lays down the main purpose of economic oversight which was to achieve a balance between the interest of Airports and the Airport Users. This policy document categorically specifies that *caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and end users*. The said policy document also emphasizes on balancing the interests of airports on one hand and aircraft operators, end users on the other, in view of the importance of the air transport system to States. This have been applied particularly during periods of economic difficulty. Therefore, the policy document recommends that States encourage increased cooperation between airports and aircraft operators to ensure that the economic difficulties facing them all are shared in a reasonable manner.

This might also be read in conjunction with the objectives of the National Civil Aviation Policy (NCAP) 2016, which intends to provide affordable and sustainable air travel for passengers/ masses. As per para 12 (c) of the NCAP, "In case the tariff in one particular year or contractual period turns out to be excessive, the Airport Operator and the Regulator will explore ways to keep the tariff reasonable and spread the excess amount over the future." The above had also been conveyed by AERA vide its Order No. 14/2016-17 dated January 12, 2017.

Based on the above considerations, the Authority proposed to carry forward some portion of the ARR to the next Control Period in the harmonious interest of all the stakeholders chain including the Airport Operator.

14.2.3 After considering the above factors, the Authority proposed the following ARR and YPP:

Table 93: ARR proposed to be considered by the Authority for the Second Control Period at Consultation Stage

(₹ Crores)

Particulars	**Table/ Para Ref.**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**Total**
Average RAB = A	Table 57	1,138.63	1,094.79	1,031.70	961.75	893.65	
Fair Rate of Return = B	Table 61	12.21%	12.21%	12.21%	12.21%	12.21%	
Return on average RAB C= A*B		139.03	133.67	125.97	117.43	109.11	**625.22**
O&M expenses – D	Table 77	52.52	55.35	58.91	62.73	66.88	**296.39**
Depreciation – E	Table 55	73.27	76.94	76.87	76.89	78.24	**382.21**
Return on Land – F	Table 91	14.98	14.98	14.98	14.98	14.98	**74.90**
Taxation – J	Table 88	-	-	1.43	2.51	6.93	**10.87**
ARR per year = SUM (C:J)		**279.80**	**280.94**	**278.16**	**274.54**	**276.14**	**1,389.59**
Add: PV of Under-recovery of the First Control Period as on March 31, 2023	Table 43	1,189.34					
ARR – M		**1,469.14**	**280.94**	**278.16**	**274.54**	**276.14**	**2,578.93**
NAR	Table 84	**33.39**	**48.65**	**54.01**	**61.49**	**68.61**	**266.15**
Less: 30% NAR – N		10.02	14.60	16.20	18.45	20.58	**79.85**
Net ARR = (M-N)		1,459.12	266.35	261.96	256.09	255.56	**2,499.08**
Discount factor (@ 12.21%)		1	0.89	0.79	0.71	0.63	
PV of ARR/ Target Revenue (₹ Crores)		1,459.12	237.37	208.05	181.26	161.21	**2,247.01**
Sum Present value of ARR (₹ Crores)		2,247.01					**2,247.01**
Total Traffic (million passengers)	Table 49	12.09					**12.09**
Yield per passenger on Total Traffic (YPP) (₹)		1,858.57					**1,858.57**
Departing Passengers		6.05					**6.05**

Particulars	Table/ Para Ref.	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Yield per Departing Passenger (₹)		3,717.13					**3,717.13**

14.2.4 The Authority noted that, it was necessary to have the individual year-wise tariff card laying down the different aeronautical charges and the workings for the aeronautical revenues, in order to have a constructive stakeholder discussion and therefore, the AO was directed to submit the detailed Annual Tariff proposals in line with the ARR and Yield derived by the Authority within 7 days of the issue of the Consultation Paper.

14.3 Stakeholders' comments on Aggregate Revenue Requirement (ARR) for the Second Control Period

14.3.1 No comments were received from Stakeholders regarding Aggregate Revenue Requirement (ARR) for the Second Control Period.

14.4 Authority's Analysis regarding Aggregate Revenue Requirement (ARR) for the Second Control Period

14.4.1 The Authority notes that no comments were received from the Stakeholders regarding Aggregate Revenue Requirement (ARR) for the Second Control Period

14.4.2 The Authority has recomputed the Aggregate Revenue Requirement, based on the Stakeholders' comments and details submitted by AO. Based on the changes implemented in the building blocks, the ARR decided by the Authority is given below:

Table 94: Aggregate Revenue requirement decided by the Authority for the Second Control Period

Particulars	Table/ Para Ref.	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Average RAB = A	Table 57	1,138.63	1,094.79	1,031.70	961.75	893.65	
Fair Rate of Return = B	Table 61	12.21%	12.21%	12.21%	12.21%	12.21%	
Return on average RAB C= A*B		139.03	133.67	125.97	117.43	109.11	**625.22**
O&M expenses – D	Table 80	53.58	56.43	60.01	63.86	68.04	**301.92**
Depreciation – E	Table 55	73.27	76.94	76.87	76.89	78.24	**382.21**
Return on Land – F	Table 91	14.98	14.98	14.98	14.98	14.98	**74.90**
Taxation – G	Table 89	-	-				
Amortisation of Land Development Cost- H	para 4.5.19 (i)	12.46	12.46	12.46	12.46	12.46	**62.30**
ARR per year = SUM (C:H)		**293.31**	**294.48**	**290.29**	**285.62**	**282.84**	**1,446.54**
Add: PV of Under-recovery of the First Control Period as on March 31, 2024	Table 43	**1,331.29**					
ARR – M		**1,624.60**	**294.48**	**290.29**	**285.62**	**282.84**	**2,777.83**
NAR	Table 86	**26.73**	**41.37**	**45.97**	**52.64**	**58.84**	**225.54**
Less: 30% NAR – N		8.02	12.41	13.79	15.79	17.65	**67.66**
Net ARR = (M-N)		1,616.58	282.07	276.50	269.83	265.19	2,710.17

Particulars	Table/ Para Ref.	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Discount factor (@ 12.21%)		1	0.8912	0.7942	0.7078	0.6308	
PV of ARR/ Target Revenue (₹ Crores)		**1,616.58**	**251.38**	**219.60**	**190.99**	**167.28**	**2,445.83**
Sum Present value of ARR (₹ Crores)		**2,445.83**					
Total Traffic (million passengers)	Table 49	12.09					
Yield per passenger on Total Traffic (YPP) (₹)		2,023.02					
Departing Passengers		6.05					
Yield per Departing Passenger (₹)		4,046.03					

14.4.3 Based on the concerns of AO on various building blocks raised as part of the Stakeholders' comments, the Authority has analysed in detail and the following has been decided:

i. After consideration of Baggage Screener Executive as per AO's submission, the Manpower Expenses has been increased by ₹ 5.66 Crores in the Second Control Period.

ii. Consideration of Amortisation of Land Development Cost for ₹ 62.30 Crores for the Second Control Period.

iii. Rationalised NAR for the Second Control Period, by considering audited figures of FY 2022-23 for Second Control Period and re-classified revenue from Airlines to Aeronautical revenue, thereby resulting in reduction of NAR by ₹ 40.60 Cr.

iv. Under Recovery of the First Control Period has increased by ₹ 141.95 Crores from ₹ 1,189.34 Crores to ₹ 1,331.29 Crores (for details refer 4.12.7)

v. Considering the above factors and justification given by AO, the NPV of ARR decided by the Authority for the Second Control Period is now ₹ 2,445.83 Cr., as against that proposed by the Authority at the Consultation stage, which was ₹ 2,247.01 Cr.

14.4.4 It is pertinent to note that there is a significant mismatch between the designed capacity of the Airport (which is 9.34 MPPA) and the actual passenger throughput. This had resulted in a situation of over-capacity, which may eventually lead to higher operating expenses, thereby burdening the Airport users with higher tariffs. As considerable investments in capacity have already been made which would be sufficient for the foreseeable future, the AO should keep in mind the current utilization of the Airport capacity, before planning any further investment in CAPEX.

14.5 Authority's decisions regarding Aggregate Revenue Requirement (ARR) for the Second Control Period

Based on the material before it and based on its analysis, the Authority decides the following with regard to ARR for the Second Control Period:

14.5.1 To consider the ARR and YPP for the Second Control Period for KIA in accordance with Table 94.

15 AERONAUTICAL REVENUE FOR THE SECOND CONTROL PERIOD

15.1 AO's Submission on Aeronautical Revenue for the Second Control Period

15.1.1 Further to the issuance of Consultation Paper, KIAL had submitted the Tariff Rate Card to the Authority which was put up for Stakeholders' comments on AERA website vide Public Notice No. 22/2023-24 dated November 24, 2023.

15.2 Stakeholders' comments on Aeronautical Revenue for the Second Control Period

15.2.1 During the stakeholders' consultation process, the Authority had received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 17/2023-24 with respect to Aeronautical Revenue for Second Control Period. The comments by stakeholders are presented below:

AO's comments regarding Aeronautical Revenue for the Second Control Period

15.2.2 AO's comments regarding tariff card are as follows:

- *"KIAL would like to highlight to the authority the loss of revenue due to a delay in finalization of tariff. The tariff order issued by authority for first control period expired in March 2023. KIAL was allowed to continue the existing tariffs vide an interim tariff order issued by the authority. However, this led to lower aeronautical revenue contrary to the revenues it could have obtained in case the tariffs were finalized prior to expiration in March 2023. Since the loss of revenue due to this is high, KIAL humbly requests the authority to consider factoring the same during estimation of aeronautical revenue for FY24 in second control period.*

Description	Without tariff increase (INR)	With tariff increase in April 2023 (INR)	Difference (INR)
Aeronautical charges	514,187,253	718,246,614	204,059,362 (40%)

- *KIAL also requests the authority to issue the tariff order on an immediate basis as the tariffs proposed by KIAL are unable to meet the ARR. In view of such losses, even a month's early approval would be beneficial for the airport."*

Other Stakeholder's comments on Aeronautical Revenue for the Second Control Period

15.2.3 IATA has commented the following:

- *"The MYTP proposed by the Airport Operator is exceptionally steep at the start of 2nd Control Period. We suggest that the increases be moderated across the entire control period.*
- *"We also support the proposal by AERA to carry forward a portion of the ARR to the next control period, in alignment with considerations stated in the CP."*

Other Stakeholders' comments on the methodology of determination of tariff for the KIA for Kannur International Airport

15.2.4 FIA's comment regarding the Shrinkage of Control Period and Royalty is as follows:

"Shrinkage in Control Period

- *"We submit that the Hon'ble TDSAT Order dated 16 December, 2020 for BIAL stated as follows: '100...However, there is substance in this grievance and AERA will do well to ensure that if delay is caused by the Airport operator, its consequences should not fall upon the users. Tariff orders should be prepared well in time so that the burden of recovery is spread over the entire period for which the* *order is passed...'*

- *FIA appreciates, AERA's efforts of spending considerable time in consultation process and assessment of the information provided by Airport Operator. However, despite relying on information provided by the Airport Operator in many instances there is an inordinate delay in tariff fixation, which has diminished the effective Control period of 60 months by 9-10 months and will lead to burdening of passengers travelling during balance period of 52 months. This further leads to a mismatch between the recoveries of target revenue with the actual/projected revenue.*
- *In view of the above, AERA is requested to ensure that airlines/passengers are not burdened in view of the apparent shrinkage in the period of recovery of the aeronautical tariff from passengers/airlines. As the AERA Tariff Order for KIA - Second Control Period, will now be issued after the commencement of the Control Period i.e., 1 April, 2023.*

Royalty

- *Any attempt to award the contracts by the airport operator on the highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost.*
- *It is general perception service providers have no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs.*
- *There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator.*
- *As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator or other services providers.*
- *The rates of royalty at the airport are as high as up to 41% for some services. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc.*
- *Sometimes it is argued by the airport operators that 'Royalty' on 'Aero Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit.*
- *In view of the above, we humbly urge AERA to abolish such royalty which may be included in any of the cost items. Cost of airport operations: We submit that cost of operations for the airlines is increasing continuously every year and airlines are incurring losses in the current challenging scenario, even while airport operators have an assured rate of return on their investment.*
- *At the same time, it is projected by most agencies that over 1,200 new civil aviation aircraft will be inducted by airlines in India over the next 5 years. While economies of scale are a big factor for the airlines to keep the cost of operations low, this applies to airport operators as well. With the huge increase in aircraft, there is bound to be huge benefits for the airport operators as well due to economies of scale.*
- *Hence, we request AERA to conduct a study of the passengers and air traffic at selected airports taking data over the past 20 years wherein it may please be made transparent as to what is the cost of one take off separately to the airport operator and an airline, for various class of aircraft, at a periodicity of every 5 years (excluding the pandemic times period). It is felt that cost of business is simply passed on to the airlines by some airport operators, as it appears that there are multi layered companies undertaking various activities at the same airport, which not only add to the cost of doing*

business, but also force airlines to pay tax on tax for availing services though multi-layered companies. This study will then make it evident who is actually bearing the cost of doing business at the airport, and whether the same is justified.

- *Any other Govt. grants/Subsidies: It is requested that in case there are any Govt. grants/subsidies (State or Central) provided to the airport operator, it should also be factored in for the purpose of tariff determination. "*

15.2.5 FIA has commented the following :

Para 14.2.2 of CP

- *"We appreciate that AERA holds a considered view that stakeholders should not be burdened with significant increase in the Aeronautical tariff arising on account of the Under-recovery in first control, or due to deficiency to recover the ARR on account of higher O&M expenses projected for the Second Control Period caused due to under-recovery pertaining to the First Control Period."*

15.2.6 FIA has commented the following regarding the proposed tariff rate card displayed below:

TABLE – A

Landing, Parking and UDF Charges: (Refer Public Notice no 22/2023-24– Annexure A)

(In INR.)

