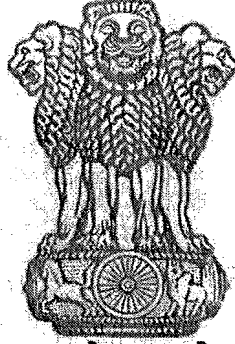


Date: 09<sup>th</sup> November, 2018

File No. AERA/ 20010/ MYTP/ AO/ KIAL / CP-II/ 2018-19

Order No. 26/ 2018-19



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**Airports Economic Regulatory Authority of India**

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**In the matter of Determination of Aeronautical Tariffs in respect of Kannur International Airport Limited (KIAL) for the first Control Period**

**(01.04.2018 – 31.03.2023)**

**9 November 2018**

**AERA Building**

**Administrative Complex**

**Safdarjung Airport**

**New Delhi – 110 003**



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# 1. LIST OF ABBREVIATIONS

<b>AAI</b>	Airport Authority of India		Determination of Tariff for Airport Operators)
<b>AERA or the Authority</b>	Airport Economic Regulatory Authority of India		Guidelines, 2011 dated 28 February 2011
<b>AECOM</b>	AECOM India Private Limited	<b>GOI</b>	Government Of India
<b>Aero</b>	Aeronautical	<b>GOK</b>	Government of Kerala
<b>ARR</b>	Aggregate Revenue Requirement	<b>Inflation</b>	Based on RBI Survey Dated 07th Dec, 2016
<b>ATM</b>	Air traffic movement	<b>IOCL</b>	Indian Oil Corporation Limited
<b>BPCL</b>	Bharat Petroleum Corporation Limited	<b>IRR</b>	Internal Rate of Return
<b>BRS</b>	Baggage Reconciliation System	<b>JVC</b>	Joint Venture Company
<b>CAGR</b>	Compounded Annual Growth Rate	<b>MOU</b>	Memorandum of Understanding
<b>CAPEX</b>	Capital Expenditure	<b>MYTO</b>	Multi Year Tariff Order
<b>CUTE</b>	Common User Terminal Equipment	<b>MYTP</b>	Multi Year Tariff Proposal
<b>CUSS</b>	Common-Use Self-Service	<b>NAR</b>	Non-Aeronautical Revenue
<b>KIAL/Airport Operator</b>	Kannur International Airport Limited	<b>Non-Aero</b>	Non-Aeronautical
<b>KINFRA</b>	Kerala Industrial Infrastructure Development Corporation	<b>NCAP</b>	National Civil Aviation Policy 2016
<b>EBITDA</b>	Earnings Before Interest, Tax, Depreciation and Amortisation	<b>OPEX</b>	Operating Expenditure
<b>F&amp;B</b>	Food and Beverages	<b>P&amp;L</b>	Profit and Loss
<b>FIDS</b>	Flight Information Display System	<b>p.a.</b>	Per annum
<b>FIA</b>	Federation of Indian Airlines	<b>PAX</b>	Passenger(s)
<b>FRoR</b>	Fair Rate of Return	<b>PSF</b>	Passenger Service Fee
<b>FY</b>	Financial Year	<b>RAB</b>	Regulated Asset Base
<b>Airport Guidelines</b>	AERA (Terms and Conditions for	<b>INR or ₹</b>	Indian rupees
		<b>SLM</b>	Straight Line Method
		<b>Sq.m.</b>	Square Metre
		<b>UDF</b>	User Development Fee
		<b>K<sub>e</sub></b>	Cost of equity



## 2. INTRODUCTION

- 2.1. Kannur International Airport Limited (KIAL) was incorporated as a Public Limited Company on 3 December 2009 with the objective of building, owning and operating the Kannur International Airport. It is the second Greenfield Airport in Kerala set up under the Public Private Partnership (PPP) model, located close to Mattannur in Kannur district of Kerala. KIAL is expected to commence operations effective December, 2018 with the first control period commencing from 01.04.2018 to 31.03.2023.
- 2.2. KIAL's equity shareholding is as follows: Government of Kerala (GoK) (35.0%), qualified institutional investors, individuals, co-operative banks/ societies/ commercial banks and other legal entities (31.0%), Bharat Petroleum Corporation Limited (BPCL) (24.0%), and the Airports Authority of India (AAI) (10.0%).
- 2.3. KIAL initially acquired 1,192.18 acres of land at a value of ₹316 crores for development of phase 1 of the airport from the GoK through Kerala Industrial Infrastructure Development Corporation (KINFRA), the nodal agency for land acquisition appointed by the Government. This investment has been treated as equity from the GoK.
- 2.4. KIAL has proposed to take additional land of approximately 1,176.48 acres for future development of the airport which is under acquisition by KINFRA. It has been proposed that KIAL shall take the additional land on token rent of ₹100 per acre per annum from KINFRA for sixty years.
- 2.5. Presently, 500 acres of land out of 1,192.18 acres has been utilized for the Airport project.

**Table 1: Technical details**

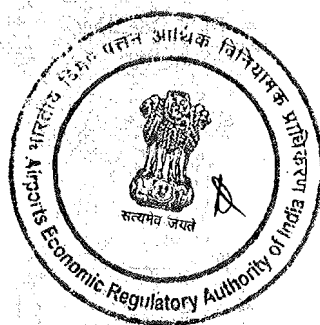
<ul style="list-style-type: none"><li>• Total area of Integrated Terminal Building is 9 lakhs sq. ft.</li><li>• Capacity 5 Million passengers /annum.</li><li>• Car Parking for 700 cars and 25 Buses</li><li>• Technical block with ATC Tower 30 Mt. Height.</li><li>• CCTV/FIDS/ Signage.</li><li>• Peak Hour Passenger capacity (Arrival &amp; Departure) 1000 + 1000</li><li>• Check –in Counters (24 +24) Nos</li><li>• Immigration Counters 32 no</li><li>• Customs Counters 16 no</li><li>• Two Category 9 Fire stations<ul style="list-style-type: none"><li>• ILS Category 1, DVOR, Automatic Dependent Surveillance Broadcast</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Airport Code 4E with orientation 07/25</li><li>• Critical Aircraft- B 777-300 ER</li><li>• Runway Physical Length:<ul style="list-style-type: none"><li>• Phase I: 3,050Meters</li><li>• Upto Phase II: 3,400 meters</li><li>• Upto Phase III: 4,000 meters</li></ul></li><li>• Apron- Phase-I can accommodate 20 code Caircrafts or as in the configuration below:<ul style="list-style-type: none"><li>• 8 Nos B737/AB 320</li><li>• 5 Nos Code E(MARS) B777-300 ER</li><li>• 1 No Code F (MARS) AB 380 /B747-800</li></ul></li><li>• Apron Phase II can accommodate another 21 Aircraft.</li><li>• Full length Parallel Taxiway &amp; Rapid Exit/Taxi Links</li></ul>
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- 2.6. Kannur International Airport is designed for capacity to handle more than 1.5 million passengers hence is a major airport. Since KIAL is expected to commence commercial



operations effective December, 2018, the first control period for the purposes of tariff determination in respect of KIAL shall be from 01.04.2018 to 31.03.2023.

- 2.7. KIAL is mandatorily required to follow the Guidelines issued by the Authority and submit its tariff proposal before the Authority.
- 2.8. A meeting with stakeholders for inviting responses on proposed decisions of the Authority was held on 04.10.2018.
- 2.9. This order of the Authority takes into account the proposals of KIAL, views expressed by stakeholders in the meeting, written submissions received from stakeholders and examination by the Authority with reference to its guidelines for airport operators.



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### 3. SUMMARY OF STAKEHOLDERS' COMMENTS ON CP NO. 16/2018-19

3.1. In response to Consultation Paper No. 16/2018-19, the Authority received several responses from stakeholders. The list of stakeholders, who have commented on the Consultation Paper is presented below.

**Table 2: Summary of stakeholders' comments**

S. No.	Stakeholder	Issues commented
FIA	Federation of Indian Airlines (FIA)	<ul style="list-style-type: none"><li>• Multi-year tariff proposal submitted by KIAL</li><li>• Methodology for tariff calculation</li><li>• Regulatory Asset Base (RAB)</li><li>• Depreciation</li><li>• Operation and maintenance expenditure</li><li>• Fair Rate of Return (FRoR)</li><li>• Non-Aeronautical revenues</li><li>• Traffic</li><li>• Annual Tariff Proposal</li></ul>
HPCL	Hindustan and Petroleum Corporation Limited (HPCL)	<ul style="list-style-type: none"><li>• Annual Tariff Proposal</li></ul>
IOCL	Indian Oil Corporation Limited (IOCL)	<ul style="list-style-type: none"><li>• Annual Tariff Proposal</li></ul>
KIAL	Kannur International Airport Limited (KIAL)	<ul style="list-style-type: none"><li>• Regulatory Asset Base (RAB)</li><li>• Operation and maintenance expenditure</li><li>• Non-Aeronautical revenues</li><li>• Aeronautical revenues</li><li>• Annual Tariff Proposal</li></ul>

3.2. The Authority has carefully considered comments made by stakeholders and has obtained response from KIAL on these comments. The position of the Authority in its Consultation Paper No. 16/2018-19, issue-wise comments of the stakeholders on the Consultation Paper, response from KIAL thereon, Authority's examination, and its decision are given in the relevant sections of this order.



#### 4. MULTI YEAR TARIFF PROPOSAL SUBMITTED BY KIAL

- 4.1. KIAL filed its MYTP submissions for the first control period on 22.04.2016. Subsequently, KIAL filed revised submissions dated 31.08.2016, 25.11.2016, 22.02.2018 and 29.05.2018 and additional justifications/ clarifications dated 31.05.2016, 25.10.2016, 07.11.2016, 17.04.2018, 09.05.2018, 07.07.2018, 08.07.2018, 10.07.2018, 12.07.2018 and 14.07.2018.
- 4.2. KIAL in its submissions has provided the projected capital expenditure during the first control period. KIAL has also furnished component-wise breakup of the revenue and expenditure and a brief note giving the basis of growth rates assumed and details of the item wise capital cost, along with their means of finance.

#### **Stakeholder comments and the Authority's observations**

##### **Comments from FIA**

- 4.3. Regarding MYTP submitted by KIAL, FIA submitted that –

*"FIA submits that it has not been provided with the copies of the submissions of KIAL dated 22.04.2016, 31.08.2016, 25.11.2016, 22.02.2018 and 29.05.2018 and additional justifications/ clarifications dated 31.05.2016, 25.10.2016, 07.11.2016, 17.04.2018, 09.05.2018, 07.07.2018, 08.07.2018, 10.07.2018, 12.07.2018 and 14.07.2018 made by KIAL. Accordingly, in the absence of the receipt of such submissions made by KIAL, FIA unable to appreciate, assess and comprehend the facts and figures (and any comparison thereto) of the Consultation Paper in its entirety and actuality. Thus, FIA hereby request that the above mentioned MYTP submissions as submitted by the KIAL may be made available to all the stakeholders (including FIA) for perusal and comments so as to ensure complete transparency and to enable FIA to submit requisite and consolidated observations / comments to the present Consultation Paper."*

##### **KIAL's submission on FIA's comments**

- 4.4. KIAL stated that –

*"KIAL has made various submissions as specified in the Consultation Paper. These relates to updates considering the updated Airport commissioning date and the clarifications and details as required by the Authority. The updated submissions together with the required clarifications have been analyzed by the Authority in the Consultation Paper."*

##### **Authority's examination of FIA's comments and KIAL's submission on FIA's comments**

- 4.5. With respect to FIA's comments on multiple submissions of KIAL and the need to share them with the stakeholders, the Authority would like to clarify that normally the initial MYTP requires further analysis and the subsequent submissions by Airport Operator are more by way of clarifications, amendment to data, etc. which are fully captured in the Consultation Paper released by the Authority. Therefore, a separate discussion on each of the subsequent submission by KIAL may not be required.



## 5. METHODOLOGY FOR TARIFF CALCULATION

- 5.1. The methodology adopted by the Authority to determine tariff is based on AERA Act, 2008 and the AERA (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 dated 28 February 2011. Wherein, the present value of total aeronautical revenue that is estimated to be realized each year during the control period at proposed tariff levels is compared with the present value of the Aggregate Revenue Requirement (ARR) during the control period. In case the present value of aeronautical revenue during the control period is lower than the present value of ARR during the control period, the airport operator may opt to increase the proposed tariff. In case the present value of aeronautical revenue is higher than the present value of the ARR then the airport operator will have to suitably reduce its tariff.
- 5.2. Further, tariff is based on 'hybrid till' method wherein 30% of non-aeronautical revenues is used to cross-subsidize ARR (Order No. 14/ 2016-17 "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" dated 12.01.2017).
- 5.3. The Authority shall determine the ARR for the current control period on the basis of the following Regulatory Building Blocks:
- 5.3.1. Regulatory Asset Base (RAB)
- 5.3.2. Depreciation (D);
- 5.3.3. Fair Rate of Return applied to the Regulatory Asset Base (FRoR x RAB);
- 5.3.4. Operation and Maintenance Expenditure (O);
- 5.3.5. Taxation (T);
- 5.3.6. Revenue from services other than aeronautical services (NAR).
- 5.4. Based on the building blocks provided above, the formula for determining ARR under Hybrid Till is as follows:

$$ARR = \sum_{t=1}^5 (ARR_t) \text{ and}$$

$$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - 30\% \text{ of } NAR_t$$

Where

't' is the Tariff Year in the Control Period;

ARR<sub>t</sub> is the Aggregate Revenue Requirement for year 't';

FRoR is the Fair Rate of Return for the control period;

RAB<sub>t</sub> is the Regulatory Asset Base for the year 't';





$D_t$  is the Depreciation corresponding to the RAB for the year 't';

$O_t$  is the Operation and Maintenance Expenditure for the year 't', which includes all expenditures incurred by the Airport Operator(s) including expenditure incurred on statutory operating costs and other mandate operating costs;

$T_t$  is the corporate tax for the year 't' paid by the airport operator on the aeronautical profits; and

$NAR_t$  is revenue from services other than aeronautical services for the year 't'

- 5.5. The detailed submissions provided by KIAL in respect of the opening RAB, additions to RAB, and other items of the Regulatory Building Blocks have been discussed in the subsequent sections.

### **Stakeholder comments and the Authority's observations**

#### **Comments from FIA**

- 5.6. Regarding methodology for tariff calculation, FIA submitted that –

*"I. Single Till Model ought to be applied to ALL the airports regulated and operated by the Authority regardless of whether it is a public or private airport or works under the PPP model and in spite of the concession agreements as the same is mandated by the statute.*

*II. Single Till is in the public interest and will not hurt the investor's interest and given the economic and aviation growth that is projected for India, Fair Rate of Return (FRoR) alone will be enough to ensure continued investor's interest.*

*III. MoCA's view(s) with respect to any issue at best can be considered as that of a Stakeholder and by no means are binding to Authority's exercise of determination of aeronautical tariff as is admitted by MoCA itself before the AERAAT.*

*In view of the above, it is submitted without prejudice that determination of aeronautical tariff on Hybrid Till basis for the First control period would set the tone and precedent for determination of aeronautical tariff in subsequent control periods contrary to the applicable legal framework. Thus, it is submitted that Authority should discard the option of determination of aeronautical tariff on Hybrid Till and follow Single Till scrupulously."*

#### **KIAL's submission on FIA's comments**

- 5.7. KIAL stated that –

*"FIA has made detailed submissions on manner of till to be adopted etc. These have been decided by Authority in its Order and hence are not detailed by KIAL in its submissions."*

#### **Authority's examination of FIA's comments and KIAL's submission on FIA's comments**

- 5.8. With respect to FIA's comments related to the regulatory Till applicable for KIAL and KIAL's submission on FIA's comments, the Authority has decided to adopt Hybrid Till as per the revised guidelines issued vide its Order No. 14/ 2016-17 dated 12.01.2017



## 6. REGULATORY ASSET BASE (RAB) AND DEPRECIATION

### KIAL's submission – Additions to RAB

6.1. Capital expenditure proposed to be incurred during the first control period as per KIAL is as shown in Table 3 below.

