[F. No. AERA/20010/AAI-UDF-TVM/2010-11]

Airports Economic Regulatory Authority of India

Order No. 01/2010-11

Rajiv Gandhi Bhawan
New Delhi-110003
Date of Order: 30th April, 2010
Date of Issue : 05th May, 2010

In the matter of Proposal of Airports Authority of India to levy User Development Fee (UDF) at Trivandrum International Airport

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. Trivandrum International Airport is one of the airports owned and managed by the AAI. The actual annual passenger throughput at this airport during 2008-09 was 19,54,882, which is in excess of 1.5 million passengers per annum (mppa). Hence, Trivandrum 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 international passengers comprised 75.39% of the total passenger throughput. Further, in terms of Sec 13 (1) (b) of the Act, 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 made an application on 24.12.2009 to the Authority seeking levy of User Development Fee (UDF), at Trivandrum International Airport in view of the construction of the New International Terminal Building (NITB) thereat. As has been indicated subsequently, Authority examined this proposal and had series of consultations with AAI. AAI stated that with the saturation of the existing international terminal building and with no scope for expansion at its present location due to site constraints, it has constructed the NITB (towards Chakai canal side) that will cater to 800 departing and 800 arriving passengers at a time. The existing terminal area of 9000 sq. mtr. would increase to 32000 sq. mtr. after the commissioning of NITB. The project was approved by the Central Government, at an estimated cost of Rs.245.58 crores, vide letter AV.24018/1/1999-VB dated 3rd October, 2006. Further, AAI vide their additional submission dated 22.03.2010, stated that the completion cost of the project is estimated at Rs.289.60 crores. It, inter alia, includes the cost of aerobridges, apron, taxi link, car park and approach road. AAI has stated that the Internal Rate of Return (IRR) and the Economic Rate of Return (ERR) of the project, calculated as per Government guidelines, works out to (-)0.71% and 0.24%, respectively. Pursuant to several discussions and exchange of correspondence, the AAI made final submissions, in respect of the proposal, containing requisite details vide letter No.AAI/CHQ/REV/AERA/09 dated 19.03.2010.

3.2 AAI submitted that the NITB is likely to be commissioned during March-April, 2010 and in order to make the project viable and to attain a reasonable rate of return the levy of UDF is imperative. Accordingly, AAI proposed to levy and collect UDF @ Rs.550/-per embarking domestic passenger and @ Rs. 1020/- per embarking international passenger, on an ad-hoc basis, for a period of 10 years effective April, 2010. Alternately, a levy @ Rs.280/- per embarking domestic passenger and @ Rs. 715/- per embarking international passenger was proposed, on an ad-hoc basis, for a 15 year period.

3.3 Further, AAI vide letter No.AAI/CHQ/REV/AERA/10 dated 22.03.2010, stated that the NITB was complete and that it would like to operationalise the same at the earliest. It was requested that *"levy of UDF at Trivandrum Airport may be approved so that the levy may coincide with the commissioning of the terminal."*

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. In view of the submission of AAI, the Authority proposes to proceed with ad-hoc determination of UDF pending tariff determination in the first cycle.

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:

(i) The project has an IRR and ERR of -0.71% and 0.24% respectively, which is way below the benchmark rate of 12% for the public projects.

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

(iii) The NITB is expected to be commissioned shortly. Therefore, a decision regarding levy of UDF needs to be taken immediately.

(iv) The Authority has not yet taken a final position in respect of economic regulation of airports. Therefore, the tariff determination in respect of the Trivandrum 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.

(v) The proposal made by the AAI does not contemplate any change in aeronautical tariff (i.e. airline related charges). The rates of UDF would have to be, therefore, calibrated based on the changes in the airline related charges that the Authority may allow at the commencement of first tariff cycle. Any increase in airline related charges is likely to result in reduction in rate/tenure of UDF.

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

6.2 **Return** - AAI, has 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 Target Revenue (TR) has been computed as: TR= (EA+NA) * 12%
EA= Value of the existing assets at Trivandrum Airport
NA= Value of the New Asset
UDF = TR- Projected Revenue.

6.3 **Regulatory Asset Base (RAB)** - For the purpose of arriving at the RAB, the book value of the assets as on 31.03.2009 (Rs.78 crores) and value of the new assets (Rs.289.60 crores), i.e., the NITB to be commissioned shortly, has been considered.