Particulars	Unit		Tariff Proposed by Airport Operator				
	MT	EXISTING ORDER AS PER ORDER 26/2018-19 EXTENDED	FY 2023-24 Tariff w.e.f. 01.4.2023 to 31.03.2023)	FY 2024-25 Tariff w.e.f. 01.04.2024 to 31.03.2025)	FY 2025-26 Tariff w.e.f. 01.04.2025 to 31.03.2026)	FY 2024-25 Tariff w.e.f. 01.04.2026 to 31.03.2027)	FY 2025-26 Tariff w.e.f. 01.04.2027 to 31.03.2028)
LANDING CHARGES							
DOMESTIC			-	-	-	-	-
	Up to 100 MT (INR/MT)	325	423	453	485	519	555
Eg: Q400 Parking charges for 80 & PLUS seater (INR)	30 MT	9750	12690	13590	14550	15570	16650
B737-800 (AUW 79016) (INR)	79 MT	25675	33417	35787	38315	41001	43845
Variance % from existing	Q-400		30%	39%	49%	60%	71%
Variance % from existing	B737-800		30%	39%	49%	60%	71%
INTERNATIONAL							
	Up to 100 MT (INR/MT)	448	582	623	667	714	764

Eg: Q400 Parking charges for 80 & PLUS seater (INR)	30 MT	13440	17460	18690	20010	21420	22920
B737-800 (AUW 79016) (INR)	79 MT	35392	45978	49217	52693	56406	60356
Variance % from existing	Q-400		30%	39%	49%	59%	71%
Variance % from existing	B737-800		30%	39%	49%	59%	71%
PARKING CHARGES							
DOMESTIC & INTERNATIONAL			-	-	-	-	-
	Up to 100 MT (INR Per HOUR /MT)	8	10	11	12	13	14
Eg: Q400 Parking charges for 80 & PLUS seater (INR)	30 MT	40	50	55	60	65	70
B737-800 (AUW 79016) (INR)	79 MT	632	790	869	948	1027	1106
Variance % from existing	Q-400		25%	38%	50%	63%	75%
Variance % from existing	B737-800		25%	38%	50%	63%	75%
UDF							
DOMESTIC	Per Embarking (INR/Pax)	320	420	449	481	515	551
Variance % from existing			31%	40%	50%	61%	72%
INTERNATIONAL	Per Embarking (INR/Pax)	1070	1170	1252	1,340	1,433	1,534
Variance % from existing			9%	17%	25%	34%	43%

DOMESTIC	Per DisEmbarking (INR/Pax)	0	50	54	57	61	66
Variance % from FY 24				8%	14%	22%	32%
INTERNATIONAL	Per DisEmbarking (INR/Pax)	0	400	428	458	490	524
Variance % from FY 24				7%	15%	23%	31%

i *"Kindly note the following from the above table:*

- *Landing Charges: KIA has proposed to increase the Landing Charges on Q-400 (80 & above seater) and on Boeing, both domestic and international flights between 30 % to 71% approx., for the second control period from the existing charges.*
- *Parking Charges: KIA has proposed an increase in the Parking between 25% to 75 % on Domestic and International Passengers for the Second Control Period from the existing charges.*
- *UDF: KIA has proposed an increase in the UDF between 31% to 72% on Domestic Passengers, and from 9% to 43% on International Passengers for the Second Control Period.*
- *UDF: KIA has proposed UDF for disembarking passengers also between 7 to 32 % approx. on both domestic and international passengers.*

It is in the interest of all the stakeholders that the proposed tariffs as noted above may not be implemented as the proposals are excessive. AERA is requested to reconsider the proposed tariff structure in view of the points mentioned above, as also in consideration of points as mentioned in the *letter provided by us."*

ii *In accordance with the preamble of the National Civil Aviation Policy, which envisages to make air travel affordable and sustainable, AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned above which is likely to reduce the ARR. This will further ensure the lowering of tariffs including UDF, which will be beneficial to passengers and airlines.*

It is in the interest of all the stakeholders that the proposed excessive hikes in the tariffs be reduced and also in order to encourage middle class people to travel by air, which will help in the sharp post-COVID-19 recovery of aviation sector. It is the stated vision of the government to make UDAN ("Ude Desh ka Aam Nagarik") a reality and this can only happen if we have the lowest possible cost structure, such that we can bring more and more people to airports to travel by air.

In addition, we request AERA and KIA to clarify the following:

1) Ref: Notes: 15.1 (i) (to User Development Fee (UDF) Charges:

We would like to invite AERA's attention to notes 1 of the above table of the Public Notice No.22/2023-24, UDF charges, wherein no rate of collection charges of UDF charges has been proposed by AERA. We further request AERA to consider, in this regard that:

a) The collection charges to be published as Rs. 5.00 per departing passenger, in line with other airports.

b) These charges are paid by airport operators to airlines separately after airlines raise an invoice against the same as a standard industry practice. We request the same practice be applied. Further, AERA is kindly requested to consider that in light of the increasing administrative expenses due to inflation and other reasons (example -5% inflationary / administrative increase each year), the collection charges may kindly be increased to keep pace with the proposed increase in UDF, as airlines only get a fixed rate, which results in disincentivizing the airlines.

c) Disembarkation: KIA has also proposed UDF charges on disembarkation as well at the Airport. However, as KIA may not be considered as a Greenfield airport as this is its 2nd Control period (and consultation paper) UDF charges on disembarkation may not be allowed. AERA is requested to kindly review this trend as this will be discouraging for passengers to take flights to KIA because of the increase is total cost to fly to KIA.

2) CUTE, CUPPS, CUSS: As these are aeronautical revenues, We would like to state that:

(i) The current prices are excessive. Please note that the AAI tariff for the same services at 44 airports is Rs 35.05 per passenger which is much lesser than private entities. AAI chose a service provider based on a public reverse auction mechanism. As such the proposed rate of Rs 85.1 per passenger at KIA for domestic and Rs 92.5 for international is too high. It should be same and in-line as at other AAI airports since all services provided in this regard are same.

Please note that the high fees set a precedent for other private airports hence it is important to bring down the rate to be in line with tariff at AAI airports.

It may further be noted that AERA has notified INR 60 for same service of CUTE, CUPPS, CUSS in its latest order no. 27/2023-24 for Manohar International Airport, MoPA, Goa Airport.

(ii) Whatever bouquet of services is agreed between the KIA and the service provider, this is enforced upon the airlines and the airlines have no say on the prices (or unbundling), even if the airlines do not require all the services; and

(iv) The rates are in foreign currency at certain airports, making airlines vulnerable due to currency

fluctuations. The same may kindly be published and applied in Indian currency only.

(v) There are differential CUTE charges for international and domestic pax without any substantial rationale, since the ICT/CUTE services used are same for both types of customers. Hence there should be only one uniform CUTE charge for domestic and international both passengers.

(vi) Cute Charges collection Authority has not been defined in order as currently these charges are not being collected by KIAL. Also, passenger inclusions and exemptions have not been defined for domestic embarking and international embarking passengers. AERA is requested to clarify both these points

Thus, AERA is kindly requested to intervene and kindly regulate the CUTE, CUPPS, CUSS prices as per the AERA Act, with transparency to all stakeholders

3) Further, FIA recommends AERA to add Note as follows:

"No additional parking charges other than normal parking charges be payable by the airlines for any force majeure reasons or for any technical or meteorological situation, which is beyond the control of any airlines"

4) Parking Charges (Notes: - 2b) Refer:

i. "4. For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour" It is submitted that for calculating chargeable parking time, part of an hour shall be rounded off to the "nearest hour".

(Notes: - 2g)

ii. Additional parking charges added in proposed tariff card for parking beyond 24 hours is also excessive since the parking charges after first two hours are already doubled. A higher fees of INR 25 per hour per MT sets a bad and unacceptable precedent for other private airports hence it is important to bring down the rate to be in line with tariff at AAI airports.

5) Landing Charges (Notes: - 1d) We request AERA further clarification on unscheduled flights operated by domestic scheduled operator as the same are currently being charged by KIA. There should be a clarification to this effect since the exemption is provided to domestic scheduled operators and not restricted to only schedule operations by them.

6) Aviation Security Fee (ASF) (Notes: - 4b) It is submitted that the note 4b seems incomplete since the last two categories are not visible completely in the tariff card. We request AERA to include all the categories included in exemption list as has been defined under AIC15/2019 dated 19.06.2019.

7) General Conditions It is requested to define the applicability or exemption of any of the tariff charges pertaining to RCS Flights which have been excluded.

15.3 AO's responses to stakeholders' comments on Aggregate Revenue Requirement for the Second Control Period

15.3.1 AO's response to IATA's comments is as follows:

- *"The increase in airport charges proposed is the function of ARR for second control period and the under recovery in first control period. It may be seen that the proposed tariffs in the second control period is still not sufficient to recover the ARR and shortfall which was approved by the authority.'*
- *Further, the tariffs proposed by Kannur airport are competitive and have been optimized to ensure best rates for the stakeholders. The tariffs have also ensured to spread the under recovery of ARR in future years and subsequently reduce the burden on stakeholders.*

- *The stakeholders are requested to kindly consider the financial challenges faced by KIAL at present. While the airport has time and again ensured to meet the interests of the stakeholders, KIAL has to also ensure that the tariffs levied by the airport are sufficient to service the debt obligations and bare minimum expenses.*

- *Therefore, it is KIAL's humble request to the authority to approve the proposed rates."*

15.3.2 AO has responded on FIA's comment regarding shrinkage of Control Period as follows:

- *"It may be noted that the apparent shrinkage in the control period has not led to over recovery or higher tariffs for the stakeholders and users. KIAL has taken due consideration to keep the tariffs competitive and ensure that the burden of economic difficulties is spread evenly across all the stakeholders and users of the airport. KIAL has also considered AERA's suggestion to take a phased approach towards recovery of the ARR. "*

15.3.3 AO has responded on FIA's comment on royalty as follows:

- *"Regarding FIA's comment on royalty, KIAL would highlight that the revenue share to KIAL from ISPs is considered as aeronautical revenues by AERA and thus cross-subsidizes the other aeronautical charges at the airport. It is thus part of the airport charges to recover the ARR. In case some charges are reduced, the loss of revenue will have to be recovered through an increase in other charges. For e.g., when the fuel throughput charges were abolished, the landing charges were increased to compensate the loss of revenues."*

15.3.4 AO responded to FIA's comments regarding tariff rates:

- *"It may be noted that KIAL has taken into due consideration the inputs and interests of stakeholders while proposing the tariff rates.*

- *KIAL has also duly taken into consideration the authority's comments on spreading the unrecovered ARR over the future years. Same may be observed from the submitted tariff card, as the proposed tariffs are not sufficient to recover the ARR for the second control period.*

- *KIAL has proposed to levy the UDF from both embarking and disembarking passengers. Since the airport infrastructure and facilities are availed by both embarking and disembarking passengers, KIAL is of the view that the levying UDF from both ensures fairness. Further, taking into consideration the views of AERA in the consultation paper of KIAL No. 17/2023-24, spreading the UDF between embarking and disembarking passengers ensures lower burden on other stakeholders.*

- *The rates for CUTE, CUPS and CUSS are as per the contractual terms agreed with the service provider. The details of the same has already been shared with the authority. Moreover, the rates for CUTE, CUPS and CUSS are lower compared to the prevailing rates at CIAL. It will be continuous endeavor for KIAL to optimize these further as we are able to increase the traffic further.*

- *The parking charges proposed, i.e. for parking beyond 24 hours an additional charge of Rs 25 per hour per MT is chargeable over and above existing rates, is mainly to discourage long term parking and to disincentivize airlines from any long term parking of aircrafts and to operate flights from the airport.*

- *Charges for unscheduled flights shall be as per the proposed tariff card. A minimum fee of Rs 5000/- shall be charged for single landing.*

- *For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour – This is as per existing tariff card.*

- *With respect to ASF, the following may also be included as per AIC15/2019 dated 19.06.2018, which* *was partially hidden in the Tariff Card proposed while formatting:*

- *Transit/ transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hrs. "'A passenger is treated in transit only if onward travel journey is within 24 hrs from arrival into airport and is part of the same ticket, in case 2 separate tickets are issued it would not be treated as transit passenger").*
- *Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions."*

15.4 Authority's Analysis on Stakeholders' comments regarding Aeronautical Revenue for Second Control Period

15.4.1 The Authority has noted the comments of the AO regarding loss of revenue due to delay in finalization of tariff. In this regard, the Authority would like to highlight that there was time lag in the determination of tariff for KIA on account of the following:

- The AO should submit MYTP at least 6 months in advance from the date of expiry of the current Control Period. However, the AO had submitted the initial MYTP on October 27, 2022 and further submitted a revised MYTP for the tariff determination of KIA in March 2023, after a gap of 5 months from the date of submission of initial MYTP (refer Table 3 in the Tariff Order w.r.t submission of MYTP and other documents).
- The Authority had sought clarifications from AO on the various regulatory building blocks from time to time, based on which the AO had submitted a revised Fixed Assets Register and furnished further details till October 2023.
- To maintain a balanced approach, the Authority decides to increase Aeronautical tariff progressively w.e.f April 1, 2024. The Authority believes that with a moderate increase in tariff and with the gradual growth in passenger traffic, the AO would be able to recover some portion of the ARR in this Control Period and the balance in the subsequent Control Periods.

