[F.No.AERA/20010/AAI-UDF-AMD/2009-10]

Airports Economic Regulatory Authority Of India

Order No.02/2010-11

Rajiv Gandhi Bhawan
New Delhi -110 003
Date of Order: 17th May, 2010
Date of Issue: 18th May,2010

In the matter of Proposal of AAI to levy User Development Fee (UDF) at Sardar Vallabhbhai Patel International Airport, Ahmedabad

The Airports Authority of India (AAI), is a body constituted under the Airports Authority of India Act, 1994. AAI manages 128 airports including Civil Enclaves. AAI also provides air navigation services over the Indian airspace covering an area of 2.8 million square nautical miles of land mass and the adjoining oceanic area.

2. Sardar Vallabh Bhai Patel International Airport at Ahmedabad, is one of the airports owned and managed by the AAI. The actual annual passenger throughput at this airport during 2008-09 was 28,25,939, which is in excess of 1.5 million passengers per annum (mppa). Hence, SVP International Airport is a 'major airport' as defined in clause (i) of Section 2 of the Airports Economic Regulatory Authority of India Act, 2008 ('the Act'). This position has also been stated in the Circular (F.No.AV-24032/03/2009-AAI) dated 12.03.2010 issued by the Ministry of Civil Aviation. As per 2008-09 traffic statistics, the domestic passengers comprised 75.78% of the total passenger throughput. Further, in terms of Sec 13 (1) (b) of the Act, the Authority shall, inter alia, determine the amount of development fees in respect of major airports. Furthermore, Rule 89 of the Aircraft Rules, 1937, provides that the licensee (of an aerodrome) may levy and collect at a major airport the User Development Fee at such rates as may be determined under clause (b) of sub-section (1) of Section 13 of the Act.

3.1 AAI has made an application, on 24.12.2009, to the Authority seeking levy of User Development Fee (UDF), in view of the construction of the New International Terminal Building (NITB), at Ahmedabad Airport. It has been stated that the existing domestic and international terminal buildings have already saturated. With the commissioning of the NITB at Ahmedabad, the peak hour handling capacity would increase from 500 (Arrival 250 & Departure 250) to 1400 (Arrival 600 & Departure 800). The project was approved by the Central Government, at an estimated cost of Rs.290.92 (Phase I Rs.195.92, Phase II Rs.95 crores), vide letter AV.20036/017/2002-AAI dated 09.01.2007. AAI have stated that the likely completion cost of the project is now estimated at Rs.296.37 crores. It, inter alia, includes the cost of aerobridges, travellator, apron, taxi link, car park and approach road, inter connectivity between the international and domestic terminals etc. AAI had planned that the NITB being constructed under Phase I would be further expanded under Phase II in 2013-14 to meet future traffic growth. However, considering the rapid growth in passenger traffic, the project work under Phase II has been taken up simultaneously with work under Phase I. The NITB will now have an area of 41000 sqmts (Phase I – 27331 sqmts and Phase II – 13669 sqmts) which is an increase of 33616 sqmts as compared to existing international terminal building. Further, the IRR of the project at the time of approval was 6.2% post tax. Final submissions in respect of the proposal containing requisite details and clarifications were made vide AAI's letters no. AAI/CHQ/REV/AERA/09 dated 12.04.2010 and no. AAI/CHQ/REV/AERA/UDF/2010 dated 19.04.2010.

3.2 AAI has submitted that the NITB is likely to be commissioned during the month of May,2010 and in order to make the project viable and to attain a reasonable rate of return the levy of UDF is imperative. AAI has proposed to levy and collect UDF @ Rs.270/-per embarking domestic passenger and @ Rs. 1000/- per embarking international passenger for a period of 10 years. Alternately, a UDF levy @ Rs.150/- per embarking domestic passenger and @ Rs. 755/- per embarking international passenger for a 15 year period has been proposed.

3.3 It has been clarified that the existing international and domestic terminal buildings are of 7384 sq. mtrs. and 29422 sq. mtrs. area respectively, i.e., the total terminal floor area works out to 36806 sq. mtrs. After the commissioning of NITB admeasuring 41000 sq. mtrs., the total terminal floor area would become 77806 sq. mtrs., which represents an increase of 111% over the existing terminal area.

4.1 The Authority is, presently, in the process of finalizing its regulatory philosophy and approach in economic regulation of airports and air navigation services. In this connection, a Consultation paper (No.03/2009-10) has been issued on 26.02.2010 wherein the Authority has set out its tentative positions on various issues before it, including in respect of levy of UDF.