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

Passenger	Domestic	15% in 2009-10, 12% thereafter
	International	10% in 2009-10 to 2011-12 & 12% thereafter
Aircraft	9.7% in 2010-11	
	8.9% in 2011-12	
	10% in 2012-13 to 2016-17 and @ 10.9% upto 2019-2020	

It is noted that the 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 and the aircraft movements @ 16.5 % over the 8 year period from 2001-02 to 2008-09.

6.5 **Revenue :**

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

6.5.2 No revenues from Terminal Navigation & Landing Charges (TNLC) and Route Navigation Facility Charge (RNFC), for incoming flights, have been considered and the corresponding expenses 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 (from 9000 sq mtr to 32000 sq mtr) AAI has projected its non-aero revenue from trading concessions, rent and services, to increase by nearly 100% (i.e. double) in the first year of commissioning, i.e., 2010-11. Thereafter, taking in to account the built-in escalation clauses in its commercial agreements as also agreements with Oil Companies for throughput charges, taking a long term view, 10% growth rate has been considered. Authority will go deeper into these projections at the time of final tariff determination and based on its final position in this regard as may be crystallized after taking into account the responses and submissions it has received on the Consultation Paper No. 03/2009-10 of 26.02.2010 referred to above.

6.6.2 AAI has not considered any revenue from City Side development at Trivandrum Airport. It has been stated that *"AAI has decided to take up development of 10 airports in first phase i.e. Amritsar, Jaipur, Lucknow, Vizag, Bhubneswar, Indore, Ahmedabad, Begumpet, Kolkata & Guwahati. Since Trivandrum airport is not included in list, 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 commissioning 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 increase would require detailed examination at the tariff determination stage. However, the same is being accepted for the time being as AAI has projected an increase of 25% only when the area to be maintained would be three times bigger. Other assumptions also appear to be, prima-facie, reasonable in as much as :

a) The 8% growth rate is stated to be based upon historical trends.
b) The wage revision in Central Public Sector Undertakings is normally taken up after every 10 years and the last revision was effective 2007.

6.7.2 **Repairs and Maintenance (R&M)** - A 100% increase in R&M expenses in the year of commissioning (over the previous year's actuals) has been assumed and thereafter an increase at a rate of 10% pa. AAI has assumed a higher initial expenditure due to increase in terminal building area from 9000 sq mtr to 32000 sq mtr (old+new) 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 has assumed an increase of 150% in the electricity and water charges (based on actuals of previous year) in the year of commissioning and thereafter an increase at a flat 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 has assumed an interest rate of 9% on a loan of Rs.95 crores 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 has not given any break-up of the miscellaneous expenditure. They have assumed an increase of 100% in the miscellaneous expenditure in the year of commissioning (over the previous year's actuals) and thereafter a regular increase @ 10% pa. Considering the large increase in the size of the terminal(s), these assumptions could be accepted for the time being subject to detailed examination at a later stage.

6.7.6 **Apportionment of Corporate Head Quarters (CHQ)/Regional Head Quarters RHQ Expenses** - AAI has 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 asset 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 needs to be reworked to capture depreciation from FY 2010-11 onwards for the new asset, i.e., the NITB. Further, for a more accurate determination, the depreciation rates need to be considered as under :

a) Actual rates, as per accounting policy, in respect of existing assets; and
b) in respect of new assets in the absence of breakup of the individual components, the weighted average depreciation rate (11.75%) based on the classification of existing assets.

6.8 **Weighted Average Cost of Capital (WACC)** - AAI has 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 the 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 dated 26.02.2010, has tentatively decided to adopt "Single Till" approach. Thus, the "Single Till" approach is adopted in the present case.

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

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

6.12 **Service Tax** – AAI has considered the levy of Service Tax on the UDF and has 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 Hon'ble 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 To Summarise:

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

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

(iii) New assets are proposed to be depreciated at weighted average rate of 11.75 from the year 2010-11 onwards.

(iv) 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.