**Table 3: Capital expenditure during the first control period as per KIAL (in ₹ crores)**

Asset head	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Land	316.00	-	-	-	-
Buildings and civil work	1,007.85	-	-	-	-
Plant & machinery	504.23	-	-	-	-
Runway, Roads & Culverts	374.19	-	490.00	-	-
<b>Total</b>	<b>2,202.27</b>	<b>-</b>	<b>490.00</b>	<b>-</b>	<b>-</b>

**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
<b>Buildings Total</b>		<b>859.73</b>
IDC	Interest during construction	172.21
<b>IDC Total</b>		<b>172.21</b>
Land	Land	316.00
<b>Land Total</b>		<b>316.00</b>
P&M	Other Equipment	160.42
P&M	Additional Electrical Installations	66.40
P&M	Electrical/ Lighting works	50.75
P&M	Electrical/ Lighting works	45.11
P&M	Air-conditioning - HVAC	29.14
P&M	Baggage Handling system	15.49
P&M	Electrical meters/ boards etc.	15.00
P&M	Networking, EPABX, Access control	11.55
P&M	Water Management system	10.00
P&M	BMS, Public address system etc.	8.67
P&M	Escalators	6.42
P&M	Elevators	6.17
P&M	FIDS, Baggage info, Digital signs	3.76
P&M	Signages, pavement marking, bird hazard reduction	1.25



<b>P&amp;M Total</b>		<b>430.13</b>
Pre-op	Pre-operative cost	60.00
Pre-op	Consultancy	30.00
Pre-op	Additional Preoperative expenses	15.00
<b>Pre-op Total</b>		<b>105.00</b>
Runway	Runway, Isolation bay and Turning pads	100.63
Runway	Apron	58.99
Runway	Approach Road, Internal Road, Service Road, Perimeter Road	56.21
Runway	Drain and Culvert	38.17
Runway	Additional Runway, Roads & Culverts	32.00
Runway	Crash fire tenders	15.23
Runway	Passenger Boarding Bridges	9.60
Runway	Firefighting, Fire alarm and equipment	8.37
<b>Runway Total</b>		<b>319.20</b>
<b>Grand Total</b>		<b>2,202.27</b>

6.2. Further, KIAL in its submission has classified total proposed capital expenditure incurred during the first control period into aeronautical and non-aeronautical in the ratio of 95:05.

6.3. Table 5 below summarizes the additions to RAB as per KIAL including land cost of ₹131.67 crores out of ₹316 crores (representing cost for 500 acres utilized for current development of the Airport) and allocation of other capital expenditure (including interest during construction) between aeronautical and non-aeronautical in the ratio of 95:05 during the first control period as additions to RAB:

**Table 5: Additions to RAB during the first control period as per KIAL (in ₹ crores)**

<b>Asset head</b>	<b>FY 18-19</b>	<b>FY 19-20</b>	<b>FY 20-21</b>	<b>FY 21-22</b>	<b>FY 22-23</b>
Land	131.67	-	-	-	-
Buildings and civil work	957.45	-	-	-	-
Plant & machinery	479.02	-	-	-	-
Runway, Roads & Culverts	355.48	-	465.50	-	-
<b>Total</b>	<b>1,923.63</b>	<b>-</b>	<b>465.50</b>	<b>-</b>	<b>-</b>

**Authority's Examination – Additions to RAB**

6.4. The Authority has noted that, in the absence of detailed area allocations and plan details, entire proposed capital expenditure during the control period has been allocated into aeronautical and non-aeronautical in the ratio of 95:05. The Authority has proposed to accept such allocation submitted by KIAL. However the same shall be revised in the next control period based on a study of actual area allocation and plan details.

6.5. The Authority has noted that out of total land cost of ₹316.00 crores an amount of ₹131.67 crores (representing cost towards utilized land for development of airport) has been considered as an aeronautical asset while computing RAB. The Authority has proposed to exclude cost of land from RAB until a decision on the treatment of land cost is finalized pursuant to Consultation Paper No. 04/2018-19 "In the matter of Determination of Fair Rate



of Return (FRoR) to be provided on Cost of Land incurred by various Airport Operators of India" dated 23.04.2018.

- 6.6. Further, cost of ₹490 crores appearing under the head 'Runway, Roads & Culverts' pertains to cost proposed to be incurred in FY 20-21 towards extension of runway from existing length of 3,050 metres to 4,000 metres. Since incurrence of such cost is not certain yet, the Authority has proposed to exclude this amount while computing RAB.

**Table 6: Additions to RAB during the first control period as per the Authority (in ₹ crores)**

Asset head	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Land	-	-	-	-	-
Buildings and civil work	957.45	-	-	-	-
Plant & machinery	479.02	-	-	-	-
Runway, Roads & Culverts	355.48	-	-	-	-
<b>Total</b>	<b>1,791.96</b>	-	-	-	-

**Stakeholder comments and the Authority's observations**

**Comments from KIAL**

- 6.7. Regarding RAB, KIAL submitted that –

*"Regulatory Asset Base and Depreciation*

1. The Authority has proposed to remove Land cost from Regulatory Asset base. The Authority has proposed to exclude cost of land from RAB until a decision on the treatment of land cost is finalized pursuant to Consultation Paper No. 04/2018—19" In the matter of Determination of Fair Rate of Return (FRoR) to be provided on Cost of Land incurred by various Airport Operators of India" dated 23.04.2018.

KIAL submits that-the land was acquired at market rates and transferred to KIAL at cost and no subsidy was provided. This was considered as equity contribution by the Government. If land is removed from RAB, KIAL will earn no return on land cost capitalised in books. KIAL, requests the Authority to consider land cost as part of RAB and provide return on the same.

2. The Authority has proposed to exclude Rs. 490 crores pertaining to Runway extension as the incurrence of cost is not certain yet. KIAL submits that the Runway extension from 3.05 KM to 3.40 KM was planned and approved by the Board of KIAL. KIAL requests that the Authority may include the cost relating to Runway expansion as part of true up at the end of the control period.

3. The Authority has proposed to true up Average RAB and depreciation based on the actual date of capitalisation. KIAL accepts the same and also requests Authority to true up the cost also based on actuals."

**Comments from FIA**

- 6.8. Regarding additions to RAB submitted by KIAL, FIA submitted that –

"Authority has accepted KIAL's submission on capital expenditure (including IDC & preoperative expenses) as is, without considering a) technical evaluation / scrutiny by an independent agency b) analysis of budgeted cost vs. actual cost and resultant overruns and c) normative order parameters or other comparative airport expenditure



FIA submits that the Authority has accepted the capital expenditure (including IDC & Preoperative expenses) proposed by KIAL on an "as is basis", without any application of mind or technical evaluation/scrutiny. Further, the Authority has failed to highlight whether the capital expenditure incurred/proposed to be incurred is within the budgeted cost or whether KIAL foresees any cost overruns.

Further, the Authority needs to scrutinize that out of capital expenditure of KIAL as agreed to be considered by the Authority till FY 19 of INR 1,791.96 crores, how much cost has been incurred and what are the remaining/balance costs. Further, the Consultation Paper is silent on any certificate of PMC or other independent agency to confirm the capital expenditure.

FIA further submits that the Authority has neither considered the Normative Order No. 07/2016-17 (In the matter of Normative Approach to Building Blocks in Economic Regulation of Major Airports – Capital Costs) while allowing the proposed capital expenditure, and nor considered capital expenditure of other airports in Kerala, for benchmarking any capital expenditure:

(a) As per Para 2.5 of the Consultation Paper, presently, 500 acres, representing 42% of the total 1,192.18 acres, has been utilized for KIAL project. The Authority has rightly proposed to exclude cost of land from additions to RAB until a decision on treatment of land cost is finalized Consultation Paper No. 04/2018-19 "In the matter of Determination of Fair Rate of Return (FRoR) to be provided on Cost of Land incurred by various Airport Operators of India" dated 23.04.2018.

(b) Based on Table 3 on page 9 of the Consultation Paper, buildings and plant & machinery forms a part of additions to the terminal area. As per Normative Order No. 07/201617 "In the matter of normative approach to building blocks in economic regulation of major airports – capital costs reg." dated 13.06.2016, ceiling cost per sq. metre for terminal building is INR 65,000. However, in the case of KIAL, the per sq. metre rate was noted to be INR 180,843 (Integrated terminal building area of 9 lakh sq. feet as per Table 1 of Consultation Paper, equivalent to 83,612.74 sq. metres). This is almost 2.75 times of the capital expenditure as per Normative Order. Also, as per Para 7.8 of CP 5/2014-15, cost of per sq. meter of a modern airport terminal building varies between INR 43,333 per sq. mtr (Cochin) to INR 145,000 (Bangalore). Hence, the cost per sq. meter of the terminal building in KIAL is significantly higher than this range.

FIA would like to highlight that the cost per sq. meter of terminal building of Cochin and Trivandrum airport is INR 43,333 and INR 125,652 which is significantly lower than that at KIAL. Also, the Authority has compared these airports with KIAL for operating expenditure and non-aeronautical revenue, but not for capital expenditure.

(c) Out of total proposed cost of INR 820.98 crores, expansion of runway proposed by KIAL in FY21 amounting to INR 465.50 crores has not been accepted by the Authority. The area for the runway has not been provided in the Consultation Paper. Hence, FIA would not be able to comment on whether Normative Order No. 07/2016-17 has been considered by the Authority while accepting KIAL's submission with respect to capital costs towards runway, roads and culverts. As per the said order, the cost per sq. meter should not exceed INR 4,700 per sq. meter.

(d) Interest during construction (IDC) has been considered by the Authority on an "as is basis". Further, the Authority has not provided any details of IDC of INR 172.21 crores (c. 8.20% of the total cost submitted by KIAL) have been furnished in the Consultation Paper for stakeholder's review.

(e) Pre-operative expenses of INR 105 crores (c. 5.00% of total cost submitted by KIAL) seems to be on adhoc basis and has not been evaluated/discussed by the Authority in the Consultation Paper. Hence, it is submitted that Authority evaluate the preoperative expenses



in detail and put a capping rather than leaving it at the discretion of KIAL and subsequent true up, otherwise the airport operator would not make palpable efforts to contain the cost.

(f) Largest component of plant & machinery costs is mentioned as 'Other Equipment' worth INR 160.42 crores (c. 9% of the capital expenditure accepted by AERA) without any further details of the type of equipment. This shows a lenient approach taken by Authority while scrutinizing KIAL's submission.

Hence, FIA submits that the Authority ought to confine itself to the normative norms i.e. Normative Order No. 07/2016-17 while determining the capital expenditure/RAB for the 1st control period at the time of passing order."

6.9. Regarding allocation of capital expenditure submitted by KIAL, FIA submitted that –

"III. Authority has accepted the asset allocation ratio submitted by KIAL without any independent evaluation

FIA submits that as per proposal 1.c. of the Consultation Paper, "the Authority has tentatively accepted the allocation of assets into aeronautical and non-aeronautical assets in the ratio 95:5. A detailed study will be conducted to determine the actual usage before true up in the next control period". The Authority has essentially relied on KIAL's submission for the purpose of computing allocation of assets into Aeronautical and Non-Aeronautical categories. FIA submits that allocation of the airport assets between Aeronautical or Non-Aeronautical categories is critical under Shared Till approach (without prejudice to Single Till approach advocated by FIA), hence the same should be carried out on the basis of an independent study rather than on tentative basis which is based on KIAL's submission.

The Authority has proposed to carry out a technical study on the area between Aeronautical and Non-Aeronautical for next control period, this approach of the Authority will result in significant delay in testing of actual allocation ratios and during which passengers and airlines will be burdened by high tariffs.

FIA would like to highlight that aero allocation ratio of Cochin Airport for Buildings is c. 69.28% and that for Plant & Machinery is c. 86.79%. Also, the aero allocation ratio proposed as per CP 5/2014-15 on Normative Approach is 80%. Hence, in case the Authority considers or accepts the aeronautical asset at 95%, the same will increase the RAB and will consequently burden airlines and passengers.

FIA submits that rather than accepting KIAL's submission, Authority should consider the asset allocation ratio of 80%:20% in the 1st control period to reduce ARR & minimize shortfall and conduct independent study on asset allocation which may be used for true up in the 2nd control period.

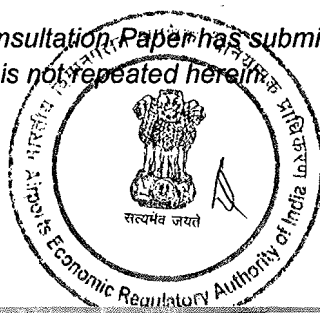
Further, FIA would like to highlight that return on RAB is c. 67% of the total ARR for the first control which is significantly higher than the share of return on RAB at other airports as per table below:

Hence, FIA submits that the Authority needs to scrutinise the additions to RAB in detail rather than leaving it for true up in subsequent control periods, as a higher return on RAB is generated. FIA also submits that the Authority should have scrutinized capex on technical and economic grounds before considering it as additions to RAB rather than relying on KIAL's submission on garb of true up."

#### **KIAL's submission on FIA's comments**

6.10. KIAL in response to FIA's comments regarding capital expenditure stated that –

"KIAL, in its response to the Consultation Paper has submitted and requested for return to be provided on land and the same is not repeated herein."



*FIA's analysis of per sq. ft cost is incorrect.*

*"Building" as considered by FIA includes other costs relating to:*

- a) Site development and earth filling*
- b) Boundary Wall*
- c) Ancillary building*
- d) Drainage and Ducts*
- e) Power and other equipment outside Terminal Building, etc.*

*KIAL has submitted detailed analysis on how the estimated costs are within the range of normative costs as considered by the Authority in its Normative Cost Order, which has been reviewed in detail by the Authority.*

*Interest During Construction is calculated in the business model based on draw down. Pre-Operative expenses are considered based on approved budgets and actuals are in line with the estimates. These costs are all proposed to be trued up by the Authority based on actual costs capitalised and audited."*

6.11. KIAL in response to FIA's comments regarding allocation of capital expenditure stated that –

*"Allocation of Capital and Operating Costs between Aeronautical and Non-Aeronautical is done as an estimate which is broadly in line with AAI airports, BIAL etc.*

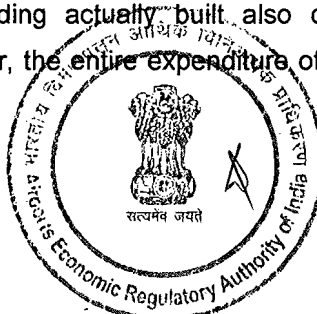
*Airport Operations and Terminal building usage for Non-Aero activities also would need to be stabilised for evaluation of allocation ratios.*

*Proportion of RAB on Total ARR would vary based on various factors, including the timing of investment, whether it is a new airport or existing airport, other factors impacting ARR etc. Hence, it may not be possible to have a benchmark for the Return on RAB being considered as a % to total ARR."*

**Authority's examination of KIAL's and FIA's comments and KIAL's submission on FIA's comments**

6.12. In response to KIAL's comment on non-inclusion of land cost as part of RAB, the Authority notes that final decision regarding the inclusion of land cost as a part of RAB and return on such land cost will be taken after order pursuant to Consultation Paper No. 04/2018-19 dated 08.05.2018 and Supplementary Consultation Paper No. 17/2018-19 titled, 'In the matter of determination of FRoR to be provided on cost of land incurred by various airport operators in India' is finalized. The impact of such order would be trued up in the next control period.

6.13. FIA has commented that the cost of construction of Terminal Building and Airside Runway/Taxiway/Apron are on very high side and well above the specified normative cost. The Authority noted that FIA has calculated the normative cost of Terminal Building taking into account the probable expenditure with likely areas to be developed as stated in the consultation paper. FIA's calculation includes certain costs like Site Development cost, Boundary wall/ Ancillary Building costs etc. which are not related to unit cost of Terminal Building. Moreover the entire PMC cost and IDC cost are not related to Terminal Building. The area of Terminal Building actually built also differs from projected figure in the consultation paper. However, the entire expenditure of Kannur Airport was reviewed based



on details furnished by M/s KIAL and costs allocated to various works. An updated statement of expenditure is given in Table 7.