4.2 Rule 89 of the Aircraft Rules, 1937 reads as under:
User Development Fee — The licensee may

(a) Levy and collect at a major airport the User Development Fees at such rate as may be determined under clause (b) of sub-section (1) of section 13 of the Airports Economic Regulatory Authority of India Act, 2008;

(b) levy and collect at any other airport the User Development Fees at such rate as the Central Government may specify.

However, no methodology has been prescribed in the Aircraft Rules for determining the UDF. The Concession Agreements for Bangalore International Airport Ltd (BIAL) and Hyderabad International Airport Ltd (HIAL) provide for levy of UDF "from embarking domestic and international passengers, for the provision of passenger amenities, services and facilities" and for the UDF to be "used for the development, management, maintenance, operation and expansion of the facilities at the Airport". The draft guidelines issued by the Ministry of Civil Aviation noted that levy of UDF was to be considered only in cases and years where the target revenue of a major airport was projected to fall short of the admissible expenditure. Hon'ble High Court of Kerala, in its judgement in the case of ***Commissioner of Central Excise Vs. Cochin International Airport Ltd. [2009 (16) S.T.R. 401 (Ker.)]***, has noted that the purpose of UDF "is to augment revenue". Thus, UDF may be taken as a revenue enhancing measure to ensure economic viability of the airport operations.

5. It is noted that:

(a) The project has an IRR of 6.2%, which is below the benchmark rate of 12% for the public projects.

(b) The project, including the project cost estimate, has been approved by the Central Government after due consideration.

(c) The NITB is expected to be commissioned by May'2010. Therefore, a decision regarding levy of UDF needs to be taken immediately.

(d) The Authority has not yet taken a final position in respect of economic regulation of airports. Therefore, the tariff determination in respect of the Ahmedabad International Airport would take time. In the interim, the revenue enhancement through UDF could be considered, on an ad-hoc basis, as proposed by AAI. In case this is not considered, the target revenue and the loss to be recouped would be higher at the time of tariff determination.

6.1 In the light of the position noted in para 5 above, the submissions made by AAI along with the workings have been examined by the Authority.

6.2 **Return** - AAI have calculated the UDF rate such that the Net Present Value (NPV) of the profit after tax from aeronautical revenues equals the NPV of the expected post tax return on the capital employed. The Targeted Revenue (TR) has been computed as: TR= (EA+NA) * 12%
EA= Value of the existing assets at Ahmedabad Airport
NA= Value of the New Asset
UDF = TR- Projected Revenue.
This appears to be reasonable

6.3 **Regulatory Asset Base (RAB)** - For the purpose of arriving at the RAB, the book value of the assets at Ahmedabad Airport as on 31.03.2009 (Rs.130.02 crores) and value of the NITB (Rs.296.37 crores), totaling to Rs. 426.39 crores has been considered.

6.4 **Traffic Projections** – Following traffic projections have been made in respect of passenger traffic and aircraft movements:

Passenger	Domestic	10% in 2010-11 to 2016-17 & 12% thereafter
	International	10% in 2010-11 to 2011-12, 12% in 2012-13 to 2016-17 and 14% thereafter
Aircraft	5.5% in 2010-11 8.4% in 2011-12 to 2016-17 10.4 % thereafter	

It is noted that the passenger traffic projections are, broadly, in line with the past national trends viz. domestic traffic grew at a CAGR of 13% over the last 8 years; international traffic @ 13.9 % over the last 8 years. However, the aircraft movement projections are significantly different from the past trend of growth @ 16.5 % over the 8 year period from 2001-02 to 2008-09. Upon a specific query from the Authority, AAI have confirmed that the traffic forecast for Ahmedabad airport has been made based on econometric analysis, regression analysis and trend analysis. Main reasons for difference in projected growth rate in passenger traffic vis-à-vis the aircraft movements have been stated to be as under:

(i) Historically the growth in aircraft movement has always been lesser than the growth in passenger movements.

(ii) During the period from April 2009 to January, 2010 all India growth in passenger movement is around 12.9% whereas the growth in aircraft movement is only 1.1%.

(iii) Because of increasing level of the traffic, the average size of the aircraft will increase whereby more passengers will be accommodated in lesser number of aircrafts.