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

(vi) 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. Calculations were also made if UDF was recovered only from international passengers. The details of four different scenarios are summarized below :

UDF per embarking Passenger	Domestic	International
Net for 10 year period (Rs)	130	713 (say 710)
	0	759 (say 755)
Net for 15 year period (Rs)	130	529 (say 525)
	0	575

7.2.1 In terms of Section 13 (2) of the Act, the tariff determination is to be made on a quinquennial basis.

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

8. In the above facts and circumstances, following options were considered :

(i) Whether to levy UDF @ Rs. 130/- per embarking domestic passenger and @ Rs. 710/- per embarking International passenger, on an ad-hoc basis, based on the figures for a period of 10 years; or

(ii) Whether to levy UDF @ Rs. 130 /- per embarking domestic passenger and @ Rs.525/- per embarking International passenger on an ad-hoc basis, based on the figures for a period of 15 years; or

(iii) Whether to levy UDF @ Rs. 755 /- per embarking International passenger on an ad-hoc basis, based on the figures for a period of 10 years; or

(iv) Whether to levy UDF @ Rs. 575 /- per embarking International passenger on an ad-hoc basis, based on the figures for a period of 15 years.

9. On a careful consideration, it was felt that:

(i) 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 year period.

(ii) The determination is being made on an ad-hoc basis. NITB is meant only for international passengers. In the personal submissions made before the Authority, AAI has, on the balance, indicated a preference for restricting the levy to international passengers only based on the figures for a period of 10 years. Thus, for the present, levy is proposed only in respect of international passengers.

10. In view of the above, the Authority in its meeting held on 25.03.2010 decided to tentatively approve the levy of UDF at the Trivandrum International Airport @ Rs.755/- per embarking international passenger (exclusive of statutory levies, if any), purely on an ad-hoc basis, with effect from the date of commissioning of the New International Terminal Building, based on the figures for a period of 10 years. It was also decided that the ad-hoc determination should be reviewed at the stage of tariff determination for the first cycle and thereafter at such intervals as the Authority may decide.

11. The Authority solicited the feedback / comments and suggestions from stakeholders on the proposal contained in para 10 above. A Consultation Paper No.5/2010-11, was, accordingly, issued on 26.03.2010.

12. A Stakeholder Consultation Meeting was also held on 05.04.2010 at Trivandrum International Airport, Trivandrum. The meeting was attended by the representatives of the following stakeholders:

i. Govt. of Kerala
ii. Airports Authority of India
iii. NACIL
iv. Air India Express
v. Jet Airways
vi. Kingfisher Airlines
vii. InterGlobe Aviation Limited (Indigo)
viii. Federation of Indian Airlines (FIA)

Minutes of the Meeting were circulated by AERA vide letter no. AERA/20010/AAI-UDF/2009-10 dated 09.04.2010.

13.1 In response to the Consultation Paper, following comments were received:

(i) NACIL (letter no.nil dated 09.04.2010);
(ii) FIA (letter no.nil dated 09.04.2010);
(iii) Island Aviation Services Pvt. Ltd. (e-mail dated 09.04.2010);
(iv) IATA (letter no.nil dated 09.04.2010);
(v) VOICE (letter no.V/L/288 dated 15.04.2010).

13.2 The comments/feedback received from above stakeholders were forwarded to AAI for offering their clarifications/submissions. AAI, vide its letters dated 19.04.2010 and 21.04.2010, has submitted clarifications/ submissions on the comments given by stakeholders. The comments/feedbacks received as above and the clarifications of AAI thereupon are summarized at ***Annexure-I***.

14. The comments received, including during the stakeholder consultation meeting held on 5.04.2010, and the clarifications of AAI thereupon have been examined. The Authority is of the opinion that the clarifications furnished by the AAI broadly address the issues raised. The Authority's observations in respect of 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 project, 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 capital employed. The details in respect of the proposed levy are at ***Annexure-II***, which have been reverified.

(vi) 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.

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

ORDER:

16. 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 Trivandrum International Airport is determined as Rs. 755/- (Rupees Seven Hundred and Fifty Five 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. No UDF would be leviable on domestic passengers. 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)

Airports Economic Regulatory Authority of India

ANNEXURE- I

PROPOSAL OF AAI TO LEVY UDF AT TRIVANDRUM AIRPORT – CLARIFICATIONS GIVEN BY AAI AGAINST THE COMMENTS RECEIVED FROM VARIOUS STAKEHOLDERS IN RESPONSE TO CONSULTATION PAPER NO.5/2009-10 DATED 26.03.2010.