**Table 7: Per unit cost of Terminal Building and Air side Pavement**

Summary of updated expenditure	₹ crores	Area sq. m	₹/ sq. m
Land cost	316.00		
Site Development cost (land filling)	345.36		
Terminal Building Expenditure	839.94	97281	86342.00
Airside pavement	307.76	537800	5723.00
Other capital works	393.21		
<b>Total</b>	<b>2202.27</b>		

6.14. The Authority has already undertaken studies for a few other major airports for determining the reasonableness of the capital expenditure for their respective terminal buildings in the recent past. As per these studies, the cost of modern terminal is in the range varying from Rs.95000 per sq. mtr to Rs.1.20 lakhs per sq. mtr with glass & steel facade. The Authority is of the view, that this cost reflects a realistic estimate of the capital expenditure. The Authority noted that cost per sq. mtr of Airside pavement is also higher due to large expenditure incurred on drainage and Runway Approach lighting (CAT-I) considering the logistics and terrain at the airport location on high altitude/hilly area. The cost per sq. mtr of the Terminal Building and Air side works therefore, appears to be reasonable considering the above factors and comparable to other airports. However the total cost will be tried up after complete capitalization and Audit in next control period

6.15. In response to FIA's comment on asset allocation, the Authority, based on its site visit noted that the non-aeronautical section is under development. Kannur Airport being a greenfield airport, analysis such as passenger traffic trends or breakup of revenue from non-aeronautical services is presently not possible. However, the Authority notes that the non-aeronautical space and its utilization is likely to increase as time elapses. Accordingly in absence of sufficient information, allocation of 95%:5% has been considered appropriate for this control period.

#### **KIAL submission - Depreciation on RAB**

6.16. KIAL has followed straight line method of depreciation and depreciation rates applied to various assets are as per AERA Order No. 35/ 2017-18 "In the matter of Determination of Useful life of Airport Assets" dated 12.01.2018.

**Table 8: Depreciation on assets forming part of RAB as per KIAL (in ₹ crores)**

Rate	Asset head	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
1.67 %	Buildings and civil work	(7.96)	(15.96)	(15.96)	(15.96)	(15.96)
6.67 %	Plant & machinery	(15.92)	(31.93)	(31.93)	(31.93)	(31.93)
3.33%	Runway, Roads & Culverts	(5.91)	(11.85)	(27.37)	(27.37)	(27.37)





	Total	(29.79)	(59.74)	(75.26)	(75.26)	(75.26)
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### Authority's Examination – Depreciation on RAB

6.17. Depreciation as per the Authority after excluding proposed runway extension costs has been summarized in Table 9:

**Table 9: Depreciation on assets forming part of RAB as per the Authority (in ₹ crores)**

Rate	Asset head	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
1.67 %	Buildings and civil work	(7.96)	(15.96)	(15.96)	(15.96)	(15.96)
6.67 %	Plant & machinery	(15.92)	(31.93)	(31.93)	(31.93)	(31.93)
3.33%	Runway, Roads & Culverts	(5.91)	(11.85)	(11.85)	(11.85)	(11.85)
	Total	(29.79)	(59.74)	(59.74)	(59.74)	(59.74)

### Stakeholder comments and the Authority's observations

#### Comments from FIA

6.18. Regarding depreciation on RAB, FIA submitted that –

*"As per Para 5.7 of the Consultation Paper, KIAL has followed straight line method of depreciation and depreciation rates applied to various assets are as per AERA Order No. 35/2017-18 "In the matter of Determination of Useful life of Airport Assets" dated 12.01.2018.*

*As per the AERA Guidelines Para 5.3.3, depreciation is allowed up to a maximum of 90% of the original cost of the asset on straight line basis. However, as per Order No. 35/201718 on useful lives, the depreciation is allowed upto 100% of the original cost, which is in contravention to AERA Guidelines.*

*Accordingly, by taking 10% as residual value and depreciation over 90% of the value of the asset, the depreciation reduces by 10% from INR 268.76 crores to INR 241.88 crores. However, the return on RAB increased by 1% from INR 973.11 crores to INR 981.11 crores due to increase in the average RAB by considering depreciation over only 90% of the assets. The combined effect of each of the above decreased the ARR by 1% from INR 1,460.71 crores to INR 1,441.83 crores.*

*Useful life with respect to Runways, Apron has been considered as 30 years in accordance with Order 35/2017-18; however, FIA's review of useful life of assets at various international airports indicated that these assets have useful life as long as 99 years, hence it is submitted that life of 60 years of airport assets to be considered."*

#### KIAL's submission on FIA's comments

6.19. KIAL stated that –

*"KIAL submits that as detailed in Consultation Paper 09/2017-18 in the matter of determination of useful lives of Airport Assets, this has been left to the evaluation of individual Airport Operations. Policy adopted in financials would be adopted for the purpose of true up."*



**Authority's examination of FIA's comments and KIAL's submission on FIA's comments**

6.20. Regarding FIA's comment on depreciation on RAB, the Authority notes that depreciation has been computed as per AERA Order No. 35/ 2017-18 "In the matter of Determination of Useful life of Airport Assets" dated 12.01.2018. Further it is to be noted that AERA guidelines stand amended and are to be read in conjunction with the aforementioned order.

**KIAL's submission – Average RAB**

6.21. RAB during the first control period as per KIAL has been summarized in Table 10 below:

**Table 10: RAB as per KIAL's submission (in ₹ crores)**

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Opening RAB as on 01.04.2018	0.00	2,170.92	2,108.03	2,045.14	2,455.92
Closing RAB	2,170.92	2,108.03	2,045.14	2,455.92	2,376.70
Average RAB	1,085.46	2,139.47	2,076.59	2,250.53	2,416.31
Land value adjustment	(184.33)	(184.33)	(184.33)	(184.33)	(184.33)
Average RAB adjusted for Land not used	901.12	1,955.14	1,892.25	2,066.20	2,231.98
<b>Average RAB for working period after considering aeronautical portion</b>	<b>901.12</b>	<b>1,955.14</b>	<b>1,892.25</b>	<b>2,066.20</b>	<b>2,231.98</b>

**Authority's Examination – Average RAB**

6.22. RAB as per the Authority during the first control period has been summarized in Table 11 below:

**Table 11: RAB as per the Authority (in ₹ crores)**

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Opening	-	1,762.17	1,702.43	1,642.69	1,582.94
Additions	1,791.96	-	-	-	-
Depreciation	(29.79)	(59.74)	(59.74)	(59.74)	(59.74)
Closing	1,762.17	1,702.43	1,642.69	1,582.94	1,523.20
<b>Average RAB</b>	<b>881.08</b>	<b>1,732.30</b>	<b>1,672.56</b>	<b>1,612.82</b>	<b>1,553.07</b>

**Decision No. 1 Regarding RAB**

- 1.a. The Authority has decided to remove land cost from RAB and consider it subsequently based on decision taken on CP no. 17/2018-19 dated 01.10.2018.
- 1.b. The Authority has decided to exclude cost of ₹490 crores pertaining to cost towards runway extension proposed to be incurred in FY 20-21 as incurrence of such cost is not certain yet.
- 1.c. The Authority has tentatively accepted the allocation of assets in to aeronautical and non-aeronautical assets in the ratio 95:5. A detailed study will be conducted to determine the actual usage before true up in the next control period.
- 1.d. The Authority has decided to consider RAB during the first control period for calculation of ARR as shown in Table 11.



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



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## 7. FAIR RATE OF RETURN (FRoR)

7.1. KIAL in its submission has proposed the capital structure, funding mechanism, and FRoR as provided in Table 12 below:

**Table 12 : Capital structure and FRoR as submitted by KIAL (in ₹ crores)**

Asset head	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Average
Average Equity	979.57	1162.29	1407.29	1488.92	1488.92	
Average Debt	990.00	1200.00	1172.73	1090.91	981.82	
Total	1969.57	2362.29	2580.02	2579.83	2470.74	
Cost of Debt	10.05%	10.05%	10.05%	10.05%	10.05%	10.05%
Cost of Equity	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%
Debt equity ratio	50:50	51:49	45:55	42:58	40:60	45:55
<b>FRoR</b>						<b>13.30%</b>

### Authority's Examination

- 7.2. The Authority notes that with equity infusion, debt-equity ratio comes down during the first control period. KIAL has clarified that the proposed funding of runway extension is by way of equity in the second phase of airport development. Further, loan repayments also contribute to the reduction in debt-equity ratio.
- 7.3. Since the Authority has proposed to exclude capital investment of ₹490 crores pertaining to runway extension it will not be considered for calculation of FRoR.
- 7.4. Cost of debt has been assumed at 10.05% p.a. which is marginally lower than the 10.40% p.a. as specified in the joint lender agreement dated 20.05.2015 signed by KIAL with Canara Bank, The South Indian Bank Limited and The Federal Bank Limited considering current interest rate trends. The Authority has accordingly proposed to accept KIAL's submission in relation to cost of debt.
- 7.5. Regarding cost of equity, the Authority examined prevalent FRoR at major airports as per the airports' respective tariff orders (summarized in Table 13 below). Further, the Authority notes that KIAL is exposed to high risks due to intense competition and first-time operations. Accordingly, the Authority has proposed to accept KIAL's request for cost of equity at 16% p.a.

**Table 13 : Airport-wise cost of equity and FRoR comparison (%)**

Airport	Delhi	Mumbai	Hyderabad	Bengaluru	Cochin
Cost of equity	16%	16%	16%	16%	14%
FRoR	9.94%	11.78%	10.01%	11.55%	11.17%
Control period	01.04.2014 to 31.03.2019	01.04.2014 to 31.03.2019	01.04.2011 to 31.03.2016	01.04.2011 to 31.03.2016	01.04.2016 to 31.03.2021



7.6. After considering impact of RAB as per the Authority and impact of internal accruals in the overall capital structure, FRoR as per the Authority has been computed in Table 14 below:

**Table 14 : Capital structure and FRoR as per the Authority (in ₹ crores)**

Asset head	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Average
Average Equity	979.57	998.92	998.92	998.92	998.92	
Average Retained Earnings	7.92	35.52	87.47	168.69	285.22	
Average Debt	990.00	1,200.00	1,172.73	1,090.91	981.82	
<b>Total</b>	<b>1,977.49</b>	<b>2,234.44</b>	<b>2,259.12</b>	<b>2,258.52</b>	<b>2,265.96</b>	
Cost of Debt	10.05%	10.05%	10.05%	10.05%	10.05%	10.05%
Cost of Equity	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%
Debt equity ratio	50:50	54:46	52:48	48:52	43:57	49:51
<b>FRoR</b>						<b>13.06%</b>

**Stakeholder comments and the Authority's observations**

**Comments from FIA**

7.7. Regarding FRoR, FIA submitted that –

*“Authority has accepted KIAL's submission on debt equity ratio. No debt repayment schedule has been provided for stakeholder consultation. No true up has been proposed for the debt equity ratio in second control period.*

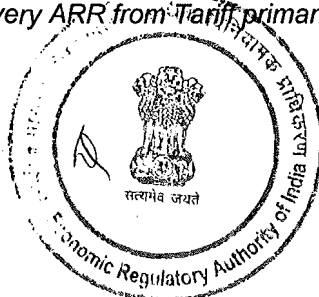
*As per proposal 2 of the Consultation Paper, the Authority has proposed to consider the Cost of Equity at 16% p.a. and FRoR at 13.06% p.a. for KIAL for the first control period. FRoR of 13.06% used in Tariff model by the Authority is tentative and based on the following assumptions:*

*(a) Steady growth in the average retained earnings as part of the equity portion, which decreases the debt equity ratio and in turn increases FRoR by virtue of a higher cost of equity (16.00%) than cost of debt (10.05%).*

*(b) Debt repayments as submitted by KIAL have been accepted without any detailed discussion in the Consultation Paper. No repayment schedule of such debts has been discussed for stakeholder consultation. This results in decrease of the debt equity ratio and in turn increases FRoR by virtue of a higher cost of equity (16.00%) than cost of debt (10.05%)*

*Each of the above-mentioned assumptions has led to an inflated FRoR of 13.06%. In comparison, the cost of equity and FRoR for Cochin Airport for second control period is 14% and 11.17% respectively. Also, the FRoR of KIAL is highest among the airports which are presented by the Authority in Table 11 of the Consultation Paper. FRoR is high at 13.06% as the financing structure is more equity driven (debt equity ratio is 49:51) which is not very efficient also due to higher return of equity which is at 16%. Any security deposits to be received has not been considered by the Authority. Also, average debt and equity balances are considered or closing balances are considered is not clarified by the Authority in the Consultation Paper.*

*As part of the Proposal 2 regarding FRoR, while Authority has proposed a true up based on actual cost of debt and cost of equity, no true up has been proposed to the debt equity ratio/ gearing ratio for the first control period. Considering (a) 67% share of the ARR is return on RAB; (b) shortfall in recovery ARR from Tariff primarily because of higher return.*



*FIA submits that the Authority to consider the return of equity @ 14% and debt equity ratio at 60:40, in order to avoid overburdening of passengers and airlines. This will also ensure viability of operations of airport. Also, the Authority to ensure that the security deposits to be received should be included in computation of FRoR at zero rate of return."*

**KIAL's submission on FIA's comments**

7.8. KIAL stated that –

*"Considering normative gearing ratios would be against the interest of the investors who have contributed share capital to the Project.*

*FRoR is higher due to the higher equity involvement in the Project, where the operations are yet to be demonstrated.*

*Return on Equity at 14% is not justified considered the new airport and increased risks as has been detailed by the Authority.*

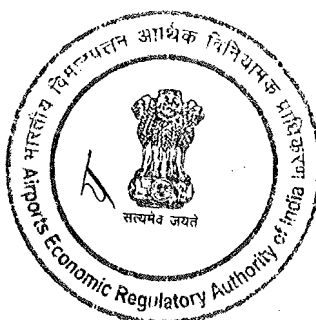
*KIAL confirms that no significant security deposits have been received from any party to fund the Airport construction."*

**Authority's examination of FIA's comments and KIAL's submission on FIA's comments**

- 7.9. In relation to FIA's comments on FRoR, the Authority points out that it is yet to come out with a recommendation on ideal capital structure for financing airport projects. In pursuance with the directions of the Tribunal, the Authority has initiated the process of undertaking a study for determining the Cost of equity.
- 7.10. The Authority notes and accepts FIA's comment regarding true-up of debt-equity ratio. It is to clarify that truing up of FRoR shall include true up of debt-equity ratio as well.
- 7.11. The Authority notes that there is higher uncertainty regarding traffic because of competition from other nearby airports and the fact that Kannur airport, till date, has not been declared as a port of call for foreign airlines. Therefore, a higher cost of equity at 16% which is also in line with other PPP airports seems appropriate. In view of above FRoR calculated with said cost of equity seems to be reasonable.

**Decision No. 2 Regarding FRoR**

- 2.a. 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.
- 2.b. 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 the cost of equity at major airports.



## 8. OPERATION AND MAINTENANCE EXPENDITURE

8.1. KIAL's submission on details and assumptions of operation and maintenance expenditure proposed to be incurred during the first control period are provided in Table 15 below:

**Table 15: Assumptions made by KIAL for each item of Operation and Maintenance Expenditure**

Item	Assumption
Land Lease	It is assumed that 1176.48 acres of land will be leased in from M/s KINFRA at the rate of Rs.100 per acre per annum.
Security	Security expenses assumed at Rs.30 per passenger based on the benchmarks. An annual escalation of 8% is provided for.
Repair and Maintenance	Repairs to buildings, plants, equipment and runways is considered at the rate of 1% of civil cost and 1% of equipment cost for the year in which the airport operations are commenced. An annual escalation of 8% is considered for the subsequent years.
Power, Water and Fuel Charges	Based on the benchmarks, power, water and fuel charges is assumed at Rs.20 per passenger with a year on year increase of 8%.
Admin Expenses	Admin expenses is assumed at Rs.30 per passenger based on the benchmarks. An escalation of 8% is assumed every year.
Marketing Costs	Marketing costs is assumed as 1% of total revenues excluding UDF.
Stores and Spares	Stores and spares cost is assumed as 0.5% of all equipment cost with a year on year increase of 8%.
Employee's Salary	Based on the benchmarks, employee's salary has been worked out as Rs.54 per passenger. An annual increase of 8% is considered.