15.4.2 The Authority has noted the comments of FIA and IATA on the Tariff Rate Card submitted by the AO. The Authority also feels that targeting a full recovery, at this time may not be fair to all stakeholders and may dampen the stakeholders' efforts to revive aviation traffic.

Further, the Authority also notes from the Tariff Rate Card proposed by the AO, that the AO has sought carry forward of 60% of the ARR, proposed by the Authority at the Consultation stage. AERA has decided to allow tariff sought by the AO for Landing, Parking, Cargo, International UDF, CUTE/CUSS/ BRS charges for international departing passenger, etc. However, the Authority has slightly increased the domestic UDF over that proposed by the AO, with a view to lessen the burden on public at large in the next control period. CUTE/CUSS/ BRS charges for domestic departing passenger has been rationalised in line with rates at other similar airports.

Based on the above considerations, the Authority has decided to consider carry forward 62.94% of the ARR to the next Control Period and progressively increase the Aeronautical tariffs, in the harmonious interest of all the stakeholders chain including the Airport Operator.

15.4.3 The Authority has noted FIA's concerns on the recovery burden on account of shrinkage in the Control Period. The Authority would like to emphasize that the tariff determination exercise was carried out for Kannur International Airport in accordance with AERA Act and AERA Guidelines 2011.

Further, it is pertinent to note that the AO had submitted revised MYTP for the tariff determination of KIA in March 2023, after a gap of 5 months from the date of submission of initial MYTP. Also, the Authority had sought clarifications from AO on the various regulatory building blocks from time to time, based on which the AO had submitted a revised Fixed Assets Register and furnished further details till October 2023. The above factors have resulted in the time lag in determination of tariff for KIA for the Second Control Period.

However, AERA would like to highlight that the tariff determination exercise is exhaustive and lengthy in nature and requires resources to examine, analyze and decide on the matters and concerns of all the stakeholders. The Authority had tried its best to ensure timely determination of tariff, and had intervened to obtain timely information from the AO to expedite the process.

15.4.4 The Authority has noted the comments of FIA on Royalty and the response of the AO. In this regard, the Authority would like to state the following:

- The Authority has noted the issue of royalty fees and revenue share payable to Airport Operators by the Service Providers as a pass-through expenditure. It may be noted that the Authority has a separate tariff determination process for service providers providing Cargo, Ground Handling and Fuel Supply to aircraft where the royalty charges are addressed alongside a stakeholders' consultation process.
- It may also be noted that the Royalty paid by the ISPs to the Airport Operators are taken into account as Aeronautical revenue during the tariff determination process, thus helping the Airport Users by reduction in the tariff to that extent.

15.4.5 With respect to FIA's comments on UDF and other charges, the Authority provides its views as under:

- UDF (Collection charges): The Authority is of the opinion that the collection charges are a matter between the Airport Operator and the Airlines.
- UDF on disembarking passengers: The Authority in its earlier Orders, had decided to levy UDF on the disembarking passengers with respect to Greenfield Airports for the First Control Period, wherein in the initial phase of Airport operations, the need for recovering the ARR by the way of Landing, Parking and UDF charges may necessitate certain unique approaches.

  However, in the case of Kannur Airport, the tariff is being determined by the Authority for the Second Control Period. Therefore, the Authority decides not to consider levying UDF on the disembarking passengers.
- The Authority has noted the comments made by FIA on CUTE charges and the AO's response on the same. The Authority notes that the charges for CUTE in PPP Airports is much higher as compared to the charges in other AAI airports. The Authority decides to rationalise the same and approve ₹ 60 per departing pax for Domestic, in line with the rates approved for MoPA Goa Airport vide Order No. 27/ 2023-24 dated December 7, 2023.
- Note on Parking charges, Landing charges, ASF, UDF, General Conditions: The Authority has given suitable Note on the above in the Tariff Rate Card

Air Freight Station (AFS)

15.4.6 The Authority notes the Policy Guidelines on 'Air Freight Station' (AFS) issued by MoCA in October 2014. This Policy shall create an off Airport Common User facility equipped with fixed installations of minimum requirements and offering services for handling International Air Cargo in the form of Air Freight Stations with a mandate to enable the Cargo Industry as follows:

- Off-Airport common user facility equipped with fixed installations of minimum requirements and offering services for handling and temporary storage of import/ export goods, loaded and empty Unit Load devices (ULD) and Cargo in bulk/ loose for outright export.

- Create an enabling environment for promoting International Air Cargo operations by reaching out to hinterland regions of the Country besides de-congesting the congested Air Cargo terminals in some gateway International Airports that face high dwell time.
- Authorising some of the Inland Container Depots (ICD) to cater to the International Air Cargo operations, the existing facilities in these ICDs, could be fully utilized.

The Authority notes that the above Policy Guidelines on AFS has larger national intent and it aims to strengthen and develop air cargo logistics in the Country and the same was expected to reduce the bottlenecks in air cargo logistics and help in ease of doing business, particularly for exporters. However, AERA notes that the AO has not submitted a separate tariff rate for the Cargo received from an approved AFS, in its Tariff Rate Card.

The Authority notes that pursuant to the operationalization of AFS facility in future, some of the cargo handling activities, which in normal course are performed by the CTOs/Airport Operator at their Cargo Terminals at KIA, will get shifted to AFS facility as detailed below:

- Acceptance of Cargo from shippers/agents
- Palletization, Unit Load Device (ULD) build-up for export cargo.
- X-ray scanning of export cargo & compliance of BCAS & Customs regulatory norms.

In view of the above, the Authority notes that the handling of AFS Cargo in palletized form at city-side of Cargo Terminal is comparatively less cumbersome & cost-effective, as compared to processing the cargo coming in loose packets from different shippers/ agents. Further, AFS Cargo is likely to be held at the Airport's Cargo Terminal for shorter duration, due to lesser processing activities involved. The AO/CTO is expected to save on processing time and lower deployment of manpower in respect of AFS Cargo, resulting in cost savings while handling AFS Cargo.

The Authority, after considering the above and taking cognizance of the intent of MoCA's AFS Policy dated October 28, 2014, to encourage the concept of AFS Cargo in the country, as a step towards improvement of air cargo logistics, has concluded that though in case of AFS Cargo, many of the activities, similar to handling in general cargo are still to be performed by the CTOs but those are not to the extent as performed for General Cargo (cargo directly handled by Airport Operator/CTOs). In this background, 30% lower TSP charges for AFS cargo have been kept after a thorough examination of the facts on the ground.

The Authority directs KIA to maintain separate accounts for its Cargo Handling and Fuel services and submit Annual Compliance Statement (ACS) for each accounting year (ending on 31st March) as per AERA CGF Guidelines.

15.4.7 Based on the above, the Authority has recalculated the Aeronautical Revenue as follows :

Table 95: Aeronautical Revenue decided for the Second Control Period

(in ₹ Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Total PV of ARR including true up = (a) (as per Table 94)			**2,445.82**			**2,445.82**
Aeronautical Revenue						
Landing revenues	20.19	33.51	37.53	43.15	49.64	184.01
Parking revenues	2.16	3.45	4.04	4.51	5.23	19.40

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
UDF revenues	68.32	135.15	162.03	190.08	217.14	772.72
Passenger service fees	-	-	-	-	-	-
Inline X-ray baggage revenues	9.97	15.91	18.63	20.78	24.09	89.38
CUTE/ CUSS/ BRS revenues	2.66	3.09	3.46	3.77	4.08	17.06
Aerobridge revenues	3.04	4.85	5.68	6.34	7.35	27.26
Ground handling revenues	5.18	5.74	5.85	5.84	6.25	28.86
Cargo concession revenues	3.21	4.26	5.05	5.96	7.15	25.62
License Fee for Unpaved Land-BKFFPL	1.64	1.78	1.94	2.12	2.31	9.79
CAM Charges from Airlines	0.13	0.14	0.16	0.18	0.19	0.80
Space Rental from Airlines	1.32	1.45	1.60	1.76	1.93	8.05
Total Aeronautical Revenue	117.82	209.34	245.97	284.48	325.35	1,182.96
PV factor (12.21%)	1.00	0.89	0.79	0.71	0.63	
PV of Aeronautical Revenue	**117.82**	**186.56**	**195.35**	**201.35**	**205.22**	**906.31**
∑ PV Projected Aero Revenue (b)			**906.31**			**906.31**
Under recovery carried forward to the Next Control Period (a) – (b)						**1,539.51**

15.4.8 The Authority, while determining the ARR for the Second Control Period, which includes the impact of under-recovery for the First Control Period amounting to Rs 1,331.29 Crores, notes the following:

i. KIA being a Greenfield Airport, commenced its commercial operations in Dec 2018 with a designed capacity of 9.34 MPPA.

ii. The historical traffic trends depicts that from 2018 up to Dec 2023, the Airport has not achieved 2 MPPA of traffic which is an inherent factor for full/ partial recovery of ARR.

iii. Seeing the traffic volumes, Airport Operator should have gone for capex in a modular fashion rather than in one go. As a result, there is huge unutilized capacity bringing in burden on the airport users.

iv. Further, the AO for the last year of the Second Control Period had projected 2.9 MPPA, which itself signifies that the Airport, in the last two tariff cycles, has not achieved even 3.5 MPPA of passenger traffic, thereby not achieving the minimum threshold limit defined under Section 2 (i) of AERA Act, 2008 read with AERA Amendment Act 2019, to qualify as a Major Airport.

v. Furthermore, in the Second Control Period, the AO had themselves submitted Tariff Rate Card, whereby nearly 60% of the ARR had been carried forward to the next Control Period. This has resulted in an under-recovery of Rs 1,539.51 Cr., being carried forward to the next Control Period.

In view of the above, it appears that operations at KIA are becoming unsustainable and carry forward of such huge under-recovery of the Second Control Period (which includes substantial Under-recovery of the First Control Period) may not be fully recoverable in the subsequent Control Periods. In this background, in future tariff order, AERA may analyze this issue in detail for appropriate action like shifting the airport to non-major or any other appropriate measures.

15.5 Authority's decisions regarding Aeronautical Revenue for the Second Control Period

Based on the material before it and based on its analysis, the Authority decides the following with regard to Aeronautical Revenue for the Second Control Period:

15.5.1 To consider the Aeronautical Revenue based on the Tariff Rate Card detailed in **Annexure 1 (1A, 1B).**

15.5.2 The Authority directs KIA to maintain separate accounts for its Cargo Handling and Fuel services and submit Annual Compliance Statement (ACS) for each accounting year (ending on 31st March) as per AERA CGF Guidelines.

15.5.3 To consider 30% lower TSP charges in respect of BUPs/ ULDs received at cargo terminal from the Air Freight Station (AFS).

15.5.4 To true up Aeronautical Revenue based on the actual numbers for the Second Control Period for KIA at the time of determination of tariff for the next Control Period

16 SUMMARY OF AUTHORITY'S DECISIONS

Chapter 4: True Up of KIA for the First Control Period

4.13.1 To consider true up of depreciation for the First Control period as per Table 15.

4.13.2 To consider true up of RAB for the First Control period as per Table 16.

4.13.3 To consider true up of FRoR for the First Control period as per Table 18.

4.13.4 To consider true up of Non-aeronautical revenue for the First Control Period as per Table 22

4.13.5 To consider true up of Aeronautical O&M expenses for the First Control Period as per Table 36.

4.13.6 To consider true up of Aeronautical revenue for the First Control Period as per Table 39

4.13.7 To consider true up of Aeronautical Taxation for the First Control Period as per Table 42.

4.13.8 To consider ARR and Under recovery for True up of KIA for the First Control Period as per Table 44 and readjust the same in the ARR for the Second Control Period

Chapter 5: Traffic Forecast for the Second Control Period

5.5.1 To consider the Passenger traffic, ATM and Cargo traffic for the Second Control Period for KIA as per Table 49.

5.5.2 To true up the traffic volume (Passengers, ATM and Cargo) on the basis of actual traffic in the Second Control Period while determining tariffs for the Third Control Period ..

Chapter 6: Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base (RAB) of KIA for the Second Control Period

6.8.1 To consider the Terminal Building ratio of 92:8 in line with the recommendation of Assets Allocation Study report IMG norms and as approved by AERA for other similar Airports.

6.8.2 To adopt the capitalization of Aeronautical Expenditure for the Second Control Period in accordance with Table 53.

6.8.3 To reduce (adjust) 1% of the uncapitalized project cost from the ARR in case any particular capital project is not completed capitalized as per the approved capitalization schedule. The same will be examined during the true up of the Second Control Period, at the time of determination of tariff for the Third Control Period.

6.8.4 To true up the Aeronautical Capital expenditure based on actuals, cost efficiency and reasonableness, at the time of determination of tariff for the Third Control Period.

6.8.5 To adopt Aeronautical Depreciation as per Table 55 for the Second Control Period.

6.8.6 To true up the Depreciation of the Second Control Period based on the actual asset additions and actual date of capitalization during the tariff determination of the Third Control Period.

6.8.7 To consider average RAB for the Second Control Period for KIA as per Table 57

6.8.8 To true up the RAB based on actuals at the time of tariff determination for the Third Control period.

Chapter 7: Fair Rate of Return (FRoR) for the Second Control Period

7.6.1 To consider the Cost of Equity at 15.18% as per the CAPM formula.

7.6.2 To consider the notional debt to equity (gearing) ratio of 48%:52% in line with the target gearing ratio being considered in the case of other PPP airports.

7.6.3 To consider the cost of debt of 9% for the Second Control Period

7.6.4 To consider FRoR of 12.21% for the Second Control Period based on above mentioned Cost of equity, Cost of debt and Gearing ratio.