Sl. No.	Name of the Stakeholder	Comments given by Stakeholder	Clarifications furnished by AAI
1.	NACIL	1. **Return**: - AAI has calculated target revenue taking the value of the existing assets which should not form part of the return on capital employed as this is not part of the project cost for the New Terminal.	**1.** For determination of the Target Revenue the return on existing assets have also been taken.
		2. **RAB**: - In the RAB, the book value of the existing assets of Rs.78 crore 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. This has already been accepted by the Ministry of Civil Aviation in the case of Jaipur Airport.
		3. **Traffic Projections**: - Growth rate of 15% per annum should also be taken for international passengers.	**3.** The Traffic Projections adopted are as per study conducted by the Corporate Planning Department of AAI which was done employing Statistical tools and econometric modeling.
		4. **Aeronautical and Non-aeronautical revenues**: - 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.	**4.** The proposal has already disclosed the facts regarding RNFC and TNLC income have not been considered in the calculations as the same forms part of a different nationwide service (Air Navigation Service), the charges for which would be regulated separately by AERA. It is also been

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			disclosed that income from City Side Development has not been considered, since, the proposal is at a very preliminary stage and exact time frame for the same is not known. At Trivandrum Airport there is no Extension of Watch hours, since it is a 24 hours airport. The counter charges have been included in non-traffic revenues given in the proposal.
		5. **Repairs & Maintenance:** - 100% increase in repair and maintenance expenses is on higher side as the terminal space has increased to 32,000 sq. mts.	**5.** Though the area has increased by almost 300% the increase in the R&M expenditure has been taken only of 100% in the year of commissioning which is very reasonable.
		6. **Depreciation:** - Depreciation rate should be the actual rate as per the accounting policy of AAI in respect of the assets and not a straight line method. For existing assets, value as per AAI books of accounts should be considered.	**6.** The rates adopted by AAI in its books is only straight line basis. The Weighted Average Rate of the depreciation on assets was taken at 10% as indicated in the proposal.
		7. **Duration of Levy of UDF:**- It should be for 25 years with a reduced UDF rates for International Passengers.	**7.** The User Development Fee is to recover the short fall within a reasonable period. Further, there is also a review mechanism Part of the funding of the Project is being done through a 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.
		8. **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.	**8.** The present collection charges of Rs.5/- per passenger has been approved by the Govt. in respect of the airports where UDF is already levied.

		9. There should be differential charges for low cost carriers. 10. Provision of an integrated terminal instead of a stand alone international terminal. 11. Imposition of UDF could lead to diversion of passenger traffic to neighboring airports. 12. Employees costs need to be moderated to note more than 8-10% on annualized basis.	**9.** There is no separate infrastructure for low cost carrier and hence, there are no differential charges for them. **10.** Due to non availability of land for construction of Integrated Terminal building at Trivandrum Airport a separate International Terminal Building has been constructed. **11.** It is only a speculation that there could be diversion of traffic because of imposition of UDF. **12.** AAI is a service oriented organization whose main input is Manpower. Outsourcing is minimal.
2.	**FIA**	1. Considerable reserves would have been built into the PSF (Security Component Account) which calls for reduction in levy. Additionally transfer of funds held by private operators in escrow account to the account of AAI should be mandated to meet the shortfall in funding the airport modernization programme undertaken at Trivandrum, Jaipur, Chennai and Calcutta. 2. The levy proposed is far higher than the capital outlay incurred to build the new terminal, necessitating revision in both quantum and period of recovery. Therefore, UDF must be computed over a longer time frame in order to reduce the per pax impact.	**1.** The security expenses as well as security components of PSF have not been included in the calculation for UDF. **2.** The finances of AAI has also under pressure because of slow down as well as investment in various projects for better passenger facilitation.