8.2. KIAL has apportioned total expenditure incurred during the first control period into aeronautical and non-aeronautical in the ratio of 95:05. Below Table 16 summarizes the operation and maintenance expenditure after considering 95% of the total expenditure incurred during the first control period as aeronautical expenditure:

**Table 16: Projected O&M expenditure by KIAL for the first control period (in ₹ crores)**

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Land Lease Rental	0.01	0.01	0.01	0.01	0.01
Employee Costs	4.34	10.56	12.79	15.37	18.44
Power & Water	1.61	3.91	4.74	5.69	6.83
Repair and Maintenance	-	18.86	20.37	27.72	29.93
Administration	2.41	5.86	7.10	8.54	10.24
Marketing Costs	0.37	0.86	1.00	1.16	1.34
Security	18.19	36.10	35.91	35.85	35.93
Stores and Spares	-	2.52	2.72	2.94	3.18
<b>Total</b>	<b>26.91</b>	<b>78.68</b>	<b>84.64</b>	<b>97.3</b>	<b>105.9</b>



### Authority's Examination

8.3. Table 17 shows Authority's analysis of O&M expenditure per passenger (domestic + international) projected for airports at Kochi, Trivandrum and Calicut with KIAL's submission:

**Table 17: Airport-wise comparative O&M expenditure per passenger for FY18-19 (in ₹ per pax)**

Particulars	KIAL	Kochi	Trivandrum	Calicut
Land Lease Rental	0.07	19.49	NA	NA
Employee Costs	54.00	77.01	73.00	104.25
Power & Water	20.00	44.45	13.96	22.88
Repair and Maintenance	0.00	48.10	11.94	31.05
Administration	30.00	20.56	28.25	54.58
Marketing Costs	4.58	0.00	NA	NA
Security	226.59	6.94	NA	NA
Stores and Spares	0.00	5.55	0.83	0.65
<b>Total</b>	<b>335.24</b>	<b>222.10</b>	<b>127.98</b>	<b>213.40</b>

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.

8.5. Further since other expenses proposed by KIAL are within the benchmark range in comparison to per passenger costs at other airports, the Authority has proposed to allow such expenses for the current control period.

8.6. Below Table 18 summarizes the operation and maintenance expenditure after considering 95% of the total expenditure incurred during the first control period as aeronautical expenditure:

**Table 18: O&M expenditure for the first control period after considering above factors (in ₹ crores)**

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Land Lease Rental	0.01	0.01	0.01	0.01	0.01
Employee Costs	4.12	10.03	12.15	14.60	17.52
Power & Water	1.53	3.71	4.50	5.41	6.49
Repair and Maintenance	-	17.92	19.35	20.90	22.57
Administration	2.29	5.57	6.75	8.11	9.73
Marketing Costs	0.84	1.92	2.18	2.47	2.80
Security	2.29	5.57	6.75	8.11	9.73
Stores and Spares	-	2.40	2.59	2.79	3.02
<b>Total</b>	<b>11.06</b>	<b>47.13</b>	<b>54.27</b>	<b>62.42</b>	<b>71.88</b>

### Stakeholder comments and the Authority's observations





## Comments from KIAL

8.7. Regarding operation and maintenance expenditure, KIAL submitted that –

*"The Authority has proposed to exclude expenses relating to the staff of CISF. KIAL submits that CISF has proposed to deploy around 613 personnel in KIAL for security purposes. The PSF Security Component of Rs. 130 proposed to be collected from passengers would not be sufficient to fund the CISF expenditure. KIAL would take up the matter with MoCA and request for increase in rates for PSF Security Component"*

## Comments from FIA

8.8. Regarding operation and maintenance expenditure submitted by KIAL, FIA submitted that –

*"The Authority has accepted the operating expenses submitted by KIAL on an "as is" basis, except in case of security expenses wherein CISF cost has been excluded being part of PSF. Hence, Authority has not scrutinized the reasonableness of operating expenditure and proposed true up in the second control period.*

*Further, as per Proposal 3.b. of the Consultation Paper, the Authority proposes to accept allocation of aeronautical and non-aeronautical expenses in the ratio of 95%:5% without conducting an independent analysis for the expenses in the first control period, and further, no study for such allocation has been proposed. Hence, the present ratio of 95:5 does not have any basis and is tentative, which depicts a very lenient approach of the Authority. However, till the time study is conducted, FIA would like to highlight aero allocation ratio proposed as per CP 5/2014-15 on Normative Approach is 80%, hence it is submitted that aero expenditure should be considered at 80% in the first control period at the time of passing the order of KIAL.*

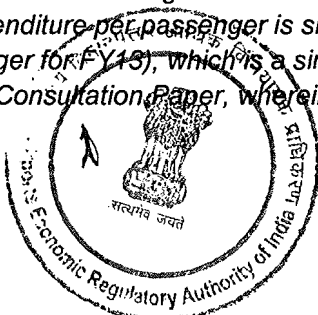
*Further, it is submitted that the Authority should order for independent study for determining the reasonableness of allocation ratios and consider the same at the time of passing order on Consultation Paper (on basis of that study) on issues like 'bifurcation of expenditures into aeronautical & non aeronautical instead of leaving it for truing up without assigning any cogent reasons.*

*FIA submits that the Operating expenditure represents 17% of ARR, hence, the Authority should have evaluated these expenses in detail rather than broadly relying on projections and basis provided by KIAL.*

*Further, with regard to projected expenses from FY19 to FY23 in the Consultation Paper, the Authority;*

- a) had accepted the basis of key expenses like employee costs and repair & maintenance as forecasted by KIAL,*
- b) has made certain modifications with respect to security expense and*
- c) has made upward revisions in the submissions of KIAL for marketing costs. Moreover, the basis for security expense post revisions from Authority is not clearly mentioned in the Consultation Paper.*

*The operating expenditure per passenger for the entire 1st control period was noted to be INR 254 per passenger (including both domestic and international passengers). Based on the broad range of INR 176 to INR 259 given in CP 5/2014-15 "In the matter of normative approach to building blocks in economic regulation of major airports" for FY13, it is to be noted that the operating expenditure per passenger is significantly higher than that for Cochin (INR 176 per passenger for FY13), which is a similar airport to KIAL. This is further evaluated in Table 15 of the Consultation Paper, wherein opex per passenger for FY19 for*



KIAL (INR 335.24) is significantly higher than that for Cochin (INR 222.10) and Calicut (INR 213.40) for the same period.

However, the Authority has presented and compared these benchmarks, but not applied these benchmarks in proposing the operating expenditure of KIAL and rather relied upon KIAL's submission. FIA has analysed opex per passenger for 1st year control period of KIAL with that of Cochin and Calicut rather than comparing opex of first six months of operations of KIAL."

- 8.9. Regarding operation and maintenance expenditure submitted by KIAL, FIA further submitted that –

"As per Para 7.5 of the Consultation Paper, the Authority has stated that "since other expenses proposed by KIAL are within the benchmark range in comparison to per passenger costs at other airports, the Authority has proposed to allow such expenses for the current control period". However, as per the comparison done by Authority for operating expenditure per passenger across different airports for FY19, it can be clearly noted that KIAL has a significantly higher operating expenditure per passenger at INR 335.24 as opposed to other airports and is not within the benchmark range of expenses. Moreover, the expenses considered for KIAL in FY19 is for half year and the comparison is being done with full year operations of other comparable operational airports of Kerala. Hence, it is submitted that the comparison done by Authority is not relevant from the point of view of keeping a conservative benchmark for the first control period.

FIA has conducted analysis, wherein instead of comparing a single year of operations, the complete 5-year control period is considered across airports for the sake of comparing operating expenditure per passenger.

Based on the analysis, it is submitted that key costs per passenger such as those of repair and maintenance, security, administration and stores & spares are 2x to 4x of other comparable airports as highlighted in table below:

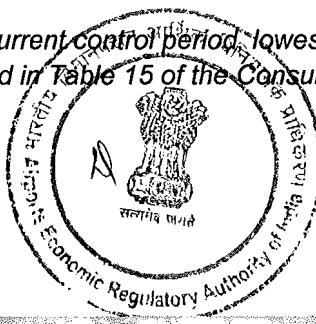
It is submitted that Authority has not evaluated benchmarks in detail and has accepted a high operating expenditure contributing towards the shortfall in ARR. However, considering the shortfall in ARR, the Authority should consider lowest opex per passenger reflecting in comparable airports.

Marketing costs were only noted for KIAL and no other comparable airport. Authority has not discussed details of this expense head. Moreover, there has been an upward revision by the Authority in the marketing cost proposed by KIAL for which no justification has been discussed. Hence, it is submitted that Authority has failed to evaluate the operating expenditure and provided upward revisions without any justifications thereof.

Considering the approach of the Authority for reviewing the operating expenditure is not in line with provision of AERA Guidelines, it is therefore submitted that in order to assess efficient operating expenditure and reasonableness of opex, the Authority should have conducted technical evaluation and not accepted KIAL's submission as is in garb of truing up in subsequent control period. Also, for the current control period, lowest opex per passenger of INR 127.98 of Trivandrum, highlighted in Table 15 of Consultation Paper to be considered for computing operating expenditure per passenger at the time of passing order.

FIA submits that the aero operating expenditure be considered at 80% in the 1st control period to reduce ARR & minimize shortfall. Further, the Authority needs to conduct independent study for allocation of operating expenditure which may be used for truing up in the 2nd control period.

FIA further submits that for the current control period, lowest opex per passenger of INR 127.98 of Trivandrum, highlighted in Table 15 of the Consultation Paper to be considered for



*computing operating expenditure per passenger at the time of passing order to reduce ARR & minimize shortfall. Also, an independent technical evaluation of expenses be undertaken for true up in the next control period."*

#### **KIAL's submission on FIA's comments**

8.10. KIAL stated that –

*"While Operating Expenditure/ Non-Aeronautical Revenue per passenger could be a point of comparison across airports, the same may not be fully comparable between an established and running airport and a new airport where the existing airport is expected to have an established traffic base. Certain costs in Airport Operations may be fixed and hence, where there is higher traffic, the per passenger cost could appear to be lower in certain airports.*

*KIAL has provided basis for estimation of costs and the actual trend of costs would be known once the Airport has been commissioned and is in operation for some time. KIAL has therefore requested the Authority to true up the costs based on actuals.*

*Operating expenditure per year compared by Authority considers estimated annual cost divided by Annual number of passengers and hence is correct.*

*Allocation of Capital and Operating Costs between Aeronautical and Non-Aeronautical is done as an estimate which is broadly in line with certain AAI airports, BIAL etc.*

*Airport Operations and Terminal building usage for Non-Aero activities also would need to be stabilised for evaluation of allocation ratios."*

#### **Authority's examination of FIA's comments and KIAL's submission on FIA's comments**

8.11. In relation to the FIA's view regarding benchmarking with other airports, the Authority has reconsidered the estimates of O&M costs submitted by KIAL with respect to the comments of FIA and is of the view that there is a scope for reduction in projection of Operating & Maintenance estimates by KIAL.

8.12. Consequently, on further analysis of the growth rates assumed for various heads under the operating & maintenance expenditure, the Authority notes that a more reasonable growth rate needs to be considered in FY21, FY22 & FY23 for the following:

- Employee costs (7%);
- Power and water expenses (5%);
- Repair and maintenance costs (2%);
- Administration expenses (7%);
- Security expenses (7%); and
- Stores and spares (2%).

Accordingly, the revised O&M expenditure is shown in table below:



**Table 19: O&M expenditure for the first control period as per the Authority (in ₹ crores)**

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Land Lease Rental	0.01	0.01	0.01	0.01	0.01
Employee Costs	4.34	10.56	11.29	12.09	12.93
Power & Water	1.61	3.91	4.11	4.31	4.53
Repair and Maintenance	0.00	18.86	19.24	19.62	20.02
Administration	2.41	5.86	6.27	6.71	7.18
Marketing Costs	0.88	2.02	2.30	2.60	2.95
Security	2.41	5.86	6.27	6.71	7.18
Stores and Spares	0.00	2.52	2.57	2.62	2.68
<b>Total</b>	<b>11.64</b>	<b>49.61</b>	<b>52.07</b>	<b>54.69</b>	<b>57.48</b>

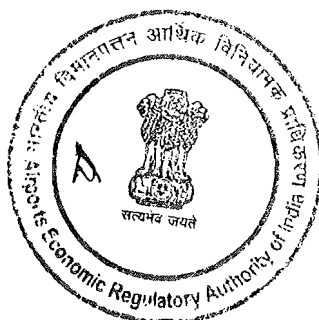
8.13. Considering the high capital cost and low growth rates of traffic in the first control period, the Authority directs KIAL to optimize/ reduce the operating costs by ensuring efficient operations. Further, in case of any additional requirement with regard to operating cost occurs in future, the Authority shall true up in the next control period.

**Decision No. 3 Regarding Operation and Maintenance expenditure**

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

The Authority has decided to consider the operational and maintenance expenditure as given in

- 3.c. Table 19 for the purpose of determination of aeronautical tariffs for the first Control Period.
- 3.d. The Authority also decides to true up the Operating expenses based on the actual expenditure during the first control period.



## 9. REVENUE FROM SERVICES OTHER THAN AERONAUTICAL SERVICES

9.1. KIAL has submitted the forecasts of various components of non-aeronautical revenue streams as well as the assumptions underlying the forecast.

**Table 20: Assumptions made by KIAL for each item of Non-Aeronautical Revenue**

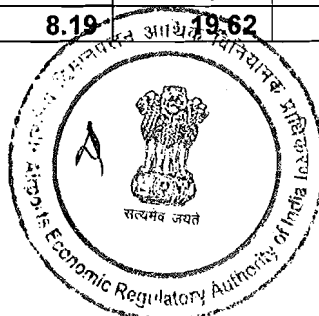
Item	Assumption
F&B services	Revenue from F&B services has been assumed at 25% of revenue from duty free services
Flight catering systems	4% of total aeronautical revenue has been assumed as royalty from flight catering services.
Land Lease Revenue	Land lease revenue is assumed at Rs.5000 per acre per annum for 280 acres of land to be leased for flight catering center, aircraft maintenance, logistics and redistribution center and fuel farm.
Space Lease Income	Space lease rentals based on estimated commercial, retail & hospitality spaces that will be provided. The rate is arrived at by benchmarking with other operational airports.
Car Park Income	It is assumed that 25% of passengers will opt for car parking slots. Car park rate is assumed at Rs.60/- per vehicle as prevailing in the other Kerala airports. An annual escalation of 8% is considered.
Entry Ticket Income	Entry tickets to the terminal area are assumed at the rate of Rs.25/- at domestic terminal and Rs.50/- for international terminal. It is assumed that there will be two visitors per passenger and out of which 5% of visitors will enter into the terminal building by paying entry ticket fee.
DFS Royalty	It is assumed that the duty free activities of the airport will be outsourced. Royalty of 25% is assumed on the revenues from duty-free shopping. Revenue from duty free shopping has been assumed to be \$35 per passenger for 10% of total international passengers in a year. An annual escalation of 8% is considered.
Advertising Income	Advertisement income is assumed at a rate of Rs.2.5 lakhs per advertisement with an annual escalation of 10%. 10 such advertisement boards are considered per year.

9.2. Since it is a new airport and there is no confirmed trends on the traffic of passengers and ATMs and Non-Aero Revenues, KIAL submits that the Non Aeronautical Revenues estimated herein may be trued up based on actuals at the end of the current control period.