Chapter 8: Inflation for the Second Control Period

8.6.1 To consider Inflation in the Second Control Period for Kannur International Airport as detailed in Table 63.

Chapter 9: Operation and Maintenance (O&M) expenses for the Second Control Period

9.6.1 To consider O&M Expenses for the Second Control Period as per Table 80.

9.6.2 To consider the O&M expenses incurred by the Airport Operator during the Second Control Period subject to reasonableness and efficiency, at the time of tariff determination for the next Control Period.

Chapter 10: Non-aeronautical Revenue for the Second Control Period

10.6.1 To consider Non-aeronautical revenues for the Second Control Period for KIA as per Table 86.

Chapter 11: Taxation for the Second Control Period

11.5.1 To consider the Taxation for the Second Control Period for KIA as per Table 89.

11.5.2 To true up the aeronautical tax amount appropriately taking into consideration all relevant facts at the time of tariff determination for the Third Control Period.

Chapter 12: Quality of Service for the Second Control Period

12.5.1 Not to consider any adjustment towards tariff determination for the Second Control Period with regard to Quality of Service.

Chapter 13: Return on Land for the Second Control Period

13.5.1. To consider Return on Land as per Table 91.

Chapter 14: Aggregate Revenue Requirement (ARR) for the Second Control Period

14.5.1 To consider the ARR and YPP for the Second Control Period for KIA in accordance with Table 94.

Chapter 15: Aeronautical Revenue for the Second Control Period

15.5.1 To consider the Aeronautical Revenue based on the Tariff Rate Card detailed in **Annexure 1 (1A, 1B).**

15.5.2 The Authority directs KIA to maintain separate accounts for its Cargo Handling and Fuel services and submit Annual Compliance Statement (ACS) for each accounting year (ending on 31st March) as per AERA CGF Guidelines.

15.5.3 To consider 30% lower TSP charges in respect of BUPs/ ULDs received at cargo terminal from the Air Freight Station (AFS).

To true up Aeronautical Revenue based on the actual numbers for the Second Control Period for KIA at the time of determination of tariff for the next Control Period

17 ORDER

17.1 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 tariff to be levied at Kannur International Airport for the Second Control Period, as placed at Annexure 1A, 1B.

17.2 In exercise of powers conferred by Section 13 (1) (b) of the AERA Act, 2008, read with Rule 89 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934, the Authority hereby determines the rate of UDF as indicated in the rate card at Annexure 1A to the Order for the current Control Period.

17.3 The tariff determined herein are ceiling rates, exclusive of taxes, if any.

17.4 This Order shall be made effective from April 1, 2024.

17.5 Airport Operator shall submit its MYTP to the Authority for the Third Control Period in a timely manner as per the AERA Guidelines.

By the Order and in the name of the Authority

(Suyash Narain)
Secretary

To,

Mr. Dinesh Kumar
Managing Director,
Kannur International Airport Limited,
Mattannur,
Kannur - 670708

Copy to:

1. **Secretary,** Ministry of Civil Aviation, Rajiv Gandhi Bhawan, Safdarjung Airport, New Delhi – 110003.
2. **Directorate General of Civil Aviation:** for issuance of AIC

18 ANNEXURE 1

18.1 Annexure 1A: Tariff Rate Card

Tariff Rate Card pertaining to Kannur International Airport for the Second Control Period as approved by the Authority (effective from April 1, 2024 to March 31, 2028)

18.1.1 Landing and Parking Charges

a) **Landing Charges***

Applicable rates from April 1, 2024 to March 31, 2028

(Rate in ₹ per MT)

Flight	Weight of Aircraft	April 1, 2024 to March 31, 2025	April 1, 2025 to March 31, 2026	April 1, 2026 to March 31, 2027	April 1, 2027 to March 31, 2028
Domestic	Up to 100 MT	453.00	485.00	519.00	555.00
	Above 100 MT	45,300 + 606 in excess of 100 MT	48,500 + 649 in excess of 100 MT	51,900 + 694 in excess of 100 MT	55,500 + 743 in excess of 100 MT
International	Up to 100 MT	623.00	667.00	714.00	764.00
	Above 100 MT	62,300 + 837 in excess of 100 MT	66,700 + 896 in excess of 100 MT	71,400 + 959 in excess of 100 MT	76,400 + 1,026 in excess of 100 MT

** A minimum landing charge of ₹ 5,000 per flight or the applicable landing charges, whichever is higher, will be levied in respect of domestic Non- Scheduled operators/ GA operators.*

Notes:

i. For flight operations with Aircraft registered in India, the flight is classified Domestic or International based on the immediate previous station, irrespective of the flight number assigned to such fights.

ii. All domestic legs of international routes flown by Indian Operators will be treated as domestic flights as far as landing charges is concerned, irrespective of flight number assigned to such flights.

iii. 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 at airport and b) helicopters of all types. (Not applicable to Non-scheduled operators).

iv. No landing charges will be levied in respect of Military Aircraft (Government of India) including para-military forces such as BSF, Coast Guard etc.

v. Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg).

b) **Parking Charges for all Aircrafts**

Applicable rates from April 1, 2024 to March 31, 2028

(Rate in ₹ per hour per MT)

Weight of Aircraft	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Up to 100 MT	11.00	12.00	13.00	14.00
Above 100 MT	1,100 + 14 in excess of 100 MT	1,200 + 15 in excess of 100 MT	1,300 + 16 in excess of 100 MT	1,400 + 17 in excess of 100 MT

Notes:

i. No parking charges shall be levied for the first two hours, while calculating the 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 take-off.

ii. For calculating chargeable parking time part of an hour shall be rounded off to the next hour.

iii. Charges shall be calculated on the basis of nearest MT.

iv. Charges for each period of parking shall be rounded off to nearest Rupee.

v. After free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges.

vi. No parking charges will be levied in respect of Military Aircraft (Government of India) including para-military forces such as BSF, Coast Guard etc.

vii. For parking beyond 24 hours an additional charge of ₹ 25 per hour per MT beyond 24 hours is chargeable over and above existing rates.

c) User Development Fee

Applicable rates for travel date from April 1, 2024 to March 31, 2025

(Rate in ₹)

Type of Passenger	Domestic Flight	International Flight
Embarking passenger	750	1,680

Applicable rates for travel date from April 1, 2025 to March 31, 2026

(Rate in ₹)

Type of Passenger	Domestic Flight	International Flight
Embarking passenger	850	1,798

Applicable rates for travel date from April 1, 2026 to March 31, 2027

(Rate in ₹)

Type of Passenger	Domestic Flight	International Flight
Embarking passenger	950	1,923

Applicable rates for travel date from April 1, 2027 to March 31, 2028

(Rate in ₹)

Type of Passenger	Domestic Flight	International Flight
Embarking passenger	995	2,058

Notes:

i. Collection Charges: Collection charges per departing passenger shall be paid by AO as per the agreement pertaining to such charges between the Airport Operator and the Airlines.

ii. For calculating UDF in Foreign currency, the RBI conversion rate as on the last day of the previous month for tickets issued in the first fortnight and rate as on 15th of the month for tickets issued in the second fortnight shall be adopted.

iii. The existing UDF charges will be applicable on the tickets issued till March 31, 2024.

iv. Revised UDF charges will be applicable on the tickets issued on or after April 1, 2024.

v. **Exemption from levy and collection from UDF at the Airport:**

In terms of DGCA AIC No. 14/2019 dated 16.05.2019 and AIC No. 20/2019 dated 06.11.2019 (decision of Ministry of Civil Aviation, Govt. of India vide order no. AV 29012/39/2018-AD dated 30.10.2019) the following categories of persons are exempted from levy and collection of UDF:

a) Children (Under age of 2 years)

b) Holders of Diplomatic Passport,

c) Airlines crew on duty including sky marshals & airline crew on board for the particular flight only (this, would not include Dead Head Crew, or ground personnel),

d) Persons travelling on official duty on aircraft operated by Indian Armed Forces.

e) Persons travelling on official duty for United Nations Peace Keeping Missions.

f) Transit/ transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hrs. "A passenger is treated in transit only if onward travel journey is within 24 hours from arrival into airport and is part of the same ticket, in case 2 separate tickets are issued it would not be treated as transit passenger").

d) Aviation Security Fee (ASF): Rates and Exemption as prescribed by MoCA from time to time.

e) Aerobridge charges

(Rate in ₹)

Time of Usage	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
International flights				
Single Aerobridge used by an Aircraft				
Up to 90 minutes	6,176	6,608	7,071	7,566
For every 30 min beyond 90 min	2,059	2,203	2,357	2,522
Two Aerobridges used by an Aircraft				
Up to 90 minutes	9,264	9,913	10,606	11,349
For every 30 min beyond 90 min	3,088	3,304	3,535	3,783
Domestic flights				
Up to 90 minutes	3,478	3,721	3,981	4,260
For every 30 min beyond 90 min	1,391	1,488	1,593	1,704

Notes:

i. Aerobridge charges are payable by Airline Operators to Kannur International Airport Limited

ii. The Aerobridge charges are payable based on the time of usage.

iii. Usage charges will be billed on the basis of the data recorded by the Aerobridge operator.

f) **Inline X ray charges**

Applicable charges from April 1, 2024 to March 31, 2028

(Rate in ₹)

Flight	Aircraft Capacity *(in MT)*	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Domestic	1-100	6,955	7,442	7,963	8,520
	101-150	9,737	10,419	11,148	11,928
	151-180	12,519	13,395	14,333	15,336
	181-300	15,301	16,372	17,518	18,744
	Above 300	18,083	19,349	20,703	22,152
International	1-100	15,440	16,521	17,677	18,915
	101-150	18,528	19,825	21,213	22,698
	151-180	22,645	24,231	25,927	27,742
	181-300	25,734	27,535	29,462	31,525
	Above 300	30,880	33,042	35,355	37,830

g) **CUTE/CUSS/BRS**

Applicable rates from April 1, 2024 to March 31, 2028

(Rates in ₹)

Flight	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Domestic (per departing PAX)	60.00	60.00	60.00	60.00
International (per departing PAX)	92.50	92.50	92.50	92.50

Note: For calculating CUTE/ CUSS/ BRS in Foreign currency, the RBI conversion rate as on the last day of the previous month for tickets issued in the first fortnight and rate as on 15th of the month for tickets issued in the second fortnight shall be adopted.

18.1.2 General Condition

i. All the above charges are excluding GST. GST at the applicable rates shall be payable in addition to the above charges.

ii. Flight operating under Regional Connectivity Scheme will be exempted from charges as per Order No. 20/2016-17 dated 31.03.2017 of the Authority from the date the scheme is operationalized by the GoI as amended from time to time.

18.1.3 **Annexure 1B: Cargo Charges**

a) **Domestic Cargo**

i. **Departure Cargo**

Applicable rates from April 1, 2024 to March 31,2025

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Terminal, Storage and Processing Charges***		
	General Cargo/Perishable Cargo/Courier/PO mails etc.	0.88	117.70
	Special	2.35	235.40
	Valuable	5.89	882.75
2	**Demurrage Charges (Leviable from Shippers)**		
	General/Special/Perishable (second day onwards)	1.18	176.55
	Valuable (second day onwards)	2.35	353.10
3	**X Ray Charges**		
	General and Perishable Cargo	2.35	117.70
	Valuable Cargo	2.35	117.70

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Applicable rates from April 1, 2025 to March 31,2026

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Terminal, Storage and Processing Charges***		
	General Cargo/Perishable Cargo/Courier/PO mails etc.	0.94	125.94
	Special	2.52	251.88
	Valuable	6.30	944.54
2	**Demurrage Charges (Leviable from Shippers)**		
	General/Special/Perishable (second day onwards)	1.26	188.91
	Valuable (second day onwards)	2.52	377.82
3	**X Ray Charges**		
	General Cargo	2.52	125.94
	Valuable	2.52	125.94

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Applicable rates from April 1, 2026 to March 31, 2027

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Terminal, Storage and Processing Charges***		
	General Cargo/Perishable Cargo/Courier/PO mails etc.	1.01	134.75
	Special	2.70	269.51
	Valuable	6.74	1,010.66
2	**Demurrage Charges (Leviable from Shippers)**		
	General/Special/Perishable (second day onwards)	1.35	202.13
	Valuable (second day onwards)	2.70	404.26
3	**X Ray Charges**		
	General Cargo	2.70	134.75
	Valuable	2.70	134.75

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Applicable rates from April 1, 2027 to March 31, 2028

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Terminal, Storage and Processing Charges***		
	General Cargo/Perishable Cargo/Courier/PO mails etc.	1.08	144.19
	Special	2.88	288.38
	Valuable	7.21	1,081.41
2	**Demurrage Charges (Leviable from Shippers)**		
	General/Special/Perishable (second day onwards)	1.44	216.28
	Valuable (second day onwards)	2.88	432.56
3	**X Ray Charges**		
	General Cargo	2.88	144.19
	Valuable	2.88	144.19

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Note: Common for Outbound, Inbound and Airlines

i TSP Charges and Demurrage Charges will be levied on the 'Gross Weight" or the "Chargeable Weight" of the consignment, whichever is higher

ii For mis-declaration of weight of 2% and above of declared weight, penal charges @ double the applicable TSP Charges will be levied

iii Special cargo consists of live animals, hazardous goods, ornamental fish, chicks, etc.