(iv) At Ahmedabad airport, 75% of the traffic is domestic. Because of the economic slowdown, the capacity utilization of domestic aircrafts in the last year was low and therefore, the increase in the passenger traffic is accommodated partly by increase in the load factor of the existing fleet.

Since the present determination is proposed to be made on an ad-hoc basis, the projections made by AAI are being accepted for the time being subject to review at the final determination stage.

6.5 **Revenue -**

6.5.1 **Aeronautical Revenue -** The growth rate of aeronautical revenues (landing, housing & parking) and Passenger Service Fee (PSF) are in line with their traffic projections for aircraft and passenger growth. However, no increase in rates of these charges has been contemplated. AAI have not considered any revenue from the Security Component of PSF and have correspondingly excluded the security expenses of the airport from the purview of UDF determination.

6.5.2 No revenues from Route Navigation Facility Charge (RNFC) and Terminal Navigation Landing Charge (TNLC), for incoming flights at Ahmedabad, have been considered and the corresponding expenses attributed to RNFC & TNLC have also been excluded.

6.6 Non-Aeronautical Revenue -

6.6.1 Based on the increase in the terminal floor space due to the addition of the NITB, AAI has projected its non-aero revenue from trading concessions, rent and services to be up by nearly 80% in the first year of commissioning, i.e., 2010-11. Thereafter, taking in to account the built-in escalation clauses in its commercial agreements, taking a long term view, 10% growth rate has been considered. For non-aeronautical revenues like car parking, admission tickets, porterage, ground handling etc., AAI has assumed a 10% increase over the previous year's income while for Cargo revenue the growth rate assumed is 5%. Growth in Throughput Charges has been maintained at the same level as that of aircraft movements growth (i.e., 5.5% in 2010-11, 8.4% in 2011-12 to 2016.17 and 10.4% thereafter. Authority will go deeper into these projections at the time of final tariff determination and based upon its final position in this regard.

6.6.2 AAI has not considered any revenue from City Side development at Ahmedabad Airport. It has been stated that "*Ahmedabad airport is among the first lot of 10 airports where city side development has been planned, however no concrete plan has been firmed up and no time frame is available for accrual of revenue on this account. Hence no revenue from it has been considered in the calculations.*"

6.7 Expenditure -

6.7.1 **Pay and Allowances** – An increase of 25% in pay & allowances has been assumed in 2010-2011, @ 8% p.a from FY 2011-2012 to FY 2019-2020, excepting in FY 2017-2018 where the increase is assumed @ 30%. It has been stated that the effect of increments, increase in DA and promotions works out to approximately 8% and increase in staff expenses on commission of new terminal building by 25% takes care of the regular increase as also deployment of manpower commensurate with size and operation of the NITB. The 30% increase in FY 2017-2018 is estimated due to likely revision of pay scales w.e.f. 2017. It is reasonable to assume that the manpower requirement for managing the much bigger NITB would be on a higher side. The quantum of one time increase would require detailed examination at the tariff determination stage. However, the same is being accepted for the time being as AAI have projected an increase of 25% only when the total terminal area has increased by 111%. Other assumptions also appear to be, prima-facie, reasonable.

6.7.2 **Repairs and Maintenance (R&M)** - A 75% increase in R&M expenses in the year of commissioning (over the previous year's actuals) has been assumed and thereafter at a regular growth rate of 10% pa. AAI have assumed a higher initial expenditure due to increase in terminal building area by 33616 sqmts involving larger area for upkeep, more civil & electrical repairs and inclusion of new equipments & systems under R&M. The projected increase, therefore, appears to be, prima-facie, reasonable subject to detailed examination at the tariff determination stage.

6.7.3 **Electricity & Water Charges** - AAI have assumed an increase of 70% in the electricity and Water charges (based on actuals of previous year) in the year of commissioning and thereafter an increase at a flat growth rate of 10% pa. The higher initial expenditure estimated by AAI is due to increase in terminal building area and consequently the increase in air-conditioning expenses, lighting and electrical & electronic equipments. The projected increase, therefore, appears to be, prima-facie, reasonable subject to detailed examination at the tariff determination stage.

6.7.4 **Interest on Borrowings** – AAI have assumed an interest rate of 9% on a loan of Rs.55 crores (in 2009-10) and Rs.10 crores (in 2010-11) with 25% repayment from the financial year 2013-14 onwards. However, the same is only based on the action plan of AAI and the actual amount of loan and the interest rate may vary. In view of this uncertainty, the cost of debt cannot be determined. Hence, the same is not being provisioned for the present.