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3.	**Island Aviation Services Ltd.**	Island Aviation stated that AAI as a public sector company should not follow the suit of private company. They have to work for common man and low income group.	The comments of Island Aviation Services Ltd. are general in nature. They expect that AAI should not levy UDF being a PSU. In this regard, it is brought out that AAI had to resort to borrowings during 2009-10 because of economic slow down.
4.	**IATA**	1. **Spreading the UDF over the useful life of the asset : -** 10 year assumption in the proposal is too short considering that the airport terminal building and facilities would have a useful life of 25-30 years.	**1.** The User Development Fee is to recover the short fall within a reasonable period. Further, there is also a review mechanism Part of the funding of the Project is being done through a 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.
		2. **Realistic traffic projections that do not err on the low side:-** The traffic projection for international passengers and aircraft movements, the values used in the proposal are too low when compared to the CAGR over the last eight years of 13.9% and 16.5% respectively.	**2.** The Traffic Projections adopted are as per study conducted by the Corporate Planning Department of AAI which was done employing Statistical tools and econometric modeling.
		3. **Usage of Single Till: -** AAI's assumption of a hybrid till with 30% non-aeronautical revenue incorporated for settling UDF appears to be deliberately aligned with the arbitrary figure used in the OMDA's for Delhi and Mumbai Airports.	**3.** AAI has worked out the proposal by adopting hybrid till i.e. taking into account 30% of NTR for the calculations. However, AERA has proposed adoption of single till. In this regard, it is reiterated that AAI is maintaining a larger number of airports which are loss making and not self sustaining.
		4. **Uniform UDF: -** Like at other airports where multiple terminal buildings exist there should only be a single level of charge applied to all passengers.	**4.** The levy of UDF is to take into account the local economic conditions, sentiments and the paying capacity of the public. Accordingly, levy of

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			UDF on International passengers may be implemented.
5.	**VOICE**	1. Any proposal for levy of UDF at Trivandrum Airport would be anti consumer and anti-competition move. Project cost should be borne by the building agency. This will add to the travel cost of the passengers.	The comments do not take into account the level of investment required and the economy of investment decision.

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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	2020-21	2021-22	2022-23	2023-24	2024-25
			Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5	Yr. 6	Yr. 7	Yr. 8	Yr. 9	Yr. 10	Yr. 11	Yr. 12	Yr. 13	Yr. 14	Yr. 15	Yr. 16
Aeronautical Revenue		AR	304	1,013	1,113	1,241	1,384	1,544	1,722	1,920	2,146	2,398	2,679	2,994	3,346	3,739	4,178	4,669
Non Aeronautical Revenues		NAR	160	279	306	337	371	408	449	493	543	597	657	722	795	874	962	1,058
Admissible Capital Base		C	689	3,228	2,749	2,342	1,980	1,643	1,320	1,001	683	373	145	68	68	67	67	67
O&M cost		OMA	658	881	956	1,036	1,124	1,219	1,322	1,434	1,715	1,860	2,018	2,188	2,374	2,575	2,794	3,032
Depreciation		D	198	516	441	375	348	327	319	319	319	301	154	0	0	0	0	0
Tax payable		T	-	-	8	57	96	138	180	225	223	283	396	519	600	693	797	916

WACC			12.00%	12.00%	12.00%	12.00%	12.00%	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			939	1,785	1,734	1,749	1,806	1,881	1,979	2,098	2,338	2,490	2,585	2,716	2,983	3,276	3,600	3,956
Target Revenue R = AR+NAR			464	1,292	1,419	1,578	1,755	1,951	2,170	2,414	2,689	2,995	3,336	3,716	4,140	4,613	5,140	5,727
Target Deficit TD = E - R			474	493	315	171	51	(71)	(191)	(316)	(350)	(505)	(751)	(1,000)	(1,158)	(1,337)	(1,540)	(1,771)
NPV of target deficit		(0)	474	493	281	136	36	(45)	(108)	(160)	(158)	(204)	(271)	(322)	(333)	(343)	(353)	(362)
Domestic departing Pax				0.31	0.35	0.39	0.44	0.49	0.55	0.61	0.68	0.77	0.86	0.96	1.08	1.21	1.35	1.51
International departing Pax				0.89	0.98	1.10	1.23	1.38	1.54	1.73	1.94	2.17	2.43	2.72	3.05	3.41	3.82	4.28
UDF Incremental Revenue - Domestic				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
UDF Incremental Revenue - International				677	745	834	934	1,046	1,172	1,312	1,470	1,646	1,844	2,065	2,313	2,591	2,901	3,250
Net Incremental revenue - UDF				677	745	834	934	1,046	1,172	1,312	1,470	1,646	1,844	2,065	2,313	2,591	2,901	3,250

	Existing UDF	UDF after Increase
Domestic UDF in Rs.	-	-
International UDF in Rs.	-	759

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