iv X-Ray and Unitization Charges will be levied on gross weight

v GST and other applicable taxes, if any shall be charged extra at applicable rates

vi Unitization charges for ULDs will be at par with International Cargo Rates

vii Consignments of human remains coffin including unaccompanied baggage of deceased are exempted from the purview of TSP & Demurrage charges

ii. Arrival Cargo

Applicable rates from April 1, 2024 to March 31,2025

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Terminal, Storage and Processing Charges***		
	General /Perishable Cargo	0.88	117.70
	Special	2.35	235.40
	Valuable	5.89	882.75
2	**Demurrage Charges (Leviable from Shippers)**		
	Second Day onwards General/ Special/ Perishable	1.18	176.55
	Second Day onwards Valuable	2.35	353.10

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Applicable rates from April 1, 2025 to March 31,2026

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Terminal, Storage and Processing Charges***		
	General /Perishable Cargo	0.94	125.94
	Special	2.52	251.88
	Valuable	6.30	944.54
2	**Demurrage Charges (Leviable from Shippers)**		
	Second Day onwards General/ Special/ Perishable	1.26	188.91

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
	Second Day onwards Valuable	2.52	377.82

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Applicable rates from April 1, 2026 to March 31,2027

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Terminal, Storage and Processing Charges***		
	General Cargo	1.01	134.75
	Special	2.70	269.51
	Valuable	6.74	1,010.66
2	**Demurrage Charges (Leviable from Shippers)**		
	Second Day onwards General/ Special/ Perishable	1.35	202.13
	Second Day onwards Valuable	2.70	404.26

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Applicable rates from April 1, 2027 to March 31,2028

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Terminal, Storage and Processing Charges***		
	General /Perishable Cargo	1.08	144.19
	Special	2.88	288.38
	Valuable	7.21	1,081.41
2	**Demurrage Charges (Leviable from Shippers)**		
	Second Day onwards General/ Special/ Perishable	1.44	216.28
	Second Day onwards Valuable	2.88	432.56

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Other Charges

Applicable rates from April 1, 2024 to March 31,2025

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Stuffing/ De- Stuffing/ X-Ray Charges**		
	Stuffing/De-stuffing charges (chargeable to airline)	1.18	117.70
	X Ray charges (chargeable to airline)	2.35	117.70
2	**Handling Charges on Company Cargo (Outbound and Inbound)**	0.88	117.70
3	**Demurrage Charges on Company Cargo (Chargeable to Airlines)**		
	Second Day onwards General/ Special/ Perishable	1.18	176.55
4	**Handling Charges for Misrouted Cargo/Transit Cargo** (Inbound & Outbound cargo will be charged separately and misrouted PO Mail will be charged only for the outbound)	1.18	117.70
5	**X Ray Charges to Postal Department**	2.35	117.70

Applicable rates from April 1, 2025 to March 31,2026

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Stuffing/ De- Stuffing/ X-Ray Charges**		
	Stuffing/De-stuffing charges (chargeable to airline)	1.26	125.94
	X Ray charges (chargeable to airline)	2.52	125.94
2	**Handling Charges on Company Cargo (Outbound and Inbound)**	0.94	125.94
3	**Demurrage Charges on Company Cargo (Chargeable to Airlines)**		
	Second Day onwards General/ Special/ Perishable	1.26	188.91
4	**Handling Charges for Misrouted Cargo/Transit Cargo** (Inbound & Outbound cargo will be charged separately and misrouted PO Mail will be charged only for the outbound)	1.26	125.94
5	**X Ray Charges to Postal Department**	2.52	125.94

Applicable rates from April 1, 2026 to March 31,2027

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Stuffing/ De- Stuffing/ X-Ray Charges**		
	Stuffing/De-stuffing charges (chargeable to airline)	1.35	134.75
	X Ray charges (chargeable to airline)	2.70	134.75
2	**Handling Charges on Company Cargo (Outbound and Inbound)**	1.01	134.75
3	**Demurrage Charges on Company Cargo (Chargeable to Airlines)**		
	Second Day onwards General/ Special/ Perishable	1.35	202.13
4	**Handling Charges for Misrouted Cargo/Transit Cargo** (Inbound & Outbound cargo will be charged separately and misrouted PO Mail will be charged only for the outbound)	1.35	134.75
5	**X Ray Charges to Postal Department**	2.70	134.75

Applicable rates from April 1, 2027 to March 31,2028

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Stuffing/ De- Stuffing/ X-Ray Charges**		
	Stuffing/De-stuffing charges (chargeable to airline)	1.44	144.19
	X Ray charges (chargeable to airline)	2.88	144.19
2	**Handling Charges on Company Cargo (Outbound and Inbound)**	1.08	144.19
3	**Demurrage Charges on Company Cargo (Chargeable to Airlines)**		
	Second Day onwards General/ Special/ Perishable	1.44	216.28
4	**Handling Charges for Misrouted Cargo/Transit Cargo** (Inbound & Outbound cargo will be charged separately and misrouted PO Mail will be charged only for the outbound)	1.44	144.19
5	**X Ray Charges to Postal Department**	2.88	144.19

Note: Common for Outbound, Inbound and Airlines

i TSP Charges and Demurrage Charges will be levied on the 'Gross Weight" or the "Chargeable Weight" of the consignment, whichever is higher ii For mis-declaration of weight of 2% and above of declared weight, penal charges @ double the applicable TSP Charges will be levied

iii Special cargo consists of live animals, hazardous goods, ornamental fish, chicks, etc.

iv X-Ray and Unitization Charges will be levied on gross weight

v GST and other applicable taxes, if any shall be charged extra at applicable rates

vi Unitization charges for ULDs will be at par with International Cargo Rates

vii Consignments of human remains coffin including unaccompanied baggage of deceased are exempted from the purview of TSP & Demurrage charges

b) Export Cargo

Applicable rates from April 1, 2024 to March 31,2025

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Terminal, Storage and Processing Charges***		
	General Cargo	1.12	176.55
	Special	2.35	353.10
	Perishable	0.82	176.55
	Valuable	5.89	1,177.00
2	**Demurrage Charges (Leviable from Shippers)**		
	General Cargo	1.12	176.55
	Special	2.24	353.10
	Valuable	4.47	706.20
3	**X Ray Charges**		
	General Cargo	2.35	176.55
	Valuable	1.77	176.55
	P.O. Mails	2.35	176.55
4	**AWB Amendment Charges (per AWB)**		117.70

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Applicable rates from April 1, 2025 to March 31,2026

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Terminal, Storage and Processing Charges***		

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
	General Cargo	1.20	188.91
	Special	2.52	377.82
	Perishable	0.88	188.91
	Valuable	6.30	1,259.39
2	**Demurrage Charges (Leviable from Shippers)**		
	General Cargo	1.20	188.91
	Special	2.39	377.82
	Valuable	4.79	755.63
3	**X Ray Charges**		
	General Cargo	2.52	188.91
	Valuable	1.89	188.91
	P.O. Mails	2.52	188.91
4	**AWB Amendment Charges (per AWB)**		125.94

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Applicable rates from April 1, 2026 to March 31,2027

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Terminal, Storage and Processing Charges***		
	General Cargo	1.28	202.13
	Special	2.70	404.26
	Perishable	0.94	202.13
	Valuable	6.74	1,347.55
2	**Demurrage Charges (Leviable from Shippers)**		
	General Cargo	1.28	202.13
	Special	2.56	404.26
	Valuable	5.12	808.53
3	**X Ray Charges**		
	General Cargo	2.70	202.13
	Valuable	2.02	202.13
	P.O. Mails	2.70	202.13
4	**AWB Amendment Charges (per AWB)**		134.75

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Applicable rates from April 1, 2027 to March 31,2028

(Rate in ₹)

S. No.	Types of Charge	Rate per kg	Minimum rate per consignment
1.	**Terminal, Storage and Processing Charges***		
	General Cargo	1.37	216.28
	Special	2.88	432.56
	Perishable	1.01	216.28
	Valuable	7.21	1,441.88
2	**Demurrage Charges (Leviable from Shippers)**		
	General Cargo	1.37	216.28
	Special	2.74	432.56
	Valuable	5.48	865.13
3	**X Ray Charges**		
	General Cargo	2.88	216.28
	Valuable	2.16	216.28
	P.O. Mails	2.88	216.28
4	**AWB Amendment Charges (per AWB)**		144.19

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Note (Export Cargo):

i The free period for export cargo shall be 48 hours: for examination/processing by the shippers/Airlines.

ii Consignments of human remains coffin including unaccompanied baggage of deceased and human eyes are exempted from the purview of TSP & demurrage charges

iii Special cargo consists of live animals, hazardous goods, ornamental fish, chicks, etc.

iv Charges will be levied on the "gross weight" or the "chargeable weight" of the consignment, whichever is higher. Wherever the "gross weight" and (or) volume weight" is wrongly indicated on the Airway Bill and is found more, charges will be levied on the "actual gross weight" or "actual volumetric weight", whichever is higher.

v For mis-declaration of weight above 2% and up to 5% of declared weight penal charges @ double the applicable TSP charges will be levied. For variation above 5%, the penal charges will be levied @ five (5) times the applicable TSP charges of the differential weight.

c) Import Cargo

Applicable rates from April 1, 2024 to March 31, 2025

(Rates in ₹)

S. No.	Type of Charge	Rate per Kg	Minimum rate per consignment
1	**Delivery Order Charges**		
	MAWB General Cargo		1,765.50
	MAWB Baggage		1,765.50
	MAWB Baggage- Consolidation		1,765.50
	Break Bulk Charges- 1st HAWB		2,942.50
	Each Additional		1,177.00
2	**Terminal, Storage and Processing Charges***		
	General Cargo	5.30	235.40
	Special Cargo	10.59	294.25
	Valuable Cargo	14.12	1,177.00
	Courier Cargo	5.30	235.40
	Perishable Cargo	5.30	235.40
3	**Strapping Charges (per packet)**		11.77
4	**Demurrage Charges**		
	General (Up to 96 Hrs/ 4 working days) including free period	1.53	347.22
	General (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	3.06	
	General (Beyond 720 Hrs/ 30 days)	4.59	
	Special (Up to 96 Hrs/ 4 working days) including free period	3.06	682.66
	Special (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	6.12	
	Special (Beyond 720 Hrs/ 30 days)	9.18	
	Valuable (Up to 96 Hrs/ 4 working days) including free period	6.12	1365.32
	Valuable (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	12.24	
	Valuable (Beyond 720 Hrs/ 30 days)	18.36	

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Applicable rates from April 1, 2025 to March 31, 2026

(Rates in ₹)

S. No.	Type of Charge	Rate per Kg	Minimum rate per consignment
1	**Delivery Order Charges**		
	MAWB General Cargo		1,889.09
	MAWB Baggage		1,889.09
	MAWB Baggage- Consolidation		1,889.09
	Break Bulk Charges- 1st HAWB		3,148.48
	Each Additional		1,259.39
2	**Terminal, Storage and Processing Charges***		
	General Cargo	5.67	251.88
	Special Cargo	11.33	314.85
	Valuable Cargo	15.11	1,259.39

S. No.	Type of Charge	Rate per Kg	Minimum rate per consignment
	Courier Cargo	5.67	251.88
	Perishable Cargo	5.67	251.88
3	**Strapping Charges (per packet)**		12.59
4	**Demurrage Charges (Per Day)**		
	General (Up to 96 Hrs/ 4 working days) including free period	1.64	371.52
	General (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	3.27	
	General (Beyond 720 Hrs/ 30 days)	4.91	
	Special (Up to 96 Hrs/ 4 working days) including free period	3.27	730.45
	Special (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	6.55	
	Special (Beyond 720 Hrs/ 30 days)	9.82	
	Valuable (Up to 96 Hrs/ 4 working days) including free period	6.55	1,460.89
	Valuable (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	13.10	
	Valuable (Beyond 720 Hrs/ 30 days)	19.65	

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Applicable rates from April 1, 2026 to March 31, 2027

(Rates in ₹)

S. No.	Type of Charge	Rate per Kg	Minimum rate per consignment
1	**Delivery Order Charges**		
	MAWB General Cargo		2,021.32
	MAWB Baggage		2,021.32
	MAWB Baggage- Consolidation		2,021.32
	Break Bulk Charges- 1st HAWB		3,368.87
	Each Additional		1.347.55
2	**Terminal, Storage and Processing Charges***		
	General Cargo	6.06	269.51
	Special Cargo	12.13	336.89
	Valuable Cargo	16.17	1,347.55
	Courier Cargo	6.06	269.51
	Perishable Cargo	6.06	269.51
3	**Strapping Charges (per packet)**		13.48
4	**Demurrage Charges**		
	General (Up to 96 Hrs/ 4 working days) including free period	1.75	397.53
	General (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	3.50	
	General (Beyond 720 Hrs/ 30 days)	5.26	
	Special (Up to 96 Hrs/ 4 working days) including free period	3.50	781.58
	Special (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	7.01	
	Special (Beyond 720 Hrs/ 30 days)	10.51	
	Valuable (Up to 96 Hrs/ 4 working days) including free period	7.01	1,563.15
	Valuable (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	14.01	
	Valuable (Beyond 720 Hrs/ 30 days)	21.02	

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Applicable rates from April 1, 2027 to March 31, 2028

(Rates in ₹)