6.7.5 **Other miscellaneous expenditure** - AAI have not given any break-up of the miscellaneous expenditure. They have assumed an increase of 25% in the miscellaneous expenditure in the year of commissioning (over the previous year's actuals) and thereafter at a regular growth rate of 10% pa. Considering the large increase in the size of the NITB, these assumptions appear to be, prima-facie, acceptable subject to detailed examination at the tariff determination stage.

6.7.6 **Apportionment of Corporate Head Quarters (CHQ)/Regional Head Quarters (RHQ) Expenses** - AAI have assumed a uniform growth rate of 7.5% pa except in 2017-18 where a rate of 12% is considered. The expenses of CHQ & RHQ have been apportioned over the airports based on the number of employees, which is as per the existing accounting policy of AAI.

6.7.7 **Depreciation** – The depreciation rate applied is as per AAI's approved accounting policy considering the useful life of the assets. However, in the instant proposal, AAI has considered depreciation on straight line method at weighted average rate of 10% on the entire RAB (, i.e., existing + new assets) and has claimed depreciation from 2009-10 on the new assets in their calculations. In the Consultation Paper (No.03/2009-10) the Authority has stated that it will adopt a capitalised financing approach, which will ensure that users do not have to pay for assets until they have been commissioned and are in use. Hence, the UDF has been reworked to capture depreciation from FY 2010-11 onwards for the new asset, i.e., the NITB.

6.8 **Weighted Average Cost of Capital (WACC)** - AAI have assumed a post-tax nominal WACC of 12% which is the bench mark rate for public projects. Authority at this stage refrains from commenting on this benchmark rate since this exercise is for ad-hoc determination of UDF. Tentative position of the Authority in regard to fair rate of return and determination of WACC is put forth in the Consultation Paper dated 26.02.2010 referred to above.

6.9 **Till** – AAI have assumed hybrid till with 30% non aeronautical revenue being considered for the UDF determination. However, the Authority, in its Consultation Paper (No.03/2009-10, issued on 26.02.2010), has tentatively decided to adopt "Single Till" approach. Thus, the "Single Till" approach is being adopted in the present case.

6.10 **Corporate Tax** – AAI have considered corporate tax rate @ 33.99%, i.e., standard rate.

6.11 **Discount rate** – AAI have adopted a discount @ 12% to determine the NPV of Target Revenue. Considering that the WACC is being taken @ 12%, the Authority has, for the present, taken the discount at the same rate as the WACC rate.

6.12 **Service Tax** – AAI have considered the levy of Service Tax on the UDF and have proposed the rates inclusive of Service Tax. Authority is conscious of the fact that in the case of ***Commissioner of Central Excise Vs. Cochin International Airport Ltd. (Supra)***, the Honble High Court of Kerala has held that Service Tax is not leviable on UDF. However, this is an issue to be decided by the relevant tax authorities based upon the laws of the land. Therefore, UDF rates have been worked out exclusive of Service Tax. In case the same is held to be leviable, the incidence of such tax would be a pass through.

6.13 AAI have stated that the new international terminal is nearing completion and is expected to be commissioned during the month of May, 2010. They have submitted that the new terminal was envisaged to be used as International terminal building. However, it is now proposed to be used as Domestic Terminal and the existing Domestic Terminal would be used as International Terminal. The usage of existing International Terminal after commissioning of new terminal building has not yet been firmed up.

6.14 To Summarise:

(i) AAI's projections in respect of traffic (passenger & Aircraft movements), aeronautical revenue, expenditure (except interest on borrowings) are proposed to be accepted, for the present, subject to detailed examination at the final determination stage.

(ii) The cost of borrowings is not being considered for the time being for reasons explained in para 6.7.4 above.

(iii) AAI has assumed a WACC of 12%, which is the same as benchmark rate for public projects. Discount rate is proposed at the same rate as the WACC.

(iv) Single Till has been adopted as against the 30% hybrid till proposed by AAI.

(v) Corporate tax is considered at the standard rate. Further, UDF rates are calculated net of Service Tax, if any.

7.1 Keeping in view the position explained above, the proposal was reworked for a 10 year period and 15 year period, respectively, as under:

UDF per embarking Passenger	Domestic	International
Net for 10 year period (Rs)	Rs 111/- (say Rs.110/-)	Rs 411/- (say Rs.415/-)
Net for 15 year period (Rs)	Rs40/-	Rs199/-

7.2.1 It is observed that in terms of Section 13 (2) of the Act, the tariff determination is to be made on a quinquennial basis. Therefore, a view needs to be taken whether UDF determination could be made for a 10 year or 15 year period.