9.3. Revenue from Non-Aeronautical Services for the first control period submitted by KIAL are as shown in Table 21 below:

**Table 21: Revenue from non-aeronautical services for the first control period as per KIAL (in ₹ crores)**

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
F&B services	1.04	2.53	3.07	3.69	4.43
Flight Catering Services	0.67	1.51	1.68	1.91	2.11
Land Lease Revenue	0.00	0.00	0.00	0.00	0.00
Space Lease Rental	0.59	1.30	1.44	1.58	1.74
Car Park Revenue	1.20	2.93	3.55	4.27	5.12
Public Admission Charges	0.38	0.93	1.13	1.36	1.63
Duty Free Shop	4.17	10.14	12.27	14.76	17.72
Advertising	0.12	0.28	0.30	0.33	0.37
<b>Total</b>	<b>8.19</b>	<b>19.62</b>	<b>23.44</b>	<b>27.90</b>	<b>33.12</b>



### Authority's Examination

9.4. The Authority noted that land lease revenue, considered as part of non-aeronautical revenues, includes revenue from lease of land for aeronautical activities namely, Aircraft Maintenance Centre, Logistics and Redistribution Centre and Fuel Farm. Therefore, the Authority has proposed to consider such lease rental revenue as revenue from aeronautical services.

9.5. Below Table 22 shows Authority's analysis of non-aeronautical revenue per passenger (domestic + international) projected for airports at Kochi, Trivandrum and Calicut with KIAL's submission:

**Table 22: Airport-wise comparative non-aeronautical revenue per passenger for FY18-19 (in ₹ per pax)**

Particulars	KIAL	Kochi	Trivandrum	Calicut
F&B services	6.46	7.67	47.78	12.75
Flight Catering Services	6.96	3.18	0.00	15.69
Land Lease Revenue	0.43	9.53	18.54	6.21
Space Lease Rental	3.66	85.20	5.85	45.10
Car Park Revenue	7.45	9.70	14.37	7.19
Public Admission Charges	2.36	11.02	15.38	4.58
Duty Free Shop	25.90	100.99	40.65	57.84
Advertising	0.75	6.42	3.72	7.52
<b>Total</b>	<b>53.98</b>	<b>233.72</b>	<b>146.28</b>	<b>156.86</b>

9.6. Since non aeronautical revenues proposed by KIAL are within the benchmark range in comparison to non-aeronautical revenue per passenger at other airports, the Authority has proposed to allow such revenues for the current control period.

### Stakeholder comments and the Authority's observations

#### Comments from KIAL

9.7. Regarding revenue from lease of land, KIAL submitted that –

*"The Authority has proposed to exclude lease rental revenue from Aircraft Maintenance Centre, Logistics and Redistribution Centre and Fuel Farm and consider it as part of revenue from Aeronautical services.*

*KIAL submits that the Authority may uniformly consider this across airports as it was noted that this was not a uniform treatment across other airports. KIAL requests the Authority to list down the activities and revenues that would be considered as "Aeronautical" and discuss the same with stakeholders."*

#### Comments from FIA

9.8. Regarding non-aeronautical revenues submitted by KIAL, FIA submitted that –

*"In the garb of truing up, Authority has accepted KIAL's submission on the projections of non- aeronautical revenue without conducting technical evaluation or assessing non-aeronautical revenues for similar airports. Higher non-aero revenue per passenger of similar*



airports of same state has been presented but not considered in proposed non aero revenue, leading to higher ARR

As per proposal 4 of the Consultation Paper, the Authority has accepted the revenue projections and basis suggested by KIAL and has proposed that the same would be true up on the basis of actuals during second control period.

As per the above table, the Authority has considered a 20% increase from FY19 onwards on the total non-aeronautical revenue. This increase is a combination of the annual escalation of 8% (across top 3 non-aero revenue streams), passenger growth % and certain assumptions as mentioned in the above table.

The Authority has considered the land lease revenue for aircraft maintenance centre, logistics and redistribution centre and fuel farm as Aeronautical as opposed to KIAL's submission, wherein these revenues were submitted as part of the non-aeronautical revenues. Accordingly, Authority has rightly proposed to treat such revenues as revenue from aeronautical services.

As per clause 5.6.1 of the AERA Guidelines, the Authority's review of forecast of revenues from services other than aeronautical services may include scrutiny of bottom-up projections of such revenues prepared by the Airport Operator, benchmarking of revenue levels, commissioning experts to consider where opportunities for such revenues are under-exploited, together with the review of other forecasts for operation and maintenance expenditure, traffic and capital investment plans that have implications for such activities.

However, review of the Consultation Paper indicated that for the purpose of determining Non Aeronautical Revenue, the Authority, rather than evaluating non aeronautical revenue in detail as per AERA Guidelines, has relied upon basis provided by KIAL."

9.9. Regarding benchmarking of non-aeronautical revenues, FIA submitted that –

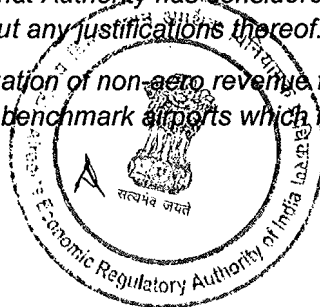
"Authority has not appropriately evaluated the benchmarks of Non - Aeronautical. Key heads of Non-Aero revenue per passenger of similar airports are 2x to 25x of KIAL's corresponding revenue. Cross subsidization of Non-Aeronautical revenue constitutes only 2% of ARR in KIAL as opposed to approx. 10%-15% for other airports

As per Para 8.6 of the Consultation Paper, the Authority has stated that "since non-aeronautical revenues proposed by KIAL are within the benchmark range in comparison to non- aeronautical revenue per passenger at other airports, the Authority has proposed to allow such revenues for the current control period". However, as per the comparison done by Authority for non- aeronautical revenue per passenger across different airports for FY19, it can be clearly noted that KIAL has a significantly lower non-aero revenue per passenger at INR 53.98 as opposed to other airports and is not within the benchmark range of non-aero revenues.

It is submitted that the comparison done by Authority is not relevant from the point of view of keeping a conservative benchmark for the first control period. It is further submitted that Authority has not evaluated benchmarks with due care and has accepted a low projection of non-aero revenue which has contributed towards the shortfall in ARR.

In key revenue heads such as duty free shop, space lease rental, land lease revenue and advertisement revenue, there is a glaring discrepancy of projections of non-aero revenue per passenger as compared to other airports, wherein the non-aero revenue per passenger for such airports is 2x (duty free shop) to 25x (space lease rental) of the non-aero revenue per passenger for KIAL. It is submitted that Authority has considered non-aero revenue per passenger within benchmarks without any justifications thereof.

It was also noted that cross subsidization of non-aero revenue for KIAL represents a meagre 2% of the ARR as opposed to other benchmark airports which range from 8% (Trivandrum)



to 17% (Cochin). Hence, it is submitted that the Authority by accepting KIAL's submission has unduly underestimated the non-aero revenues which has resulted in higher ARR and in turn a shortfall.

FIA submits that considering the approach of the Authority for reviewing the non-aero revenue is not in line with provision of AERA Guidelines, it is therefore submitted that in order to assess non-aero revenue, the Authority should have conducted technical evaluation and not accepted KIAL's submission "as is", in garb of true up in subsequent control period.

FIA submits that for the current control period, highest non-aero revenue per passenger of INR 233.71 of Cochin, highlighted in Table 19 of the Consultation Paper to be considered for computing non-aero revenue per passenger at the time of passing order to reduce ARR & minimize shortfall. Also, independent technical evaluation of non-aero revenue be undertaken for true up in the next control period."

#### **KIAL's submission on FIA's comments**

9.10. KIAL stated that —

"KIAL has submitted basis for estimating the Non-Aeronautical Revenue. Considering that Kannur International Airport is a new airport and considering the uncertain traffic and the need for operations to stabilise, Non-Aeronautical Revenues are expected to stabilise and improve once the Airport operations are stabilised.

Considering the same, KIAL has requested the Authority to true up the Non-Aeronautical Revenues based on actuals."

#### **Authority's examination of KIAL's and FIA's comments and KIAL's submission on FIA's comments**

- 9.11. With regard to KIAL's comment on non-aeronautical revenues, the Authority is committed to ensuring uniformity in tariff determination across all airports and it shall consider reclassification of revenue from lease of land for aeronautical services in upcoming tariff reviews. So far as a list of aeronautical services is concerned, the Authority shall continue to review airport tariff submissions on case to case basis in accordance with provisions of the AERA Act.
- 9.12. With regard to FIA's comments on non-aeronautical revenues, the Authority, based on its site visit, asserts that the non-aeronautical section is under development. Since Kannur Airport is a Greenfield airport, there is no actual data about traffic and other parameters yet. Further, the Authority notes that the non-aeronautical space and its utilization would only increase as time elapses. Thus, the Authority has decided to accept KIAL's tariff submissions which are in line with the benchmark numbers and shall true up in the next control period, based on actual numbers during the first control period.





**Table 23: Revenue from non-aeronautical services for the first control period as per the Authority (in ₹ crores)**

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
F&B services	1.04	2.53	3.07	3.69	4.43
Flight Catering Services	0.64	1.46	1.65	1.86	2.10
Land Lease Revenue	0.00	0.00	0.00	0.00	0.00
Space Lease Rental	0.59	1.30	1.44	1.58	1.74
Car Park Revenue	1.20	2.93	3.55	4.27	5.12
Public Admission Charges	0.38	0.93	1.13	1.36	1.63
Duty Free Shop	4.17	10.14	12.27	14.76	17.72
Advertising	0.12	0.28	0.30	0.33	0.37
<b>Total</b>	<b>8.16</b>	<b>19.57</b>	<b>23.41</b>	<b>27.85</b>	<b>33.11</b>

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

- 4.a. 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.

The Authority has decided to consider the Non Aeronautical Revenue as given in

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- 4.b. Table 23 for determination of aeronautical tariffs for the first control period.
- 4.c. The Authority has decided to true-up the Non Aeronautical Revenue based on the actual Non Aeronautical Revenue earned during the first control period.



## 10. TAXATION

10.1. Clause 5.5.1 and Clause 5.5.2 of the Airport Guidelines state that:

*"Taxation represents payments by the Airport Operator in respect of corporate tax on income from assets/ amenities/ facilities/ services taken into consideration for determination of Aggregate Revenue Requirement."*

*"The Authority shall review forecast for corporate tax calculation with a view to ascertain inter alia the appropriateness of the allocation and the calculations thereof."*

10.2. As per the Airport Guidelines any interest payments, penalty, fines and other such penal levies associated with corporate tax, shall not be taken into consideration as expenditure or cost.

10.3. Tax liability during the first control period considered by KIAL is provided in Table 24 below:

**Table 24: Tax liability as per KIAL's submission (in ₹ crores)**

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Return on RAB	113.83	246.97	239.02	260.99	281.94
Less: Interest on Loan	-61.81	-122.38	-121.17	-111.67	-100.89
Estimated profit	52.01	124.59	117.85	149.33	181.05
Tax rate (incl gross up)	26.52%	26.52%	26.52%	26.52%	26.52%
<b>Estimated tax cost</b>	<b>13.79</b>	<b>33.04</b>	<b>31.25</b>	<b>39.60</b>	<b>48.01</b>

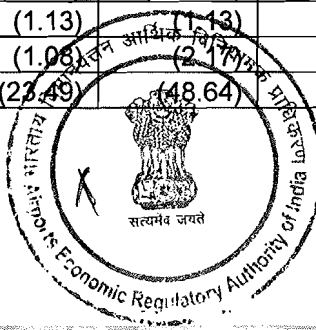
### Authority's Examination

10.4. The Authority has noted that KIAL has calculated corporate tax liability @ 26.52% p.a. on return on RAB less interest on loan. Tax should be calculated on Aeronautical profit, Aeronautical profits should be derived from revenues expected to be earned (i.e. based on estimated traffic multiplied by proposed tariff). Further, impact of benefit from unabsorbed tax losses and unabsorbed depreciation and MAT liability on net tax liability should also be considered.

10.5. Accordingly, the Authority has recalculated the net tax liability on KIAL's revised profit from aeronautical services after taking into account the impact of benefit from unabsorbed tax losses and unabsorbed depreciation. Table 25 below depicts the net tax liability on profit from aeronautical services:

**Table 25: Net tax liability as per the Authority (in ₹ crores)**

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Aeronautical revenue	79.88	182.13	206.29	232.64	262.05
Less: Operating expenses	(11.06)	(47.13)	(54.27)	(62.42)	(71.88)
<b>EBIDTA</b>	<b>68.82</b>	<b>135.00</b>	<b>152.01</b>	<b>170.22</b>	<b>190.17</b>
Less: Book depreciation	(29.79)	(59.74)	(59.74)	(59.74)	(59.74)
Less: Interest - RTL	(60.30)	(120.60)	(119.23)	(109.64)	(98.67)
Less: Banking and Financing Charges	(1.13)	(1.13)	(1.13)	(1.13)	(1.13)
Less: Interest on WC Loan	(1.06)	(2.11)	(2.44)	(2.74)	(3.07)
<b>PBT</b>	<b>(23.49)</b>	<b>(48.64)</b>	<b>(30.54)</b>	<b>(3.04)</b>	<b>27.56</b>



Tax	-	-	-	-	(5.71)
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**Decision No. 5    Regarding Taxation**

- 5.a. The Authority has decided to consider tax as given in Table 25.
- 5.b. The true up amount shall be based on actual tax paid during the first control period



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## 11. AGGREGATE REVENUE REQUIREMENT

11.1. The Aggregate Revenue Requirement (ARR) computed by KIAL for the first control period is as shown in Table 26 below:

**Table 26: ARR and shortfall for the first control period as per KIAL (in ₹ crores)**

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Average Regulatory Asset Base	901.12	1,955.14	1,892.25	2,066.20	2,231.98	
Weighted Average Cost of Capital	13.17%	13.17%	13.17%	13.17%	13.17%	
RAB * WACC	112.74	244.61	236.74	258.50	279.24	
Depreciation	29.79	59.74	59.74	75.26	75.26	
Operating Expenses	26.09	75.91	81.67	93.85	102.16	
Tax cost	13.36	32.10	30.30	38.55	46.88	
Less: Non-Aero Revenue	-2.48	-5.93	-7.07	-8.41	-9.98	
<b>Aggregate Revenue Requirement</b>	<b>179.51</b>	<b>406.43</b>	<b>401.39</b>	<b>457.75</b>	<b>493.56</b>	
Aeronautical Revenues	-83.99	-188.08	-209.69	-238.06	-263.97	
UDF collections proposed	-37.52	-84.50	-94.75	-105.50	-117.25	
<b>Gap to be bridged (shortfall)</b>	<b>58.00</b>	<b>133.85</b>	<b>96.94</b>	<b>114.19</b>	<b>112.34</b>	<b>515.32</b>

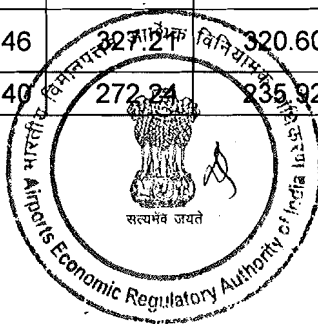
### Authority's Examination

11.2. The Authority has proposed that the date of order shall be considered as 1 October 2018 for calculating discounting factors.