S. No.	Type of Charge	Rate per Kg	Minimum rate per consignment
1	**Delivery Order Charges**		
	MAWB General Cargo		2,162.81
	MAWB Baggage		2,162.81
	MAWB Baggage- Consolidation		2,162.81
	Break Bulk Charges- 1st HAWB		3,604.69
	Each Additional		1,441.88
2	**Terminal, Storage and Processing Charges***		
	General Cargo	6.49	288.38
	Special Cargo	12.98	360.47
	Valuable Cargo	17.30	1,441.88
	Courier Cargo	6.49	288.38
	Perishable Cargo	6.49	288.38
3	**Strapping Charges (per packet)**		14.42
4	**Demurrage Charges**		
	General (Up to 96 Hrs/ 4 working days) including free period	1.87	
	General (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	3.75	425.35
	General (Beyond 720 Hrs/ 30 days)	5.62	
	Special (Up to 96 Hrs/ 4 working days) including free period	3.75	
	Special (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	7.50	836.29
	Special (Beyond 720 Hrs/ 30 days)	11.25	
	Valuable (Up to 96 Hrs/ 4 working days) including free period	7.50	
	Valuable (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	15.00	1,672.58
	Valuable (Beyond 720 Hrs/ 30 days)	22.49	

**If Cargo at KIA is received through approved AFS, then 30% lower Terminal, Storage and Processing charges shall be applicable.*

Note:

i Free storage period for import cargo shall be (3 working days including the date of arrival of flight) 48 hours from the time of completion of segregation. For the next two days, demurrage will be charged at "per kg; per day" non-cumulative basis provided the consignment is cleared within four (4) days. If clearance is effected after 4' days from the time of completion of segregation, demurracr0e will accrue for the entire period from the time of completion of segregation.

ii Consignments of human remains coffin including baggage of deceased and Hurrian eyes will be exempted from the purview of TSP, demurrage and DO charges.

iii Charges will be levied on the "Gross Weight" or "Chargeable Weight' of the consignment, whichever is higher. Wherever the "Gross Weight" and (or) volume weight is wrongly indicated in the Airway Bill and is actually found more charges will be levied on the "actual gross weight" or actual volumetric weight" `or "chargeable weight" , whichever is higher.

iv Special Import Cargo consists of Live Animals, Hazardous Goods, Ornamental Fish, Live Chicks, etc.

v Valuable cargo consists of gold, bullion, currency notes, securities, shares, share coupons, traveler's cheques, diamonds including diamonds for industrial use, diamond jewelry, jewelry and watches made of silver, gold, platinum, computer Parts, mobile phones and items valued at USD 1000 per kg & above.

<u>Other Charges</u>

Applicable rates from April 1, 2024 to March 31, 2025

(Rate in ₹)

S. No.	Activity	Minimum Charges	Per Kg
1	Palletisation/ Depalletization & Containerization/DE containerization		
	Charges for stuffing	588.50	1.77
	Charges for De-stuffing	588.50	1.77
2	Cold Storage Charges	411.95	2.35
3	Strong Room Charges	-	-
4	Transhipment Cargo Handling	-	-
	Air to Road		
	Storage charges		2.35
	Stuffing	176.55	2.94
	De-stuffing		1.77
	Demurrage charges	294.25	
		48 Hours after completion of segregation (INR per kg per day)	1.18
	(i) Road to Air		
	TSP	176.55	1.12
	X Ray charges	176.55	2.35
	Stuffing		1.77
	Demurrage charges	176.55	
		Beyond 48 hours	1.12
	(ii) Air to Air		
	Storage charges		2.35
	Stuffing	176.55	1.77
	De stuffing		1.77
	Demurrage charges	294.25	
		48 hours after completion of segregation (INR per kg per day)	1.18
	(iii) Road to Road (Import)		
	De stuffing charges	176.55	2.94

S. No.	Activity	Minimum Charges	Per Kg
	TSP Charge	Same as Import TSP	
	Demurrage charge	Same as Import demurrage	
	(iv) Road to Road (Export)		
	Stuffing charges	176.55	2.94
	TSP Charge	Same as Export TSP	
	Demurrage charge	Same as Export demurrage	
	ULD Transfer (per ULD)	588.50	
5	Forklift Charges		
	For works inside I- ACC (to the exporters/ importers only)	353.10	0.35
	For works outside within the airport premises (per hour)	2,354.00	
6	Documentation charge (Export and Import both) (per flight)	588.50	
	To be paid by airlines at Export for providing manifest & envelope services provided: Export: Cargo Manifest + Envelope		
	Import: Segregation Report		

Applicable rates from April 1, 2025 to March 31, 2026

(Rate in ₹)

S. No.	Activity	Minimum Charges	Per Kg
1	Palletisation/ Depalletization & Containerization/DE containerization		
	Charges for stuffing	629.70	1.89
	Charges for De-stuffing	629.70	1.89
2	Cold Storage Charges	440.79	2.52
3	Strong Room Charges		
4	Transhipment Cargo Handling		
	Air to Road		
	Storage charges		2.52
	Stuffing	188.91	3.15
	De-stuffing		1.89
	Demurrage charges	314.85	
		48 Hours after completion of segregation (INR per kg per day)	1.26
	(v) Road to Air		
	TSP	188.91	1.20
	X Ray charges	188.91	2.52
	Stuffing		1.89
	Demurrage charges	188.91	
		Beyond 48 hours	1.20
	(vi) Air to Air		
	Storage charges	188.91	2.52

S. No.	Activity	Minimum Charges	Per Kg
	Stuffing		1.89
	De stuffing		1.89
	Demurrage charges	314.85	
		48 hours after completion of segregation (INR per kg per day)	1.26
	(vii)Road to Road (Import)		
	De stuffing charges	188.91	3.15
	TSP Charge	Same as Import TSP	
	Demurrage charge	Same as Import demurrage	
	(viii) Road to Road (Export)		
	Stuffing charges	188.91	3.15
	TSP Charge	Same as Export TSP	
	Demurrage charge	Same as Export demurrage	
	ULD Transfer (per ULD)	629.70	
5	Forklift Charges		
	For works inside I- ACC (to the exporters/ importers only)	377.82	0.38
	For works outside within the airport premises (per hour)	2,518.78	
6	Documentation charge (Export and Import both) (per flight)	629.70	
	To be paid by airlines at Export for providing manifest & envelope services provided: Export: Cargo Manifest + Envelope		
	Import: Segregation Report		

Applicable rates from April 1, 2026 to March 31, 2027

(Rate in ₹)

S. No.	Activity	Minimum Charges	Per Kg
1	Palletisation/ Depalletization & Containerization/DE containerization		
	Charges for stuffing	673.77	2.02
	Charges for De-stuffing	673.77	2.02
2	Cold Storage Charges	471.64	2.70
3	Strong Room Charges		
4	Transhipment Cargo Handling		
	Air to Road		
	Storage charges	202.13	2.70
	Stuffing		3.37
	De-stuffing		2.02
	Demurrage charges	336.89	
		48 Hours after completion of segregation (INR per kg per day)	1.35
	(ix) Road to Air		

S. No.	Activity	Minimum Charges	Per Kg
	TSP	202.13	1.28
	X Ray charges	202.13	2.70
	Stuffing		2.02
	Demurrage charges	202.13	
		Beyond 48 hours	1.28
	(x) Air to Air		
	Storage charges	202.13	2.70
	Stuffing		2.02
	De stuffing		2.02
	Demurrage charges	336.89	
		48 hours after completion of segregation (INR per kg per day)	1.35
	(xi) Road to Road (Import)		
	De stuffing charges	202.13	3.37
	TSP Charge	Same as Import TSP	
	Demurrage charge	Same as Import demurrage	
	(xii)Road to Road (Export)		
	Stuffing charges	202.13	3.37
	TSP Charge	Same as Export TSP	
	Demurrage charge	Same as Export demurrage	
	ULD Transfer (per ULD)	673.77	
5	Forklift Charges		
	For works inside I- ACC (to the exporters/ importers only)	404.26	0.40
	For works outside within the airport premises (per hour)	2,695.09	
6	Documentation charge (Export and Import both) (per flight)	673.77	
	To be paid by airlines at Export for providing manifest & envelope services provided: Export: Cargo Manifest + Envelope		
	Import: Segregation Report		

Applicable rates from April 1, 2027 to March 31, 2028

(Rate in ₹)

S. No.	Activity	Minimum Charges per consignment	Per Kg
1	Palletisation/ Depalletization & Containerization/ DE containerization		
	Charges for stuffing	720.94	2.16
	Charges for De-stuffing	720.94	2.16
2	Cold Storage Charges	504.66	2.88
3	Strong Room Charges	-	-
4	Transhipment Cargo Handling	-	-
	Air to Road		

S. No.	Activity	Minimum Charges per consignment	Per Kg
	Storage charges	216.28	2.88
	Stuffing		3.60
	De-stuffing		2.16
	Demurrage charges	360.47	
		48 Hours after completion of segregation (INR per kg per day)	1.44
	(xiii) Road to Air		
	TSP	216.28	1.37
	X Ray charges	216.28	2.88
	Stuffing		2.16
	Demurrage charges (Beyond 48 hours)	216.28	
		Beyond 48 hours	1.37
	(xiv) Air to Air		
	Storage charges	216.28	2.88
	Stuffing		2.16
	De stuffing		2.16
	Demurrage charges	360.47	
		48 hours after completion of segregation (INR per kg per day)	1.44
	(xv) Road to Road (Import)		
	De stuffing charges	216.28	3.60
	TSP Charges	Same as Import TSP	
	Demurrage charge	Same as Import demurrage	
	(xvi) Road to Road (Export)		
	Stuffing charges	216.28	3.60
	TSP Charges	Same as Export TSP	
	Demurrage charge	Same as Export demurrage	
	ULD Transfer (per ULD)	720.94	
5	Forklift Charges	432.56	
	For works inside I- ACC (to the exporters/ importers only)		0.43
	For works outside within the airport premises (per hour)	2,883.75	
6	Documentation charge (Export and Import both) (per flight)	720.94	
	To be paid by airlines at Export for providing manifest & envelope services provided: Export: Cargo Manifest + Envelope		
	Import: Segregation Report		

NOTE:

All the above charges are excluding GST. GST at the applicable rates shall be payable in addition to the above charges.

18.2 Annexure 2 – Summary of study on allocation of assets between Aeronautical and Non-aeronautical assets

Background

18.2.1 RAB is one of the fundamental elements in the process of tariff determination. The return to be provided on the RAB constitutes a considerable portion of the Aggregate Revenue Requirement for an airport operator. To encourage the participation of the private sector in airport development and operations, investors must be fairly compensated for the capital outlays involved. At the same time, to safeguard the interests of the airport users, it must be ensured that the capital additions are efficient, their needs justified, and the return on investment provided solely on the assets related to the core operations (i.e., Aeronautical services) of the airport. Assets not directly related to provision of Aeronautical services, if considered as Aeronautical assets, would result in increased charges for the passengers, stakeholders and other users. Therefore, the diligent allocation of assets into Aeronautical and Non-aeronautical assets becomes an important part of the tariff determination process.

18.2.2 RAB evolves on a continuous basis, primarily due to the addition of capital assets required to meet the growing demand and ensure optimal level of service, replacement of obsolete assets at end of their useful life, sales or transfers of assets and depreciation. The allocation of an asset towards RAB depends upon the type of asset (building & civil works, plant & machinery, equipment, etc.), usage (provision of various services such as Aeronautical, Non-aeronautical, or Common), ownership (by airport operator, concessionaire or other entities) and useful life of the asset. Based on these factors, the rationale for allocation of each asset into the appropriate classification needs to be determined diligently.

18.2.3 Towards this objective, AERA has decided to conduct an independent study on allocation of assets and segregation between Aeronautical and Non-aeronautical components in respect of assets appearing in the Fixed Asset Register (FAR) of KIA as on March 31, 2023, based on the audited financial statements for the year ended March 31, 2022 and the Unaudited Figures for Financial Year starting from 1 April, 2022 to March 31, 2023.

Classification of Assets

18.2.4 The study based on the analysis, classified the aggregate assets of KIA, Kannur under the following categories:

18.2.4.1 **Aeronautical assets:** All assets that are exclusively used for the provision of Aeronautical services/ activities have been classified as 'Aeronautical assets'. Such assets would include runway(s), taxiways, drainage, culverts, aprons, etc.

18.2.4.2 **Non-aeronautical assets:** All assets that are exclusively used for the provision of Non-aeronautical services/ activities have been classified as 'Non-aeronautical assets'. Such assets would include landside development, commercial projects, etc.

18.2.4.3 **Common assets:** All assets that cannot be directly allocated to either Aeronautical assets or Non-aeronautical assets have been classified as 'Common assets'. Such assets as the name suggests, get utilised for both Aeronautical and Non-aeronautical activities. They would include terminal building, select terminal equipment, etc.

Principles for segregation of assets

18.2.5 The study reviewed the various asset categories and developed a basis for classification of assets into aeronautical and non – aeronautical activities. The study also determined the appropriate proportion of the Common Assets that may be included as part of Aeronautical activity so in order to determine the

Aeronautical asset base. The principles of segregation used by the study are as follows:

Aeronautical Assets

- Assets required for the performance of the Aeronautical services at the airport.
- Classification of aeronautical assets are taken as defined in the AERA Act.
- Assets necessary to maintain the service quality of the airport are proposed to be considered as aeronautical except those located in the Non-aeronautical area.

Non-aeronautical Assets

- Assets required for the performance of the Non-aeronautical activities at the airport. Examples include car parking, advertisement, retail etc.