7.2.2 In a similar proposal relating to levy of UDF at the Trivandrum International Airport, the Authority had observed that:

(a) UDF is considered a measure of revenue enhancement. From this perspective, the UDF may be determined for a five year time, recognizing the fact that in the second tariff cycle, UDF will need to be reworked based on the experience of first regulatory cycle and future projections/forecasts for the subsequent ones.

(b) Balancing the interest of passengers (i.e., keeping the charges as low as possible) and the viability of the project, the UDF rates could be considered on the basis of figures for 10 years period.

8. The Authority in its 9th meeting held on 23.04.2010 tentatively approved the levy of UDF at the SVP International Airport, Ahmedabad @ Rs. 110/- per embarking domestic passenger and @ Rs. 415/- per embarking international passenger (exclusive of statutory levies, if any) purely on ad-hoc basis, with effect from the date of commissioning of the New Terminal Building, based on the figures for a period of 10 years. This ad-hoc determination would be reviewed at the stage of tariff determination for the first cycle and thereafter at such intervals as the Authority may decide.

9. In line with the above, the Authority issued a Consultation Paper (No.03/2010-11) on 27.04.2010, soliciting feedback, comments and suggestions from stakeholders on the proposal contained in para 8 above latest by 11th May'2010.

10.1 A stakeholder consultation meeting was also held on 03.05.2010 at the Sardar Vallabhai Patel International Airport, Ahmedabad to elicit the views of the stakeholders on the proposed decision in respect of levy of UDF at Ahmedabad International Airport after commissioning of the New International Terminal Building. The meeting was attended by representatives from the following organisations:

(i) Government of Gujarat

(ii) Airports Authority of India

(iii) NACIL

(iv) Jet Airways

(v) Kingfisher Airlines

(vi) InterGlobe Aviation Limited (Indigo)

(vii) Go Air

(viii) Blue Dart Aviation Ltd

(ix) Spice Jet

Minutes of the meeting were circulated vide letter No.AERA/20010/AAI-UDF-AMD/ 2009-10 dated 07.05.2010.

10.2 Comments / feedback have been received from the following stakeholders, on the Consultation Paper (No.03 /2010-11), which were forwarded to AAI for their comments/ clarifications:

(i) NACIL

(ii) IATA

(iii) Federation of India Airlines (FIA)

(iv) VOICE

10.3 AAI vide its letter no AAI/CHQ/REVAERA/UDF/2010/183 dated 13.05.2010 and 14.5.2010 submitted clarifications/comments on the comments made by the stakeholders. The comments received from the stakeholders and the views of the AAI thereupon are summarized at ***Annexure-I***.

10.4 Further, the Ministry of Civil Aviation vide its letter No.21/15/2010-F.I dated 13th May'2010 have stated that "*.....the proposal of AERA regarding levy of UDF on adhoc basis for Ahmedabad Airport owned by the AAI at the rate of Rs.415/- per embarking international passenger and Rs.110/- per embarking domestic passenger with effect from the date of commissioning of the New Terminal Building for a period of 10 years to be reviewed at the stage of tariff determination for the first cycle has been examined and we are in agreement with the proposal*".

11. The comments received and the clarifications of AAI thereupon have been examined. The Authority is of the opinion that the clarifications furnished by AAI broadly address the issues raised. The Authority's views in respect of the major issues are as under:

(i) Airport is an ongoing business. Therefore, both old and new assets have to form part of RAB and UDF calculated accordingly.

(ii) Aeronautical Services have been defined in Section 2(a) of the Act.

As stated in the Consultation Paper No. 3/2009-10, the Authority has divided these services into five distinct categories, inter-alia, treating air navigation services separately from other airport services. Therefore, the exclusion of air navigation services (i.e., their costs, assets and revenues) from the UDF calculation is in accordance with the position so taken by the Authority.

(iii) As stated in Part II, Section 11 of the Consultation Paper No. 3/2009-10, the Authority is minded to consider determination of PSF so as to entirely cover mandated security related costs only on a pass through basis. Exclusion of security related expenditure and PSF revenue from UDF calculations is in accordance with the above position.