11.3. ARR as per the Authority after considering the above changes is provided in Table 27 below:

**Table 27: ARR and shortfall for the first control period as per the Authority (in ₹ crores)**

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Average RAB [1] as per Table 11	881.08	1,732.30	1,672.56	1,612.82	1,553.07	
FRoR [2] as per Table 14	13.06%	13.06%	13.06%	13.06%	13.06%	
Discount Factor	0.94	0.83	0.74	0.65	0.58	
Return on Average RAB [3] = [1] * [2]	115.06	226.22	218.41	210.61	202.81	
Add: Depreciation [4] as per Table 9	29.79	59.74	59.74	59.74	59.74	
Add: Operating expenses [5] as per Table 18	11.06	47.13	49.47	51.95	54.61	
Add: Taxation [6] as per Table 25	-	-	-	-	5.71	
Add: Under / (Over) Recovery from Previous Control Period [7]						
Less: 30% of non - aeronautical revenue [8] as per Table 23	(2.45)	(5.87)	(7.02)	(8.36)	(9.93)	
ARR [9] = [3] + [4] + [5] + [6] + [7] - [8]	153.46	272.24	320.60	313.95	312.94	
PV (Discounted ARR) [10]	144.40	272.24	235.92	204.35	180.16	1,037.07



<b>Aeronautical revenues as per Table 32</b>	79.88	182.13	206.29	232.64	262.05	
PV (Discounted aeronautical revenues)	75.16	151.53	151.81	151.42	150.86	680.78
<b>Shortfall</b>	<b>69.24</b>	<b>120.71</b>	<b>84.12</b>	<b>52.93</b>	<b>29.30</b>	<b>356.29</b>

**Decision No. 6 Regarding ARR and its resultant shortfall/ excess calculations**

- 6.a. 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



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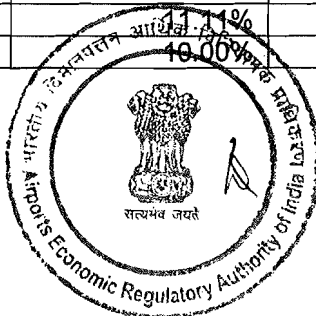
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## 12. TRAFFIC FORECAST

- 12.1. As per the Airport Guidelines, the airport operator is required to submit traffic forecasts as part of the MYTP submissions. The Airport Guidelines further provide that the Authority would reserve the right to review such forecast assumptions, methodologies and processes to determine the final forecast to be used for determination of tariffs. The Guidelines further state that the Authority will also use forecast correction mechanism if the actual traffic happens to fall outside the prescribed bands whilst keeping the upper and lower band percentages equal. As part of the tariff determination process, the Authority would require Airport Operators to provide proposals for the values of the upper and lower bands, support of evidence for the rationale of such bands and will review the operation of the bands and determine the final bands for tariff determination. As per the Guidelines (Clause 6.15.2), any variation outside these bands would be shared equally between the Airport Operator and users.
- 12.2. Traffic projections submitted by KIAL are based on study conducted by AECOM India Private Limited (AECOM). The study is based on top-down approach for traffic forecast analysis. First, traffic forecasts have been made for Kerala based on the historical trend analysis of the passenger, air traffic movement and cargo traffic for scheduled operations at other international airports in Kerala, viz. Cochin, Calicut and Trivandrum and use of regression technique for forecasting. The results have then been used to arrive at the forecast for Kannur International Airport based on assumptions for likely share of Kannur Airport in the Kerala aviation market.
- 12.3. KIAL has informed the Authority that traffic has been projected based on the assumption that Kannur Airport shall be included as a point of call for foreign carriers. However till now there is no confirmation in this regard. In case Kannur Airport is not accorded point of call for foreign airlines, passenger and ATM traffic may not reach the projected figures. Since the costs and revenue have been forecast based on traffic estimates it is important to have reliable traffic projections during the control period.
- 12.4. Based on the above, KIAL has requested that the traffic estimates submitted as part of tariff proposals may be trued up based on actual traffic, in the next control period. Further, the projected Passenger & ATM traffic along with their Y-o-Y growth rates as considered by KIAL is provided in Table 28 and Table 29 below:

**Table 28: Projected annual passenger traffic as per KIAL submission**

Financial Year	Domestic	Y-o-Y growth (Domestic)	International	Y-o-Y growth (International)
FY 18-19*	140,000	-	1,470,000	-
FY 19-20	160,000	14.29%	1,650,000	12.24%
FY 20-21	180,000	12.50%	1,850,000	12.12%
FY 21-22	200,000	11.11%	2,060,000	11.35%
FY 22-23	220,000	10.00%	2,290,000	11.17%



**Table 29: Projected annual ATM traffic as per KIAL submission**

Financial Year	Domestic	Y-o-Y growth (Domestic)	International	Y-o-Y growth (International)
FY 18-19*	2015		13372	
FY 19-20	2246	11.46%	14746	10.28%
FY 20-21	2481	10.46%	16139	9.45%
FY 21-22	2737	10.32%	17637	9.28%
FY 22-23	3014	10.12%	19251	9.15%

\*Traffic for FY18-19 has been considered proportionately (i.e. for 6 months) for operational period starting from 01.10.2018

### **Stakeholder comments and the Authority's observations**

#### **Comments from FIA**

#### **12.5. Regarding traffic, FIA submitted that –**

*"Traffic projections are based on the study conducted by AECOM on behalf of KIAL. Projections have been accepted by the Authority as is without conducting an independent study of its own. Point of call for foreign carriers has been included without any confirmations, however impact of not including the same has not been highlighted.*

*As Per Para 11.1 of the Consultation Paper, in terms of the AERA Guidelines, the airport operator is required to submit traffic forecasts as part of the MYTP submissions. The AERA Guidelines further provide that the Authority would reserve the right to review such forecast assumptions, methodologies and processes to determine the final forecast to be used for determination of tariffs*

*The Traffic projections submitted by KIAL are based on study conducted by AECOM India Private Limited (AECOM). As per proposal 7 of the Consultation Paper, the Authority has proposed to consider KIAL's submission of projected passenger traffic and true up decision shall be based on actual traffic during the first control period. Hence, the Authority has accepted the projections on an "as is" basis, without conducting its own independent study.*

*As per Para 11.2 of the Consultation Paper, the study is based on top-down approach for traffic forecast analysis. Traffic forecasts have been made for Kerala based on the historical trend analysis of the passenger, air traffic movement and cargo traffic for scheduled operations at other international airports in Kerala, viz. Cochin, Calicut and Trivandrum and use of regression technique for forecasting. The results have then been used to arrive at the forecast for Kannur International Airport based on assumptions for likely share of Kannur Airport in the Kerala aviation market. Such assumptions of aviation market share has not been discussed in detail in the Consultation Paper.*

*Further, neither AECOM's report on traffic projections has been shared for stakeholder consultation nor the year in which such evaluation was done by AECOM has been disclosed by the Authority.*

*As per Para 11.3 of Consultation Paper, the traffic projections are based on the assumption that KIAL is to be included as a point of call for foreign carriers. However, no confirmation has been given in this regard. Hence, projected figures may be lower than that expected in case KIAL is not included as a point of call for foreign carriers. It is submitted that impact of scenario where the KIAL is not included as point of call need to be analysed in detail as it will impact ARR and viability of the airport considering there is significant shortfall in ARR with this assumption, which will increase in case foreign carriers are not included.*



*FIA submits that since the traffic projections are critical in ascertaining the tariffs, Authority must appoint an independent consultant to evaluate traffic forecasts submitted by KIAL, which is the role of the Authority rather relying on numbers proposed by operator. It is submitted that the detailed evaluation/study cannot be avoided in garb of truing up."*

**KIAL's submission on FIA's comments**

12.6. KIAL stated that –

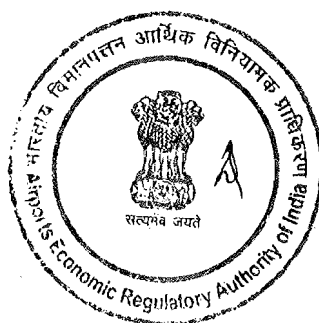
*"Traffic projections have been made by an independent consultant, which has been submitted to the Authority. Considering the new airport, KIAL has requested for the traffic to be trued up based on actuals."*

**Authority's examination of FIA's comments and KIAL's submission on FIA's comments**

- 12.7. With regard to FIA's comments on traffic forecasts, the Authority states that since Kannur Airport is a Greenfield airport due to which there is lack of actual data, the Authority deems it reasonable to go with the projections provided by KIAL which are provided by an independent consultant. Thus, the Authority has decided to accept KIAL's traffic submissions which are in line with the Authority's expectations, and shall true up in the next control period, based on actual numbers during the first control period.
- 12.8. Further, the Authority emphasizes that even with the projected traffic and the proposed rates submitted, KIAL does not achieve the net ARR. Therefore, minor change in the traffic forecasts would change the shortfall for KIAL but will not impact the User charges drastically. In this regard, the Authority has decided to accept KIAL's submission.
- 12.9. The presented tariff order is based on certain traffic projections and allowing Kannur as a port of call foreign Airlines. Traffic figures may be needed to be revised in case Kannur is not declared a port of call for foreign airlines or such declaration is delayed. KIAL in such case may approach the Authority for revision of tariff.

**Decision No. 7 Regarding Traffic Forecast**

- 7.a. The Authority has decided to consider KIAL's submission of projected passenger traffic as given in Table 28 and projected ATM traffic as given in Table 29.
- 7.b. The Authority decides to true up the traffic (ATM and Passenger) based on actual traffic in first control period while determining the tariff for next control period.





### 13. ANNUAL TARIFF PROPOSAL

KIAL via its submission proposed the following tariffs (excluding taxes/levies) for the control period from 01.04.2018 to 31.03.2023.

#### 13.1. Landing charges

Particulars	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
<b>International</b>						
Up to 100 MT	INR/MT	369	387	406	426	448
Above 100 MT	INR/MT	36,900 + 495 in excess of 100 MT	38,700 + 520 in excess of 100 MT	40,600 + 546 in excess of 100 MT	42,600 + 573 in excess of 100 MT	44,800 + 602 in excess of 100 MT
<b>Other than international</b>						
Up to 100 MT	INR/MT	268	281	295	310	325
Above 100 MT	INR/MT	26,800 + 358 in excess of 100 MT	28,100 + 376 in excess of 100 MT	29,500 + 395 in excess of 100 MT	31,000 + 415 in excess of 100 MT	32,500 + 436 in excess of 100 MT
Domestic aircrafts up to 21 MT	INR/MT	162	170	179	179	179
<b>Notes:</b>						
1a. Charges shall be calculated on the basis of nearest MT (i.e. 1,000 Kgs) 1b. A minimum fee of Rs. 2,000/- shall be charged per single landing 1c. 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 flights. 1d. All flight operations with Aircraft not having India as state of registry will be considered International for calculation of airside user charges irrespective of immediate previous station. 1e. 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 1f. 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. 1g. Charges shall be calculated on the basis of nearest MT (i.e. 1,000 kg) 1h. Flight operating under Regional Connectivity Scheme will be completely exempted from landing charges from the date the scheme is operationalized by GOI.						

#### 13.2. Housing charges

Particulars	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Up to 100 MT	INR/hour/MT	12	13	14	15	16
Above 100 MT	INR/hour/MT	1,200 + 17 in excess of 100 MT	1,300 + 18 in excess of 100 MT	1,400 + 19 in excess of 100 MT	1,500 + 20 in excess of 100 MT	1,600 + 21 in excess of 100 MT



### 13.3. Parking charges

Particulars	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Up to 100 MT	INR/hour/MT	6.0	6.5	7	7.5	8
Above 100 MT	INR/hour/MT	600 + 8.0 in excess of 100 MT	650 + 8.5 in excess of 100 MT	700 + 9.0 in excess of 100 MT	750 + 9.5 in excess of 100 MT	800 + 10.0 in excess of 10 MT
<p>3a. When an aircraft is parked in the open, only the housing charges specified above shall be levied, provided that no parking charges shall be levied for the first two hours.</p> <p>3b. For calculating chargeable parking time, part of an hour shall be rounded off to the next hour</p> <p>3c. Charges shall be calculated on the basis of nearest MT.</p> <p>3d. Charges for each period of parking shall be rounded off to nearest Rupee.</p> <p>3e. At the in- contact stands, 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.</p> <p>3f. No landing charges will be levied in respect of Military Aircraft (Government of India) including para-military forces such as BSF, Coast Guard etc. Military aircrafts as mentioned above are also exempted from payment of parking charges.</p>						

### 13.4. Night parking charges (between 2200 hours to 0600 hours)

Particulars	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Up to 100 MT	INR/hour/MT	3	3.5	4	4.5	5
Above 100 MT	INR/hour/MT	300 + 4.0 in excess of 100 MT	350 + 4.5 in excess of 100 MT	400 + 5.0 in excess of 100 MT	450 + 5.5 in excess of 100 MT	500 + 6.0 in excess of 100 MT

### 13.5. Passenger service fees

Particulars	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
<b>Domestic</b>	INR/dep/PAX	200	200	200	200	200
Security	INR/dep/PAX	130	130	130	130	130
Facilitation	INR/dep/PAX	70	70	70	70	70
<b>International</b>	USD/dep/PAX	5	5	5	5	5
Security	USD/dep/PAX	3.25	3.25	3.25	3.25	3.25
Facilitation	USD/dep/PAX	1.75	1.75	1.75	1.75	1.75
<p>5a. PSF SC Rates as determined/revised by Ministry of Civil Aviation will be made applicable from time to time.</p> <p>5b. Exemption to Infant (Under 2 Years age), Transit /Transfer passengers.</p> <p>5c. Exemption to Airlines from paying PSF for Sky Marshals.</p> <p>5d. Crew on duty exempted from paying PSF.</p> <p>5e. PSF would be based on country of registry of Aircraft, For Indian Registered aircraft, the charges would be in INR and Aircraft registered outside India charges would be in USD.</p> <p>5f. No landing charges will be levied in respect of Military Aircraft (Government of India) including para-military forces such as BSF, Coast Guard etc. Military aircrafts as mentioned above are also exempted from payment of parking charges.</p>						



### 13.6. Aerobridge charges

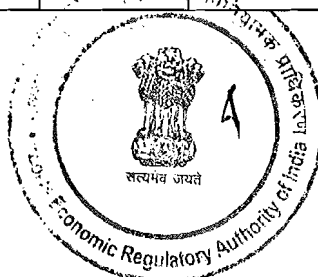
Particulars	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
<b>International</b>						
<u>Single Aerobridge used by an Aircraft</u>						
Up to 90 minutes	USD	60	60	60	60	60
For every 30 min beyond 90 min	USD	20	20	20	20	20
<u>Two Aerobridges used by an Aircraft</u>						
Up to 90 minutes	USD	90	90	90	90	90
For every 30 min beyond 90 min	USD	30	30	30	30	30
<b>Domestic</b>						
Up to 90 minutes	INR	2,500	2,500	2,500	2,500	2,500
For every 30 min beyond 90 min	INR	1,000	1,000	1,000	1,000	1,000
6a. Aerobridge charges are payable by Airline Operators to Kannur International Airport Limited 6b. The Aerobridge charges are payable based on the time of usage. 6c. Usage charges will be billed on the basis of the data recorded by the Aerobridge operator. 6d. The conversion rate for US Dollar shall be the rate as on 1st of every month for the billing for the first fortnight and the rate applicable on 16th for the billing for second fortnight of every month. 6e. No Exemptions.						

### 13.7. Inline X ray charges

Particulars	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
<b>International</b>						
<u>Aircraft capacity</u>						
1-100	USD			150		
101-150	USD			180		
151-180	USD			220		
181-300	USD			250		
Above 300	USD			300		
<b>Domestic</b>						
<u>Aircraft capacity</u>						
1-100	INR			5,000		
101-150	INR			7,000		
151-180	INR			9,000		
181-300	INR			11,000		
Above 300	INR			13,000		

### 13.8. Fuel throughput charges

Particulars	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Fuel throughput charges	INR/KI	976.58	1,018.62	1,062.75	1,105	1,149



### 13.9. CUTE/CUSS/BRIS

Particulars	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Domestic	USD per dep pax			1.15		
International	USD per dep pax			1.25		

### 13.10. UDF

Particulars	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Domestic embarking passenger	INR			250		
International embarking passenger	INR			1,000		

### Authority's Examination

13.11. The Authority has observed that there is a shortfall between the ARR and the projected aeronautical revenue during the control period and therefore the Authority has proposed to accept KIAL's Annual Tariff Proposal as in para 12.

13.12. Further, the Authority has proposed to consider 01.10.2018 as the date of implementation of the proposed tariff rates

13.13. However, in respect of ATP submitted by KIAL, the Authority is of the opinion that PSF (F) and Aerobridge charges may be merged with UDF. Further, the Authority also opines that except PSF (S) other charges (such as CUTE charges, Aerobridge charges, Inline X ray charges) may be expressed in INR.