Common Assets

- Common assets are assets which are not directly attributable to either Aeronautical or Non-aeronautical services. These assets include the terminal building, air conditioning, furniture, administrative office of airport company, etc.
- Common assets are bifurcated between Aeronautical and Non-aeronautical assets based upon Terminal Building ratio or Employee Head Count ratio. The ratio of Aeronautical to Non-aeronautical as considered by the Study for the period from FY 2018-19 to FY 2022-23 are as follows:

Table 96: The ratio of Aeronautical to Non-aeronautical as considered by the Study for the period from FY 2018-19 to FY 2022-23

Particulars	Ratio (Aeronautical: Non-aeronautical)
Terminal Building ratio (Aeronautical: Non-aeronautical)	92:8
Employee Head Count ratio (Aeronautical: Non-aeronautical)	98.28:1.72(FY 2018-19) / 96.40:3.60 (FY 2019-20) / 94.69:5.31 (FY 2020-21) / 94.44:5.56 (FY 21-22) / 93: 7 (FY 2022-23)

Details of adjustment to RAB

A. Exclusion of ANS Equipment from the RAB as on March 31, 2023

It is noted that the tariff for ANS is presently regulated by the Ministry of Civil Aviation. All the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining tariff for ANS services. Further, the tariff for ANS services is determined at the Central level by the Ministry of Civil Aviation to ensure uniformity across the Airports in the Country. Hence, AERA determines tariff for Aeronautical services of the Airport Operator, by excluding the assets, expenses and revenues from ANS.

Based on all the above factors, it is proposed not to consider the above-mentioned CAPEX of ₹ 20.14 Crores as part of RAB.

B. Exclusion of Land Development Cost

According to the relevant provisions of Order No. 42/2018-19 dated March 5, 2019 of AERA, it is noted as part of the Study that the cost has been incurred towards Land Development by AO, prior to the date of issuance of the above-mentioned Order No. 42/ 2018-19 (i.e. before March 5, 2019). Therefore, it is

proposed not to consider the above-mentioned Land Development costs amounting to ₹ 333.28 Crores, as part of RAB or as part of Land cost (for which Return is provided as per Order No. 42/ 2018-19) for true up of the First Control Period of KIA.
Further, Financing Allowance of ₹ 72.99 crores included in the Land development costs have also been excluded from RAB.

C. Exclusion of IDC from the RAB as on March 31, 2023

Considering that KIA is a greenfield airport which commenced its commercial operations on December 9, 2018, wherein the majority of the assets were not put to use and also taking cognizance of the fact that, AO did not have any airport operations to support the investment in CAPEX during the period of construction, it is considered that AO's claim for FA is justified and reasonable. It is pertinent to note here that AO has claimed FA of ₹ 363.56 Crores and this amount is apart from IDC already capitalized along with the cost of assets.

Furthermore, the capitalized value of assets includes both the components i.e., Interest During Construction (IDC) cost amounting to ₹ 159.16 Crores (Gross Block) and Financing Allowance (FA) to ₹ 362.30 Crores. Hence, It is proposed to exclude the IDC for the above reason.

D. Reclassification of assets as on March 31, 2023

Landside Drains & Culverts

a. Allocation as per AO: Aeronautical
b. Observation: The Drains & Culverts built on Land side have been classified as Aeronautical assets by AO. As these assets are not located on the airside, these assets are reclassified as Common assets and have been allocated using the Terminal Building ratio (92:8).
c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces the RAB to the extent of ₹ 0.86 Crores.

Boundary Wall

a. Allocation as per AO: Aeronautical
b. Observation: It was noted that out of the total length of 24,459 meters of Property wall, approximately 10,500 meters (40%) is on the City side. Therefore, the Study has considered only 60% of the Property Boundary wall as Aeronautical and the remaining 40% as Non-aeronautical.
c. Revised asset allocation: 60% Aeronautical
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹4.60 Crores

Car Approach Road and other roadwork

a. Allocation as per AO: Aeronautical
b. Observation: AO has considered the Approach roads as Aeronautical. However, Approach roads namely East Entry Road, Car Approach Road, Pump House road and Secondary Approach Road are all serving mainly the Terminal Building and therefore, the same have been considered as "Common" and allocated in the ratio of Terminal Building (92:8).
c. Revised asset allocation: Common
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹0.64 Crores.

Service Roads (West Entry Road)

a. Allocation as per AO: Aeronautical
b. Observation: Service Road (West Entry Road) are part of the road network connecting to the Cargo Terminal, General Aviation, land earmarked for future expansion, Defence area etc. As these roads do not cater to any specific Aeronautical/ Non-aeronautical activities, the same have been classified as "Common" and allocated in the ratio of Terminal Building (92:8).
c. Revised asset allocation: Common
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.10 Crores.

Earthing & wiring assets

a. Allocation as per AO: Aeronautical
b. Observation: Power supply infrastructure at the airport, provides power to air side, roads, terminal building and forecourts. The electrical equipment include DG sets, Lighting Pole, power distribution board, low tension switchboards, high tension cables and Fire Protection System, etc. AO has considered these assets as Aeronautical, irrespective of whether these assets service at the airside or the terminal building. Since, certain assets available at the Terminal building, forecourts, etc, are used for both Aeronautical and Non-Aeronautical activities, the same have been identified and reclassified as Common assets and reallocated using the Terminal Building ratio (92:8).
c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.59 Crores.

CCTV cameras and security system

a. Allocation proposed by AO: Aeronautical
b. Observation: The assets pertaining to the installation of CCTV cameras across the airport, are used for both Aeronautical and Non- Aeronautical activities and hence, considered as Common assets as per the Study and segregated in the ratio of the Terminal Building (92:8).
c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.14 Crores.

Electrical Equipment

a. Allocation proposed by AO: Aeronautical
b. Observation: The assets pertaining to Electrical fittings & cablings, including video management software & IP Phones have been considered as Aeronautical by AO. However, these assets cater to the needs of both Aeronautical and Non-aeronautical activities and therefore, have been reclassified as Common assets and re-allocated in the ratio of the Terminal Building (92:8)
c. Allocation proposed as per the Study: Common
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common, reduces RAB to the extent of ₹ 1.18 Crores.

Buildings

a. Allocation proposed by AO: Aeronautical
b. Observation: The assets pertaining to static tank, underground water tank, sewerage line and garbage dump have been considered as Aeronautical assets by AO. However, these assets are used for both Aeronautical and Non-aeronautical activities and therefore, the same are reclassified as Common

assets and re-allocated in the ratio of the Terminal Building (92:8)

c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.73 Crores.
e. Furniture & fixtures

Other Furniture

a. Allocation proposed by AO: Common (Terminal Building Ratio)
b. Observation: These Assets are used by both Aeronautical and Non-aeronautical employees and therefore have been re-allocated in the ratio of Employee Head Count (as against allocation in the ratio of Terminal Building) of the Airport Operator for the respective FYs in the First Control Period.
c. Allocation proposed as per the Study report: Common (Employee Head Count Ratio)
d. Impact on RAB: Reclassifying these assets from Common (Terminal Building Ratio) to Common (Employee Head Count Ratio) has ₹ 0.01 Crores impact on RAB.

Office Furniture

a. Allocation proposed by AO: Aeronautical
b. Observation: The furniture & fixtures are used by both Aeronautical and Non-aeronautical employees and therefore have been re-allocated in the ratio of Employee Head Count of the Airport Operator for the respective FYs in the First Control Period.
c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common decrease RAB to the extent of ₹ 0.04 Crores.

Computer & Accessories

a. Allocation proposed by AO: Aeronautical
b. Observation: The Assets namely HP Laptops, Scanners, Printers are classified as Aeronautical. As these IT assets are used for both Aeronautical and Non-aeronautical activities, the same have been reclassified as Common assets. Further, as these assets are used by the employees of the Airport Operator, the same have been reallocated in the ratio of Employee Head Count of the Airport Operator for the respective FYs in the First Control Period.
c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common decrease RAB to the extent of ₹ 0.01 Crores.

Office Equipment

a. Allocation proposed by AO: Aeronautical
b. Observation: The assets such as Air Conditioners, Voice Recorders, LED, etc have been classified as Aeronautical by AO. As these assets are utilized for both Aeronautical and Non-aeronautical activities, the same are reclassified as Common assets and allocated in the ratio of Employee Head Count (as these are used by employees) of the Airport Operator for the respective FYs.
c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common has NIL impact on RAB.

Fuel Handing Equipment, Water Treatment Plant, Rodent Repellent

a. Allocation proposed by AO: Aeronautical
b. Observation: HSD Fuel Handling Equipment used in city side and Water & sewage treatment Plant

and Rodent Repellent have been classified as Aeronautical assets by AO. As these assets are used for servicing both Aeronautical and Non-aeronautical activities within the Terminal Building, these are reclassified as Common assets and have been allocated in the ratio of the Terminal Building (92:8).

c. Allocation proposed as per the Study report: Common
d. Impact: Reclassifying these assets from Aeronautical to Common decreases RAB to the extent of ₹ 0.12 Crores.

Air Conditioning & Other Office Equipment

a. Allocation proposed by AO: Aeronautical
b. Observation: The Assets related to Air Conditioning, Water coolers, UPS & modem, etc. has been classified as Aeronautical assets by AO. As these assets are used for facilitating the needs of employees, the same are reclassified as Common and have been allocated in the ratio of the Employee Head Count for the respective FY in the First Control Period.
c. Allocation proposed as per the Study report: Common
d. Impact: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of NIL.

Biogas Plant

a. Allocation proposed by AO: Aeronautical
b. Observation: The Biogas Plant is classified as Aeronautical by AO. The same has been considered as Non-Aeronautical as it does not cater to Aeronautical activities of the Airport.
c. Allocation proposed as per the Study report: Non-Aeronautical
d. Impact on RAB: Reclassifying these assets from Aeronautical to Non-Aeronautical has reduces the RAB to the extent of ₹ 0.27 Crores.

Old Assets

a. Allocation proposed by AO: Aeronautical
b. Observation: The aforementioned assets relating to prior period (i.e., up to March 31, 2018) have been considered as Common and allocated in the Terminal Building Ratio (92:8).
c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common has NIL impact on RAB.

Other Assets

a. Allocation proposed by AO: Common (Terminal Building Ratio)
b. Observation: The assets pertaining to Microsoft office, Tally & window software are classified as Common assets by AO and have been allocated in the ratio of Terminal Building determined by the Airport Operator (94.5:5.5). However, these assets are used by the employees of the Airport Operator and therefore have been re-allocated in the ratio of Employee Head Count of the Airport Operator for the respective FY in the First Control Period.
c. Allocation proposed as per the Study report: Common (Employee Head Count Ratio)
d. Impact on RAB: Reclassifying these assets from Aeronautical to Common has NIL impact on the RAB.

Impact of revised Terminal Building ratio and Employee Head Count ratio as per the Study

Table 97: Adjusted RAB as of March 31, 2023, as per the Study

(₹ Crores)

Particulars	Reference	Amount
RAB as on March 31, 2023 as submitted by AO as per FAR	A	1,777.86
IDC Excluded from RAB	B	(159.16)
Land Development cost relating to Freehold Land excluded from RAB.	C	(333.28)
Financing allowance related to Freehold land excluded from RAB	D	(72.99)
RAB before Reclassification Adjustments	E= sum(A:D)	1,212.42
Reclassification of other assets:		
Drains & Culverts	F	(0.86)
Boundary Wall	G	(4.60)
Roads	H	(0.74)
Electrical Installations EPC	I	(0.73)
Electrical Equipment	J	(1.18)
Buildings	K	(0.73)
Furniture & Fixtures	L	(0.05)
Computers & Accessories	M	(0.01)
Office Equipment	N	(0.00)
Plant & Equipment	O	(0.39)
Old Assets	P	(0.00)
Other Assets	Q	(0.00)
Total reclassification of other assets Sum (F: Q)	**R**	**(9.29)**
Depreciation computation errors observed in FAR	S	(32.47)
Impact of Terminal Building ratio (Net Block)	T	(14.55)
Sale Value wrongly calculated	U	(0.03)
Adjusted RAB as on March 31, 2023 (V = E + R + S + T+U)		**1,156.08**

Note: Depreciation determined as part of the Study is higher, due to some calculation errors noted in the FAR submitted by the AO, which is as follows:

- *Depreciation for FY 2019-20 had been calculated by including the number of days for FY 2018-19 as well.*
- *Depreciation had not been calculated on the value of balance assets (which is retained by the Airport), in cases where only a part of the assets has been sold out.*
- *Depreciation had not been calculated for many assets from FY 2020-21, although there had been no sale of the assets.*

18.2.6 Based on the above, the year-wise revision in the Gross Fixed Assets ratio has been summarized in the tables below:

Table 98: Summary of assets as submitted by AO up to March 31, 2023

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Aeronautical Gross block (closing) **(A)**	1,675.45	1,712.91	1,727.32	1,730.40	1,730.40
Cost of Acquisition of Land **(B)**	330.95	333.20	333.28	333.28	333.28
Non-aeronautical Gross block **(C)**	53.66	15.02	15.02	15.12	15.12
Total Gross block (D = A + B+ C)	**2,060.06**	**2,061.12**	**2,075.62**	**2,078.81**	**2,078.81**
*Non-Aeronautical Gross block ratio **(D = C / D %)***	*2.60%*	*0.73%*	*0.72%*	*0.73%*	*0.73%*
Aeronautical Accumulated Depreciation **(E)**	25.39	129.90	181.52	233.74	285.84
Non-aeronautical Accumulated Depreciation **(F)**	0.88	3.75	1.02	4.69	6.12
Aeronautical Net block (RAB) **(G = A + B – E)**	1,981.00	1,916.20	1,879.08	1,829.95	1,777.86
Non-aeronautical Net block **(H = C - F)**	52.78	48.44	11.76	10.44	9.01
Total Net block **(I = G + H)**	2,033.79	1,964.64	1,890.84	1,840.38	1,786.85
Non-aeronautical Net block as a % of Total Net block	***2.60%***	***2.47%***	***0.62%***	***0.57%***	***0.50%***