(iv) It is true that the useful life of the assets, if not all atleast of fixed structures etc., would be in excess of a period of 10 years which has been used for UDF determination. Therefore, there is some merit in the argument that the UDF levy may be determined with reference to a longer period. However, the long term debt market in our country has not matured. In fact, normally, even for an infrastructure projects, debt is available for a much shorter period. Thus, UDF rates are proposed on the basis of figures for 10 years period keeping in view the viability of the project in the above background.

(v) The UDF rate has been so determined so as to enhance the revenue to a level where AAI is able to obtain a return of 12% on the RAB. The details in respect of the proposed levy are at ***Annexure-II***, which have been reverified.

(vi) AAI had constructed and operationalized a new domestic terminal at Ahmedabad airport in 2005 (departure area) and 2008 (arrival area). After the NITB is commissioned, this new facility operationalized recently would be used by the international passengers. Thus, both domestic and international passengers would be using new terminal facilities. As such, the position is different from Trivandrum International Airport where pursuant to commissioning of NITB, the domestic passengers would continue to use old facilities (though increased in size).

(vii) Some of the stakeholders have also commented upon the acceptability of projections regarding traffic, revenue, staff costs etc. As stated earlier these projections are being accepted on prima-facie basis subject to detailed examination at the final determination stage.

12. Having perused the records and upon due consideration of all facts, circumstances and submissions made by the stakeholders, the Authority passes the following Order.

ORDER:

13. In exercise of powers conferred by Section 13(1)(b) of the Act read with rule 89 of the Aircraft Rules, 1937, the rate of User Development Fee (UDF) to be levied at the Sardar Vallabhbhai Patel International Airport, Ahmedabad is determined as Rs. 110/- (Rupees One Hundred and Ten only) per embarking domestic passenger and Rs.415/- (Rupees Four Hundred and Fifteen Only) per embarking international passenger (exclusive of statutory levies, if any), purely on an ad-hoc basis, with effect from the date of commissioning of New International Terminal Building, based on the figures for a period of ten years. This ad-hoc determination would be reviewed at the stage of tariff determination for the first cycle and thereafter at such intervals as the Authority may determine, from time to time.

By the Order of and in the Name of the Authority

(Sandeep Prakash)
Secretary

Airports Authority of India,
Rajiv Gandhi Bhawan,
New Delhi – 110003.
(Through : Shri V.P. Agrawal, Chairman)

ANNEXURE- I

PROPOSAL OF AAI TO LEVY UDF AT SARDAR VALLABHBHAI PATEL INTERNATIONAL AIRPORT, AHMEDABAD – CLARIFICATIONS GIVEN BY AAI AGAINST THE COMMENTS RECEIVED FROM VARIOUS STAKEHOLDERS IN RESPONSE TO CONSULTATION PAPER NO.3/2010-11 DATED 27.04.2010.

Sl. No.	Name of the Stakeholder and their Comments	Clarifications furnished by AAI
1.	**NACIL**	
	1. TNL & RNF Charges - No revenue from TNLC and RNFC have been considered. The revenue from City Side Development have also not been considered. This is against the Single Till approach decided by AERA in their consultation paper.	1. RNFC and TNLC form part of separate nationwide nationwide service (Air Navigation Service), the charges for which would be regulated separately by AERA. Hence the RNFC & TNLC have not been considered in the calculations for UDF and corresponding expenses towards these services have also been excluded. This has also been disclosed in the proposal.
	2. **RAB**: - In the RAB, the book value of the existing assets of Rs.130.02 crores should not be considered as these are not part of the current project.	2. The proposal has been worked out on going concern basis taking Airport as a whole. It is imperative that Capital cost recovery for an airport as a going concern to take into account book value of existing capital assets and incremental investments for new assets being created for users over a period of time. Both old and new assets will be concurrently used at the airport, hence Revenue and expenses of both old & new assets have been considered assuming the entire airport as one entity
	3. **Traffic Projections**: - Growth rate of 15% per annum should also be taken for international passengers.	3. The traffic projections adopted in the proposal are as per study conducted by the Corporate Planning Department of AAI, which is based on econometric analysis, regression analysis and trend analysis etc
	4.City Side Development:- has not been considered	4. The reasons for not considering revenue from city side development have already been disclosed.
	5. **Repairs & Maintenance:** - 75% increase in repair and	5. It has been brought out in the assumptions that though the