### Stakeholder comments and the Authority's observations

#### Comments from KIAL

13.14. Regarding Annual Tariff Proposal, KIAL stated that –

*"The Authority has proposed to accept the Aeronautical Tariff Proposal submitted by KIAL. The Authority has proposed to true up Revenue based on actuals during the first control period. The Authority has opined that the PSF (F) and Aerobridge charges may be merged with UDF. Further, the Authority has also opined that except PSF (S) other charges (such as CUTE charges, Aerobridge charges, Inline X ray charges) may be expressed in INR.*

*KIAL requests the Authority that KIAL shortfall between actual revenues and eligible ARR be permitted to be carried forward to the next control period.*

*KIAL submits that the charges proposed to be levied by the Airport, considering the views expressed by the Authority is as per the revised ATP shared herewith. While Authority has opined that Aerobridge charges may be merged with UDF, KIAL requests that Aerobridge charge is an avenue of revenue to the Airport, where the existing charges do not compensate the eligible revenue requirement and hence may be considered separately.*

*In order to keep the charges competitive and attract the Airlines and Passengers, KIAL Management and Board may approve certain discounts to the tariff submitted herewith. KIAL*



requests that the Authority approve for any discounts given by KIAL on the Aeronautical charges to be trued up at the time of review and true up of the first control period results.

KIAL submits that if UDF is charged by KIAL, PSF will be added and merged with UDF and if UDF is not charged, PSF will be charged at the rate detailed therein."

#### **Comments from HPCL**

13.15. Regarding Fuel Throughput Charges submitted by KIAL, HPCL stated that –

"We shall abide by the decision taken by AERA. However, any revision in Fuel Throughput Charges should be approved on prospective basis only"

#### **Comments from IOCL**

13.16. Regarding Fuel Throughput Charges submitted by KIAL, IOCL stated that –

"It is observed that the proposed Fuel throughput charge at Kannur Airport is lower than another private airport in Kerala "CIAL". However the rates are quite high as compared to another nearby airport "Kozhicode (Calicut". Hence, requested to consider this also while finalising the Fuel throughput charge at Kannur.

We also request you to finalize other charges pertaining to ATF handling at Kannur airport so that the same can be conveyed to our customer.

Further, we would like to submit that the order of Fuel throughput charges may be released only on prospective basis."

#### **Comments from FIA**

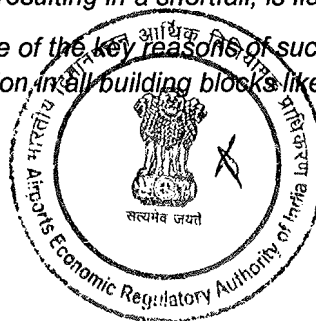
13.17. Regarding Annual Tariff Proposal submitted by KIAL, FIA stated that –

"FIA submits that in terms of the Consultation Paper and as further clarified in the stakeholders consultation meeting dated 4.10.2018, it appears that the tariff card of KIA has been adopted or benchmarked largely on the tariff card of the Cochin airport, as KIAL is allegedly said to have undertaken a higher risk due to (a) first time operations at the greenfield airport, which is expected to yield a lower traffic profile in the initial years and (b) intense competition from other airports in the states namely - Cochin, Trivandrum, and Calicut.

FIA submits that, it can be seen that despite the higher tariff benchmarking of tariff done as per the Cochin Airport, there is a shortfall in the revenue requirement of KIAL, when compared with the Aggregate Revenue Requirement (ARR) of KIAL. As per Proposal 6.a of the Consultation Paper, the Authority has considered the ARR and its resultant shortfall of INR 376.58 crores, which represents 26% of the ARR (see table below). FIA further understands that such shortfall will be trued up in the next control period which may lead to increase in tariffs.

In this regard, FIA submits that adopting or modelling the tariff of KIA with an existing airport like Cochin and further determining the tariff not as per ARR mechanism, is in a breach or an action in contravention of the AERA Guidelines. FIA submits that such an approach by the Authority wherein the pre -determined tariff (based on Cochin airport) when factored with estimated traffic is generating lower revenue as compared to ARR (under the AERA Guidelines) and consequently resulting in a shortfall, is flawed and needs to be discarded.

FIA further submits that the one of the key reasons of such shortfall is also due to the fact of acceptance of KIAL's submission in all building blocks like, higher Regulatory Asset Base



(RAB), Fair Rate of Return on Equity (FRoR), operating expenditure, aero allocation ratios and lower non-aeronautical revenue; which have cumulatively led to a higher ARR. For eg. as per Para 11.3 of Consultation Paper, the traffic has been projected based on the assumption that KIA shall be included as a point of call for foreign carriers. However, as there has been no confirmation in this regard, the traffic projections as presently submitted by KIAL, are already on the higher side. It is pertinent to note that in case KIA is not declared as a point of call for foreign carriers, the actual traffic will decrease with respect to the projections and the shortfall will widen further. If current shortfall is to be recovered from airlines and passengers through increase in tariffs, the rates will be higher than that of other comparable airports (Cochin, Trivandrum and Calicut) and hence it is submitted that the viability and affordability of the KIA for the airlines and passengers will be significantly hampered.

FIA submits that the Authority should expressly review the measures to contain the 'shortfall' by adjusting the current building blocks of ARR of KIAL (as discussed in the issues mentioned below). It is further submitted that the Authority should not permit benchmarking of higher tariff comparable with established airports in the state (like Cochin), as it will impact the viability and affordability of the airlines and passengers operating/flying to KIA"

#### **KIAL's submission on HPCL's, IOCL's and FIA's comments**

13.18.KIAL in response to HPCL's comment on Fuel Throughput Charges being applied prospectively stated that –

*"Charges will be applied prospectively after AERA Order on Aeronautical charges."*

13.19.KIAL in response to IOCL's comment on Fuel Throughput Charges being high stated that –

*"KIAL has submitted the Aeronautical charges proposed considering Cochin as benchmark. Considering the high RAB due to a new Airport, unlike Calicut Airport, and considering the ARR to be recovered by way of charges, the charges have been proposed to recover its huge capital investment. The model of Fuel Farm in Kannur Airport is 'Open Access Model' unlike Calicut Airport."*

13.20.KIAL in response to IOCL's comment on finalization of other charges pertaining to ATF stated that –

*"We understand that BPCL Kannur Fuel Farm Private Limited has filed its tariff submissions for other charges relating to ATF to the Authority for review."*

13.21.KIAL in response to IOCL's comment on Fuel Throughput Charges being applied prospectively stated that –

*"Charges will be applied prospectively after AERA Order on Aeronautical charges."*

13.22.KIAL in response to FIA's comment on Annual Tariff Proposal stated that –

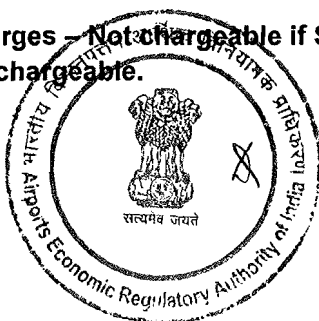
*"Kannur International Airport is a new Airport being commissioned by KIAL. Considering the huge capital investment together with the estimated passenger traffic being lower in the initial period of operations, the resultant tariff, if the entire Aggregate Revenue Requirement is divided by the estimated traffic would lead to higher computed charges, which as stated by FIA also, would impact the viability of KIAL and the affordability. Hence KIAL had proposed to keep tariff similar to Cochin Airport. The shortfall in collection is expected to be collected in later periods where the passenger traffic is expected to increase."*



*It is an established practice, as has been also done in certain AAI Airports that the shortfall in collection, when it is not possible to be recouped is carried forward for recovery in future."*

**Authority's examination of KIAL's, HPCL's, IOCL's and FIA's comments and KIAL's submission on HPCL's, IOCL's and FIA's comments**

- 13.23. In response to HPCL & IOCL's concern regarding approval of fuel throughput charges on prospective basis, the Authority states that the charges would be approved on prospective basis only.
- 13.24. In response to IOCL's comment regarding fuel throughput charges being high, the Authority upholds KIAL's view to consider Cochin as a more appropriate benchmark.
- 13.25. In response to IOCL's concern regarding finalization of other charges pertaining to ATF, the Authority contends that it is in the process of reviewing the tariff submissions filed by Kannur Fuel Farm Pvt. Ltd. and will issue the tariff order separately.
- 13.26. With regard to FIA's comments on Annual Tariff Proposal, the Authority cannot arbitrarily alter the building blocks to bring the ARR down. Wherever the cost estimates are found higher the Authority has maintained them at reasonable levels. The airports are at liberty to fix their tariff. In this case KIAL has opted to keep the rates on par with Kochi to be competitive and the Authority has accepted the rates. It is noted even at these rates the airport will have a significant shortfall. In case there is any hardship to the airport which can be remedied by a change in tariff, the airport may approach the Authority for a midterm correction and the Authority will consider such a proposal taking into account the circumstances that warrant such an intervention during the control period.
- 13.27. With regard to KIAL's view to offer discounts to operators, the Authority is of the view that if KIAL submits a uniform policy for variable tariff which is open to all operators, then the Authority may consider it in the ATP.
- 13.28. The Authority noted that revised tariff card submitted by KIAL considers PSF (F) for domestic passengers and UDF separately. The Authority has decided to merge PSF (F) with UDF. Revised tariff card along with further minor corrections as per the Authority has been given in Annexure-1.
- 13.29. It has been brought to the notice of AERA by KIAL that Government of India vide letter no. AV.13011/5/2017-DT (RCS) dated 10.08.2018 has permitted the following charges to be levied in respect of RCS operations:
- In line X-Ray charges
  - Aero bridge charge
  - Fuel Throughput charges
  - CUTE/CUSS/BRS/CUPPS
  - Self-Baggage Drop in charges
  - Ground Handling charges – Not chargeable if SAO has its own ground handling, otherwise, chargeable.



Presently, no separate tariff proposal has been received from KIAL requesting the charges to be levied for RCS Flight operations. The Authority will issue a separate order for RCS Flights after receipt of proposal from KIAL and in consultation with Stakeholders.

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

- 8.a. The Authority has decided to merge PSF(F) with UDF. Revised aeronautical tariffs along with further minor corrections for the control period 01.04.2018 to 31.03.2023 has been given in Annexure 1.
- 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 KIAL and in consultation with Stakeholders



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#### 14. REVENUE FROM AERONAUTICAL SERVICES

14.1. As per section 2(a) of the AERA act, aeronautical services include services for Landing, Housing or Parking, Ground handling services, services for Cargo facility, and services for supplying fuel to the aircraft at an airport.

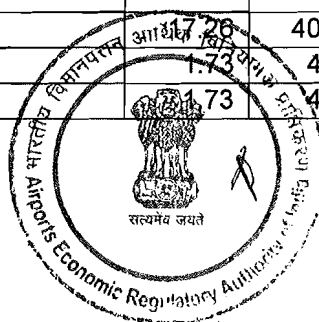
**Table 30: Assumptions made by KIAL for each item of Aeronautical Revenue**

Item	Assumption
Landing Fee	Landing rates have been assumed as per rates mentioned in ATP. An annual escalation of 5% is assumed based on escalation in tariff orders of AERA.
Parking and Housing Fee	Parking and housing charges are based on the number of hours the flight is parked in airport. Since it is difficult to arrive at standard waiting hours for each category of flight, this has been computed at 10% of landing charges each.
PSF Charges	Revenue from PSF (Facilitation) has been assumed at ₹70 per departing domestic passenger and 1.75 USD per departing international passenger. Departing passengers have been assumed as 50% of domestic and international projected passenger traffic.
Aerobridge charges	Aerobridge charges have been assumed at ₹2,500 per domestic ATM and ₹4,200 per international ATM. Aerobridge usage has been assumed at 50%
X-Ray Fee	X-Ray charges have been computed as per rates mentioned in ATP.
Fuel Throughput Charges	Fuel throughput charge is assumed at 7 kilo liters of fuel supplied per ATM (departure). The current fuel throughput observed at Kochi Airport per ATM (departure) for FY 11 and FY 12 is in the range of 9.5-10 KL/ ATM (departure). While this is likely to go up further, a conservative estimate has been taken in financial model. Fuel throughput charges have been considered at ₹976.58 per KL for FY18-19 with an annual escalation as mentioned in the ATP.
CUTE/ CUSS/ BRS	CUTE/ CUSS/ BRS will be charged at 1.15 USD per domestic departing passenger and 1.25 USD per international departing passenger.
User Development Fee	UDF is assumed in the base case as per the rates approved by KIAL Board – at ₹250 for domestic & ₹1,000 for International passengers has been considered.
Royalty from Cargo	Cargo activities of the airport are expected to be outsourced. The infrastructure will be constructed by the airport operator and operational activities will be outsourced. It is estimated that Rs.2500 per metric tons will be generated by the outsourced parties and out of which 20% of which will be collected as royalty to the airport operator with an annual escalation of 5% per annum. These rates are multiplied by the forecasted year on year cargo traffic to arrive at the cargo income. The rate has been estimated based on average charge for export, import & transshipment at Trivandrum airport.
Royalty from Ground Handling	It has been assumed that 40% of the total ATMs will avail ground handling services while computing revenue from ground handling services. Royalty to be received by the airport operator is considered at the rate of 20% of such ground handling revenue. Further, annual escalation of 8% has been considered.

14.2. KIAL has submitted that Passenger Service Fee (Facilitation) or PSF (F) forming part of ATP shall be merged with UDF in the first control period. Further no UDF shall be charged in case PSF (F) is continued to be levied in the first control period.

**Table 31: Projected revenue from aeronautical services as furnished by KIAL for first control period (in ₹ crores)**

S.n o	Particulars	FY 18- 19	FY 19- 20	FY 20- 21	FY 21- 22	FY 22- 23
1	Revenue from Landing Charges	47.28	40.08	46.07	52.86	60.68
2	Housing Charges	1.73	4.01	4.61	5.29	6.07
3	Parking Charges	1.73	4.01	4.61	5.29	6.07



S.no	Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
4	Passenger Service Fee -Facilitation Component	4.73	10.67	11.96	13.32	14.80
5	Aerobridge Charges	0.76	1.69	1.85	2.02	2.21
6	X-Ray screening	4.14	9.17	10.04	10.98	11.99
7	Fuel Throughput charges	2.62	6.06	6.93	7.88	8.95
8	CUTE/CUSS/BRS	3.49	7.86	8.82	9.82	10.90
9	UDF	37.52	84.50	94.75	105.50	117.25
10	Cargo and Ground Handling Revenue share estimated	10.00	20.00	20.00	25.00	25.00
	<b>Total</b>	<b>83.99</b>	<b>188.05</b>	<b>209.63</b>	<b>237.95</b>	<b>263.93</b>

#### Authority's Examination

14.3. After careful examination of the various assumptions relating to aeronautical revenues, the Authority has proposed to consider revenue from lease of land for Aircraft Maintenance Centre, Logistics and Redistribution Centre and Fuel Farm as revenue from aeronautical services (as discussed in Decision 4.a).

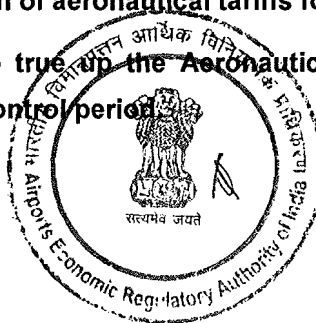
14.4. Revenue from Aeronautical services as per the Authority after considering the above changes is provided in Table 32 below:

**Table 32: Aeronautical revenues as per the Authority (in ₹ crores)**

S.no	Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
1	Landing Charges	17.26	40.11	46.12	52.95	60.72
2	Parking	1.73	4.01	4.61	5.29	6.07
3	Housing	1.73	4.01	4.61	5.29	6.07
4	Passenger service fee	4.73	10.67	11.96	13.32	14.80
5	Aerobridge charges	0.76	1.69	1.85	2.02	2.21
6	X-Ray charges	4.14	9.17	10.04	10.98	11.99
7	Fuel Throughput Charge	2.62	6.06	6.93	7.88	8.95
8	CUTE	3.49	7.86	8.82	9.82	10.90
9	UDF	37.52	84.50	94.75	105.50	117.25
10	Cargo and Ground Handling Revenue share estimated	5.82	13.92	16.46	19.44	22.94
11	Land Lease Revenue (Aeronautical)	0.07	0.14	0.14	0.14	0.14
	<b>Total</b>	<b>79.88</b>	<b>182.13</b>	<b>206.29</b>	<b>232.64</b>	<b>262.05</b>

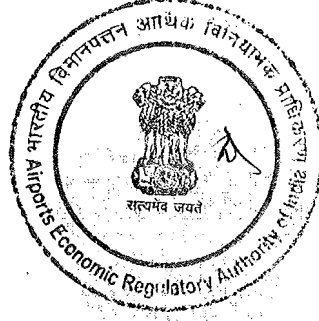
#### Decision No. 9 Regarding Aeronautical Revenues

- 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.b. The Authority has decided to consider the Aeronautical Revenue as given in Table 32. for determination of aeronautical tariffs for the first control period.
- 9.c. The Authority decides to true up the Aeronautical Revenue based on actual revenue during the first control period.