Table 99: Revised Gross and Net block of Assets up to March 31, 2023 as per the Study report

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Aeronautical Gross block (closing) = (A)	1,675.45	1,712.91	1,727.32	1,730.40	1,730.40
Less : FA related to Land Development Cost (B)	(72.99)	(72.99)	(72.99)	(72.99)	(72.99)
Less : Borrowing Cost (C)	(159.16)	(159.16)	(159.16)	(159.16)	(159.16)
Less: Aeronautical to Common / Non -aeronautical and Common (Terminal Building) to Common (Employee Head Count Ratio) (D)	(32.01)	(32.87)	(32.87)	(32.98)	(32.98)
Less : Aeronautical to Non-aeronautical (E)	(0.61)	(0.61)	(0.61)	(0.61)	(0.61)
Sales error rectification (F)	0.55	(0.03)	(0.03)	(0.41)	(0.41)
Revised Aeronautical Gross block as per study (G= A+B+C+D+E+F)	**1,411.23**	**1,447.25**	**1,461.66**	**1,464.25**	**1,464.25**
Revised Non-aeronautical Gross block (H)	80.30	79.67	79.68	79.93	79.93

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Revised Total Gross block (I= G+H)	**1,491.52**	**1,526.92**	**1,541.35**	**1,544.18**	**1,544.18**
Revised Non-Aeronautical ratio (J = H / I)	*5.38%*	*5.22%*	*5.17%*	*5.18%*	*5.18%*
Increase in Non-Aeronautical ratio	*2.78%*	*4.49%*	*4.45%*	*4.45%*	*4.45%*
Aeronautical Accumulated Depreciation (K)	22.53	93.20	164.63	236.29	308.17
Non-aeronautical Accumulated Depreciation (L)	1.50	6.18	10.84	15.52	20.22
Aeronautical Net block (RAB) (M= G-K)	1,388.70	1,354.05	1,297.03	1,227.96	1,156.08
Non-aeronautical Net block (N = H – L)	78.79	73.52	68.84	64.40	59.70
Total Net block (O= M+N)	1,467.49	1,427.57	1,365.88	1,292.36	1,215.78
Non-aeronautical Net block as a % of Total Net block (P=N/O)	5.37%	5.15%	5.04%	4.98%	4.91%

18.2.7 As seen from the above table, the net decrease due to the above adjustments in the Aeronautical RAB from FY 2018-19 to FY 2022-23 for KIA is ₹ ₹ 621.77 Crores .

18.3 Annexure 3 - Summary of study on efficient Operation and Maintenance expenses

Background

18.3.1 Establishing efficient Operation and Maintenance (O&M) expenses is an essential component in tariff determination for Aeronautical services. The allocation of O&M expenses as Aeronautical and Non-aeronautical expenses depends on the nature of expenses, the type of assets which they service, the business function which they are deployed for, the end-user that benefits or avails services from those expenses, and the reasonableness of the quantum of such expenses.

18.3.2 Towards this objective, AERA has decided to conduct an independent study on efficient Operation and Maintenance expenses, and their allocation as Aeronautical and Non-aeronautical components in respect of O&M expenses as per the MYTP the period from FY 2018-19 to FY 2021-22 and the Unaudited financial statements of KIA for the period April 1, 2022 to March 31, 2023.

Comparison of Aeronautical O&M expenses approved as per Tariff Order for the First Control Period vis-à-vis the actual expenses incurred by AO.

18.3.3 The Study compared the Aeronautical O&M expenses as per approved tariff order of First Control Period (FCP) with actual expenses incurred by Airport Operator (AO) and analyzed the reasons for deviation in such O&M expenses. The details of O&M expenses approved as per tariff order and the actuals incurred during the First Control Period, are shown in the table below:

Table 100: Aeronautical O&M expenses of KIA for First Control Period - Projections vs. Actuals

(in ₹ Crores)

Particulars	Projections (as per the Tariff Order) (A)	Actuals of KIA (B)	Variance (C = B - A)	Variance (%) (D = C / A)
Land lease rental	0.05	-	(0.05)	(100.00) %
Employee Cost	51.21	51.92	0.71	1.39%
Power, Fuel & Water	18.47	46.71	28.24	152.89%
Repair & Maintenance	77.74	76.31	(1.43)	(1.84) %
Administration	28.43	24.75	(3.68)	(12.93) %
Marketing Cost	10.75	-	(10.75)	(100.00) %
Security	28.43	2.09	(26.34)	(92.64) %
Stores & Spares	10.39	-	(10.39)	(100.00) %
Other Airport Operating Expenses	-	76.92	76.92	100.00%
CISF Induction fee	-	9.80	9.80	100.00%
Cargo related expenses	-	0.62	0.62	100.00%
ORAT	-	1.52	1.52	100.00%
Airport inauguration expenses	-	11.72	11.72	100.00%

Particulars	Projections (as per the Tariff Order) (A)	Actuals of KIA (B)	Variance (C = B - A)	Variance (%) (D = C / A)
Total Aeronautical O&M expense for the Second Control Period	**225.47**	**302.36**	**76.89**	**34.10%**

18.3.4 Analysis of actual expenses incurred by AO was carried out as part of the Study and it was observed that, the major reasons for the overall deviation of 34.10% in the Total Aeronautical O&M expenses for the First Control Period, were as follows:

i Employee expenses: Employee costs are higher as compared to its traffic growth and against global benchmarks.

ii Power Fuel & Water Expenses: It is observed that the Power, fuel & water expenses were higher than the amount approved in the Tariff Order, mainly due to actual electricity expenses being significantly higher than the amount approved in the Tariff Order of the First Control Period.

iii CNS-ATM service charges: CNS-ATM charges were disallowed as they are ANS expenses and its tariff is regulated by Ministry of Civil Aviation (MoCA).

iv CISF induction fee: CISF Induction fee is disallowed based on the factor that it forms part of PSF (security).

v Airport Inauguration expenses: Airport Inauguration Expenses were claimed on higher side as compared to other airports hence, it was reduced by 27% (approx.).

18.3.5 Based on the above analysis, it was determined that there was a need to rationalize and bring more efficiency by optimizing the O&M expenses at KIA. Accordingly, the Study proposed the following:

- Reclassification of the Employee Head Count Ratio based on revised employee numbers for the Airport Operator and reallocate the corresponding employee costs of the AO.
- Reallocation of Administrative expenses, Repair and Maintenance Expenses, Security Expenses and Other Airport Operating Expenses incurred by AO.
- Rationalization of Other Airport Operating expenses and Airport Inauguration expenses incurred by AO.
- Further, as there was no scope for rationalizing the power expenses, it was suggested that the Airport Operator should take steps to bring efficiencies in the overall power expenses over a period of time.

18.3.6 The Study has proposed the revised Aeronautical O&M expenses (after rationalisation and prior to reallocation) for the period FY 2018-19 to FY 2022-23 as summarised in the table below:

Table 101: Aeronautical O&M expenses due to rationalisation (prior to reallocation) for KIA for the period from FY 2018-19 to FY 2022-23 as per Study

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Land lease rental						
Employee costs	7.32	11.03	10.95	10.35	10.05	49.70
Power, Fuel & Water	3.58	7.37	3.85	4.45	6.09	25.34

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Repair & Maintenance	5.83	13.13	13.89	15.94	18.34	67.13
Administration expenses	7.29	3.42	3.69	4.04	5.09	23.53
Marketing Cost	-	-	-	-	-	-
Security	-	0.44	0.43	0.47	0.75	2.09
Stores & Spares	-	-	-	-	-	-
Other Airport Operating Expenses	2.39	8.84	9.44	11.23	13.02	44.92
CISF Induction fee	-	-	-	-	-	-
Cargo related expenses	-	-	-	0.21	0.41	0.62
ORAT	1.52	-	-	-	-	1.52
Airport inauguration expenses	5.86					5.86
Total Aero O&M expenses considered by the Study	**33.79**	**44.23**	**42.25**	**46.69**	**53.75**	**220.71**

18.3.7 It is observed that certain Aeronautical expenses such as Employee cost, Power, fuel & water, Repairs & Maintenance (excluding housekeeping charges), Custom Cost Recovery (included in Other Airport Operating Expenses) Airport inauguration expenses have already been rationalised, the same will not be considered for further analysis relating to reclassification and ratio reallocation.

Principles for segregation of costs

18.3.8 This Study segregates the O&M expenses of KIA into the following:

- **Aeronautical expenses:** Expenses which are incurred for operation and maintenance of Aeronautical assets have been categorised as Aeronautical expenses.
- **Non-aeronautical expenses:** Expenses which are incurred for operation and maintenance of Non-aeronautical assets have been categorized as Non-aeronautical expenses.
- **Common expenses:** Expenses for which the benefits or use cannot be exclusively linked to either Aeronautical or Non-aeronautical activities have been segregated as Common expenses. Expenses primarily incurred for the provision of Aeronautical services but are also used for provision of Non-aeronautical services are segregated as Common Expenses. Expenses which are used for general corporate purposes including legal, administration, and management affairs are treated as Common Expenses.

18.3.9 The Allocation ratios of the various O&M expenses as per AO's submission is as below:

Table 102: Allocation ratio for Common O&M expenses as per AO's submission

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Employee Head Count ratio (Aeronautical: Non-aeronautical)	98.4: 1.6	96.6:3.4	95:5	94.8: 5.2	93.3:6.7
Terminal Building ratio (Aeronautical: Non-aeronautical)	94.5: 5.5	94.5: 5.5	94.5: 5.5	94.5: 5.5	94.5: 5.5

Details of adjustment to O&M expenses

18.3.10 The study on the basis of the expense classification and principles of segregation adopted, as can be seen in the above paragraphs, has considered reallocation of Operation and Maintenance expenses to determine Aeronautical O&M costs. The study has proposed the following ratios:

Table 103: Revised Allocation ratio for O&M expenses as per the study

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Employee Head Count ratio (Aeronautical: Non-aeronautical)	98.28%	96.40%	94.69%	94.44%	93.00%
Gross Fixed Assets ratio (Aeronautical: Non-aeronautical)	96.21:3.79	96.35:3.65	96.39:3.61	96.38:3.62	96.38:3.62
Terminal Building ratio (Aeronautical: Non-aeronautical)	92: 8	92: 8	92: 8	92: 8	92: 8

Rationalisation of O&M expenses

18.3.11 Based on the Internal and External Benchmarking analysis, it was observed that the Operation and Maintenance expenses for KIA, Kannur for the period from FY 2018-19 to FY 2022-23 are comparatively reasonable as mentioned below:

The O&M expenses of KIA namely, Employee Cost, Administration & General expenses, Utility & Operating expenses and Repairs & Maintenance expenses have grown at a lower CAGR than that of PAX and ATM traffic during the period.

18.3.12 The Study has not considered certain expenses such as ORAT and Airport Inauguration expenses for the Internal Benchmarking analysis as these expenses are incurred only in FY 2018-19 towards commencement of airport operations and not recurring in nature. Further, the Study has not included CNS-ATM charges, CISF induction fee and CSR expenses since the same have not been allowed as already explained.

Efficient Aeronautical O&M expenses

18.3.13 Based on the above, the efficient Aeronautical Operating and Maintenance expenses for the Airport Operator are given in the tables as follows:

Table 104: Efficient Aeronautical O&M expenses for KIA for the period from FY 2018-19 to FY 2022-23 after rationalisation and reallocation as per Study

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23*	Total
Employee costs	7.32	11.03	10.95	10.35	10.05	**49.70**
Power, Fuel & Water	3.58	7.37	3.85	4.45	6.09	**25.34**
Repair & Maintenance	5.75	12.89	13.67	15.70	18.08	**66.09**
Administration expenses	7.02	3.36	3.67	4.01	5.08	**23.15**
Security	-	0.43	0.43	0.47	0.71	**2.04**
Other Airport Operating Expenses	2.39	8.84	9.44	11.23	13.02	**44.91**

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23*	Total
Cargo related expenses	-	-	-	0.21	0.41	**0.62**
ORAT	1.52	-	-	-	-	**1.52**
Airport inauguration expenses	5.86	-	-	-	-	**5.86**
Total Aero O&M expenses considered by the Study (B)	**33.44**	**43.92**	**42.02**	**46.43**	**53.45**	**219.26**

* *Unaudited fig. of FY 2022-23*

18.3.14 AO has claimed Aeronautical O&M expenses of ₹ 302.36 Crores for the First Control period i.e., from FY 2018-19 to FY 2022-23 as part of their True up submission.

18.3.15 The Study proposes ₹ 219.26 Crores as the Aeronautical O&M expenses for KIA for the period from FY 2018-19 to FY 2022-23, thus, resulting in a downward adjustment of ₹ 83.10 Crores in the Aeronautical O&M expenses. The Aeronautical O&M expenses for the period from FY 2018-19 to FY 2022-23 is reduced by 27.5%.

18.3.16 The Study has taken cognisance of the fact that the actual passenger throughput vis-à-vis the designed capacity (9.34 MPPA) of the Airport does not complement each other. Therefore, the Airport operator should keep in mind the current utilization while planning the expenses because the Operating expenses are indirectly proportionate to the Airport's capacity. Therefore, the situation of over-capacity will lead to higher operating expenses and eventually burden the Airport users.

19 APPENDICES

Appendix I - Study on Allocation of assets between Aeronautical and Non-Aeronautical Assets

Appendix II - Study on efficient Operation and Maintenance Costs