	maintenance expenses is on higher side particularly as the project has all new material and equipment.	area of terminal building has increased by 111%, the increase in R&M expenditure assumed is only 75% which is considered reasonable.
	6. The UDF collections as per the calculated sheets show that AAI would end up having a higher Target Revenue as compared to the expenditure.	6. The UDF has been so arrived at as to make up for the target deficit over a period of 10 years considering the NPV of both target deficit as well as revenue from UDF.
	7. **Collection charges of UDF: -** The rate of Rs.5/- per departing passenger is too low for the airlines to recover the cost of manpower, establishment, services etc. is spent on such collection.	7. The present collection charges @ Rs. 5/- per passenger is considered adequate since, the airlines are not going to invest in any additional manpower and new system for UDF collection. Further, they also get to utilize the amount collected till payment is made (within the credit period).
	8. Provision of an integrated Terminal goes a long way in facilitating passenger comfort and this is also in line with the international trend to have a common terminal for both domestic and international travel.	8. Though the terminal buildings are separate, the available space stands enhanced from 36806 Sqm to 77806 Sqm which is adequate to give sufficient comfort to both international and domestic passengers.
	9. Need to create service quality audit with defined parameters and perfiormance audit so that the performance can be properly monitored.	9. AAI has no objection to service quality audit & performance audit.
	10. The proposed UDF is very high and since the global aviation services particularly the Indian aviation, is passing through severe financial recession, the levy of UDF would lead to further deterioration in regard to the viability of the Airlines indirectly by impacting passenger traffic and we, therefore, request that UDF should not be levied at government controlled and owned airports.	10. As regard to slowdown in Indian Aviation, AAI has also suffered revenue losses due to recent slow down in Civil Aviation Sector. AAI is experiencing finances constraints because of slow down, however AAI has undertaken major investments in various projects for better passenger facilitation. It is pertinent to mention that AAI has for the first time borrowed money from the market for part financing of major projects, including the terminal building project at Ahmedabad.
2.	<u>**Federation of Indian Airlines (FIA)**</u> The FIA, on behalf of its member airlines have requested the Authority to make a copy of all material and evidence produced by	 AAI submitted its proposal for levy of UDF at Ahmedabad Airport duly disclosing relevant facts regarding Revenue &

	AAI to justify levy of UDF (including the rate of UDF and duration of the levy) available to them; Grant them adequate time to examine the said documents/material and an opportunity to comment upon and object to the same, including filing of further submissions; and conduct a hearing before deciding as to whether UDF ought to be levied upon and recovered from the domestic and international passengers for usage of the Sardar Vallabh Bhai Patel International Airport, Ahmedabad; rate of UDF to be so levied; economic principles for determining the UDF to be so imposed, to ensure that the passenger are not put to underserved financial burden and that AAI does not recover higher than justifiable amount of subsidy through UDF; duration for the levy including principles and basis for audit and review of the levy.	Expenditure done, Capital Cost justifications for the growth rates adopted in respect of Income & expenditure in the subsequent years. After careful examination and convincing, AERA conducted Stakeholder's meeting at Ahmedabad and gave opportunity for all the stakeholders to put forth their views. The details of the entire proposal were also uploaded to the net in a very transparent manner. Since due process has been followed by giving sufficient time and in a transparent manner the proposal may be implemented as decided.
3.	**Voluntary Organization in Interest of Consumer Education (VOICE)** VOICE have generally opposed any proposal for levying of UDF since it would be anti-consumers and anti-competitive step. They have opined that all kind of costs should have been included in the total project cost or borne by the building agency. They have requested the Authority to consider the matter with a view to protect the consumers' interest as levy of ad hoc charges wuld be against the interest of travelling consumers	The levy is being proposed on the principles of user pays. Further any organization need to generate adequate surplus to meet all its commitments on running & maintaining the facility, apart from further capital investments for the comfort of travelling public. Hence levy of UDF is justified.
4.	**IATA** 1. IATA supports the use of User Development Fee (UDF) as a means to recover capital investment in facilities used by passengers. In alignment with its stance of 'user pays', IATA believes that the entire spectrum of aeronautical charges should be re-balanced to provide for an appropriate weightage of direct passenger charges (such as UDF) that better reflects the usage of facilities by passengers. 2. With the important objective in mind of keeping UDF as low as possible in order to minimize any negative impact on passenger demand, the period of collection of UDF should be stretched as long as possible. As such, IATA favours computation of UDF based on collection over 15 year (or longer) rather than 10 years.	1. The instant proposal for levy of UDF is in conformity with IATA's policy of 'User pays'. 2. UDF is proposed to recover the short fall within the reasonable period. Further, there is a review mechanism. Part of the funding of Project has been done through borrowing which has to be repaid as soon as possible to reduce the interest liability. Hence, the levy for a period of 10 years is reasonable.

	3. The traffic projections used by AAI are too low compared to past growth rates. With a new passenger terminal building in place, it is reasonable to expect future traffic growth to exceed CAGR of the past eight years.	3. The Traffic Projections adopted are as per study conducted by Corporate Planning Department of AAI which was done employing statistical tools & econometric modeling. It is considered to be very realistic.
	4. The difference in UDF between domestic departing passengers and international departing passengers has not been properly explained.	4. As regard to spreading of UDF equally between Domestic & International passengers, the levy of UDF is to take into account the local economic conditions, sentiments and the paying capacity of the public.
	5. In AAI's submission (Paragraph 5 – period of Construction), it is mentioned that "Though the new terminal was envisaged to be used as International terminal building. However, it is now proposed to be used as Domestic Terminal and the existing domestic terminal would be used as International Terminal". In AERA's order on UDF at Trivandrum International Airport, the Authority had allowed UDF to be applied only to international departing passengers on the basis that the new terminal building would be used only by international passengers. As AERA's reasoning has to be consistent, it would mean that there should be no UDF for international departing passengers at Ahmedabad."	5. The proposal has included all assets (including existing terminal building) in the RAB for UDF determination as the airport functions as single business entity. Hence, the proposal envisages levy of UDF on both domestic & international passengers. Further, the existing Domestic Terminal Building – Departure block at Ahemdabad was constructed in 2005 at a cost of Rs. 34 crores and Arrival block was constructed at a cost of Rs. 50 crores and was completed in 2008. It has all the facilities required for international operations including aerobridges etc. Once the new terminal building is completed, the international operations will be shifted to the existing domestic terminal which is also relatively new. Since both international and domestic operations are going to be operated from new buildings, the case of Ahmedabad airport cannot be compared with that of Trivandrum airport. Hence the levy of UDF on both international and domestic passengers is justified.

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
Airports Economic Regulatory Authority of India

Annexure - II

UDF Calculation

All numbers are in Million Rs													
			2009-10	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
			Yr. 0	**Yr. 1**	**Yr. 2**	**Yr. 3**	**Yr. 4**	**Yr. 5**	**Yr. 6**	**Yr. 7**	**Yr. 8**	**Yr. 9**	**Yr. 10**
Aeronautical Revenue	AR		525	874	955	1,047	1,149	1,261	1,384	1,520	1,699	1,899	2,124
Non Aeronautical Revenues	NAR		312	453	499	548	603	663	729	801	881	969	1,066
Admissible Capital Base	C		1,235	2,513	3,642	3,216	2,790	2,363	1,937	1,511	1,084	658	231
O&M cost	OMA		568	779	848	924	1,007	1,097	1,195	1,302	1,518	1,653	1,801
Depreciation	D		130	278	426	426	426	426	426	426	426	426	426
Tax payable	T		47	92	61	83	108	136	167	202	216	268	327
WACC			12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
Admissible Expenditure E = CxROCE + OMA + OMNA + D + T			893	1,451	1,773	1,820	1,876	1,943	2,021	2,111	2,291	2,427	2,582
Target Revenue R = AR+NAR			837	1,327	1,453	1,595	1,752	1,924	2,113	2,321	2,580	2,868	3,189
Target Deficit TD = E - R			56	123	319	224	124	19	(92)	(210)	(290)	(442)	(607)
NPV of target deficit		(0)	56	123	285	179	88	12	(52)	(107)	(131)	(178)	(219)
Domestic departing Pax				1.30	1.43	1.57	1.72	1.90	2.09	2.30	2.57	2.88	3.22
International departing Pax				0.41	0.46	0.51	0.57	0.64	0.72	0.80	0.91	1.04	1.19
UDF Incremental Revenue - Domestic				144	158	174	191	210	232	255	285	319	358
UDF Incremental Revenue - International				170	187	209	235	263	294	330	376	428	488
Net Incremental revenue - UDF				314	345	383	426	473	526	584	661	748	846

	Existing UDF	**UDF after Increase**	
Domestic UDF in Rs.	-	111	(say Rs.110/-)
International UDF in Rs.	-	411	(say Rs.415/-)