15. QUALITY OF SERVICE

15.1. The Authority notes that Kannur International Airport is a newly constructed Airport, hence ASQ ratings are not be available. The Authority will review the Quality of Service parameters based on the ASQ ratings obtained by KIAL and take action as appropriate the at a later stage.



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## 16. SUMMARY OF DECISIONS

### Decision No. 1 Regarding RAB ..... 18

1.a. The Authority has decided to remove land cost from RAB and consider it subsequently based on decision taken on CP no. 17/2018-19 dated 01.10.2018. 18

1.b. The Authority has decided to exclude cost of ₹490 crores pertaining to cost towards runway extension proposed to be incurred in FY 20-21 as incurrence of such cost is not certain yet. 18

1.c. The Authority has tentatively accepted the allocation of assets in to aeronautical and non-aeronautical assets in the ratio 95:5. A detailed study will be conducted to determine the actual usage before true up in the next control period. 18

1.d. The Authority has decided to consider RAB during the first control period for calculation of ARR as shown in Table 11. .... 18

1.e. The Authority has decided to true up Average RAB and depreciation based on the actual date of capitalization and actual cost incurred during the current control period. 19

### Decision No. 2 Regarding FRoR ..... 22

2.a. 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. 22

2.b. 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 the cost of equity at major airports. 22

### Decision No. 3 Regarding Operation and Maintenance expenditure ..... 28

3.a. The Authority has decided to exclude expenses relating to the staff of CISF. 28

3.b. 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. .... 28

3.c. The Authority has decided to consider the operational and maintenance expenditure as given in Table 19 for the purpose of determination of aeronautical tariffs for the first Control Period. 28

3.d. The Authority also decides to true up the Operating expenses based on the actual expenditure during the first control period. 28

### Decision No. 4 Regarding Non Aeronautical Revenues ..... 33

4.a. 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. 33

4.b. The Authority has decided to consider the Non Aeronautical Revenue as given in Table 23 for determination of aeronautical tariffs for the first control period. 33

4.c. The Authority has decided to true-up the Non Aeronautical Revenue based on the actual Non Aeronautical Revenue earned during the first control period. 33

### Decision No. 5 Regarding Taxation ..... 35

5.a. The Authority has decided to consider tax as given in Table 25. 35

5.b. The true up amount shall be based on actual tax paid during the first control period 35

### Decision No. 6 Regarding ARR and its resultant shortfall/excess calculations ..... 37



6.a. Determination of aeronautical tariffs for the first control period is based on ARR and the resultant shortfall shall be considered in next control period. 37

6.b. True up of all the building blocks shall be considered in the next control period 37

**Decision No. 7 Regarding Traffic Forecast.....40**

7.a. The Authority has decided to consider KIAL's submission of projected passenger traffic as given in Table 28 and projected ATM traffic as given in Table 29. 40

7.b. The Authority decides to true up the traffic (ATM and Passenger) based on actual traffic in first control period while determining the tariff for next control period. 40

**Decision No. 8 Regarding Annual Tariff Proposal.....48**

8.a. The Authority has decided to merge PSF(F) with UDF. Revised aeronautical tariffs along with further minor corrections for the control period 01.04.2018 to 31.03.2023 has been given in Annexure 1. 48

8.b. The Authority has decided to consider date of commencement of operation as the date of implementation of the decided tariff rates. 48

8.c. The Authority has decided to issue a separate order for RCS Flights after receipt of proposal from KIAL and in consultation with Stakeholders 48

**Decision No. 9 Regarding Aeronautical Revenues.....50**

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. 50

9.b. The Authority has decided to consider the Aeronautical Revenue as given in Table 32. for determination of aeronautical tariffs for the first control period. 50


9.c. The Authority decides to true up the Aeronautical Revenue based on actual revenue during the first control period..... 50



## 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 tariffs to be levied at Kannur International Airport for the First Control Period from 01.04.2018 to 31.03.2023 effective from date of commencement of operations. The approved rate card has been attached as Annexure 1 to the Order. The UDF rates indicated in the tariff card are also in accordance with section 13(1)(b) read with rule 89 of the Aircraft Rules, 1937. The rates approved herein are the ceiling rates, exclusive of taxes if any.

By the Order of and in the Name of the Authority

  
(Puja Jindal)  
Secretary

To,

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Kannur International Airport Limited

T.C. 84/3, (Old: 36/1), Chacka, NH Bypass,

Thiruvananthapuram – 695 024

(Through Shri V Thulasidas, Managing Director)

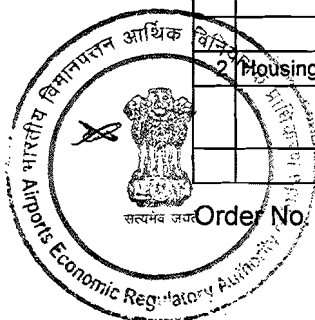


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**Annexure 1 – Detailed tariff card of KIAL as per the Authority to be applicable from date of this order to 31.03.2023**

Tariff	Unit	ATP 2018-19	ATP 2019-20	ATP 2020-21	ATP 2021-22	ATP 2022-23
		Tariff w.e.f commencement of Airport Operations	Tariff w.e.f 01.04.2019	Tariff w.e.f 01.04.2020	Tariff w.e.f 01.04.2021	Tariff w.e.f 01.04.2022
1 Landing charges						
International						
Upto 100 MT	INR per MT	369	387	406	426	448
Above 100 MT	INR per MT	36900 + 495 in excess of 100 MT	38700 + 520 in excess of 100 MT	40600 + 546 in excess of 100 MT	42600 + 573 in excess of 100 MT	44800 + 602 in excess of 100 MT
Other than international						
Upto 100 MT	INR per MT	268	281	295	310	325
Above 100 MT	INR per MT	26800 + 358 in excess of 100 MT	28100 + 376 in excess of 100 MT	29500 + 395 in excess of 100 MT	31000 + 415 in excess of 100 MT	32500 + 436 in excess of 100 MT
Notes		Charges shall be calculated on the basis of nearest MT (ie. 1000 Kgs. )	Charges shall be calculated on the basis of nearest MT (ie. 1000 Kgs. )	Charges shall be calculated on the basis of nearest MT (ie. 1000 Kgs. )	Charges shall be calculated on the basis of nearest MT (ie. 1000 Kgs. )	Charges shall be calculated on the basis of nearest MT (ie. 1000 Kgs. )
1a		A minimum fee of Rs. 2000/- shall be charged per single landing	A minimum fee of Rs. 2000/- shall be charged per single landing	A minimum fee of Rs. 2000/- shall be charged per single landing	A minimum fee of Rs. 2000/- shall be charged per single landing	A minimum fee of Rs. 2000/- shall be charged per single landing
1b		Domestic aircrafts with an all up weight of 21 MT. and below will be charged @Rs. 162/- per MT.	Domestic aircrafts with an all up weight of 21 MT and below will be charged @Rs. 170/- per MT.	Domestic aircrafts with an all up weight of 21 MT and below will be charged @Rs. 179/- per MT.	Domestic aircrafts with an all up weight of 21 MT and below will be charged @Rs. 179/- per MT.	Domestic aircrafts with an all up weight of 21 MT and below will be charged @Rs. 179/- per MT.
1c	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 flights.					
1d	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.					
1e	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.					
1f	Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg)					
2 Housing charges						
Upto 100 MT	INR per hour per MT	12	13	14	15	16
Above 100 MT	INR per hour	1200 + 17 in excess of 100 MT	1300 + 18 in excess of 100	1400 + 19 in excess of 100	1500 + 20 in excess of 100	1600 + 21 in excess of

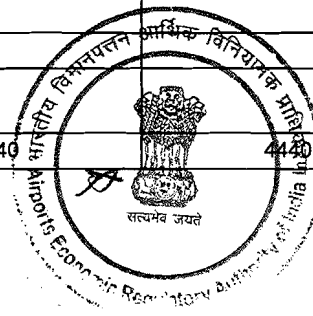




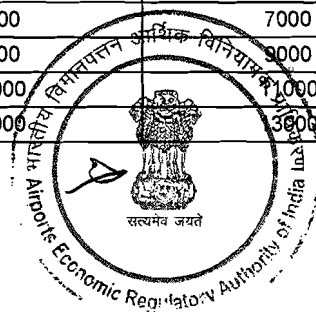
Tariff	Unit	ATP 2018-19	ATP 2019-20	ATP 2020-21	ATP 2021-22	ATP 2022-23	
	per MT		MT	MT	MT	100 MT	
3	Parking charges						
	Upto 100 MT	INR per hour per MT	6.00	6.50	7.00	7.5	8
	Above 100 MT	INR per hour per MT	600 + 8.0 in excess of 100 MT	650 + 8.5 in excess of 100 MT	700 + 9.0 in excess of 100 MT	750 + 9.5 in excess of 100 MT	800 + 10.0 in excess of 10 MT
3a	Note		When an aircraft is parked in the open, only the housing charges specified above shall be levied, provided that no parking charges shall be levied for the first two hours	When an aircraft is parked in the open, only the housing charges specified above shall be levied, provided that no parking charges shall be levied for the first two hours	When an aircraft is parked in the open, only the housing charges specified above shall be levied, provided that no parking charges shall be levied for the first two hours	When an aircraft is parked in the open, only the housing charges specified above shall be levied, provided that no parking charges shall be levied for the first two hours	When an aircraft is parked in the open, only the housing charges specified above shall be levied, provided that no parking charges shall be levied for the first two hours
3b			For calculating chargeable parking time, part of an hour shall be rounded off to the next hour	For calculating chargeable parking time, part of an hour shall be rounded off to the next hour	For calculating chargeable parking time, part of an hour shall be rounded off to the next hour	For calculating chargeable parking time, part of an hour shall be rounded off to the next hour	For calculating chargeable parking time, part of an hour shall be rounded off to the next hour
3c			Charges shall be calculated on the basis of nearest MT.	Charges shall be calculated on the basis of nearest MT.	Charges shall be calculated on the basis of nearest MT.	Charges shall be calculated on the basis of nearest MT.	Charges shall be calculated on the basis of nearest MT.
3d			Charges for each period of parking shall be rounded off to nearest Rupee.	Charges for each period of parking shall be rounded off to nearest Rupee.	Charges for each period of parking shall be rounded off to nearest Rupee.	Charges for each period of parking shall be rounded off to nearest Rupee.	Charges for each period of parking shall be rounded off to nearest Rupee.
3e			At the in- contact stands, 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	At the in- contact stands, 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	At the in- contact stands, 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	At the in- contact stands, 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	At the in- contact stands, 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



	Tariff	Unit	ATP 2018-19	ATP 2019-20	ATP 2020-21	ATP 2021-22	ATP 2022-23
3f			No landing charges will be levied in respect of Military Aircraft (Government of India) including para-military forces such as BSF, Coast Guard etc. Military aircrafts as mentioned above are also exempted from payment of parking charges.	No landing charges will be levied in respect of Military Aircraft (Government of India) including para-military forces such as BSF, Coast Guard etc. Military aircrafts as mentioned above are also exempted from payment of parking charges.	No landing charges will be levied in respect of Military Aircraft (Government of India) including para-military forces such as BSF, Coast Guard etc. Military aircrafts as mentioned above are also exempted from payment of parking charges.	No landing charges will be levied in respect of Military Aircraft (Government of India) including para-military forces such as BSF, Coast Guard etc. Military aircrafts as mentioned above are also exempted from payment of parking charges.	No landing charges will be levied in respect of Military Aircraft (Government of India) including paramilitary forces such as BSF, Coast Guard etc. Military aircrafts as mentioned above are also exempted from payment of parking charges.
4	Night parking charges (Night parking charges between 2200 hours to 0600 hours)						
	Upto 100 MT	INR per hour per MT	3	3.5	4	4.5	5
	Above 100 MT	INR per hour per MT	300 + 4.0 in excess of 100 MT	350 + 4.5 in excess of 100 MT	400 + 5.0 in excess of 100 MT	450 + 5.5 in excess of 100 MT	500 + 6.0 in excess of 100 MT
5	Passenger service fees						
	SC	INR per dep pax	130	130	130	130	130
5a	PSF SC Rates as determined/revised by Ministry of Civil Aviation will be made applicable from time to time.						
5b	<p>The following categories of persons are exempted from levy of PSF:</p> <p>a. Children (Under age of 2 years)</p> <p>b. Holders of Diplomatic Passport,</p> <p>c. Airlines crew on duty including sky marshals &amp; airline crew on board for the particular flight only (this would not include Dead Head Crew, or ground personnel),</p> <p>d. Persons travelling on official duty on aircraft operated by Indian Armed Forces.</p> <p>e. Persons travelling on official duty for United Nations Peace Keeping Missions.</p> <p>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 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").</p> <p>g. Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions.</p>						
6	Aerobridge charges						
	International						
	Single Aerobridge used by an Aircraft						
	Upto 90 minutes	INR	4440	4440	4440	4440	4440



Tariff	Unit	ATP 2018-19	ATP 2019-20	ATP 2020-21	ATP 2021-22	ATP 2022-23
For every 30 min beyond 90 min	INR	1480	1480	1480	1480	1480
Two Aerobridges used by an Aircraft						
Upto 90 minutes	INR	6660	6660	6660	6660	6660
For every 30 min beyond 90 min	INR	2220	2220	2220	2220	2220
Domestic						
Upto 90 minutes	INR	2500	2500	2500	2500	2500
For every 30 min beyond 90 min	INR	1000	1000	1000	1000	1000
6a Aerobridge charges are payable by Airline Operators to Kannur International Airport Limited						
6b The Aerobridge charges are payable based on the time of usage.						
6c Usage charges will be billed on the basis of the data recorded by the Aerobridge operator.						
6d No Exemptions.						
7 Inline X ray charges						
International						
Aircraft capacity						
1-100	INR	11100	11100	11100	11100	11100
101-150	INR	13320	13320	13320	13320	13320
151-180	INR	16280	16280	16280	16280	16280
181-300	INR	18500	18500	18500	18500	18500
Above 300	INR	22200	22200	22200	22200	22200
Domestic						
Aircraft capacity						
1-100	INR	5000	5000	5000	5000	5000
101-150	INR	7000	7000	7000	7000	7000
151-180	INR	9000	9000	9000	9000	9000
181-300	INR	11000	11000	11000	11000	11000
Above 300	INR	13000	13000	13000	13000	13000



	Tariff	Unit	ATP 2018-19	ATP 2019-20	ATP 2020-21	ATP 2021-22	ATP 2022-23
8	Fuel throughput royalty	INR per kl	976.58	1018.62	1062.75	1105	1149
9	CUTE/CUSS/BRs						
	Domestic	INR per dep pax	85.1	85.1	85.1	85.1	85.1
	International	INR per dep pax	92.5	92.5	92.5	92.5	92.5
10	UDF						
	Domestic embarking passenger	INR	320	320	320	320	320
	International embarking passenger	INR	1070	1070	1070	1070	1070
10a	<p>The following categories of persons are exempted from levy of UDF:</p> <p>a. Children (Under age of 2 years)</p> <p>b. Holders of Diplomatic Passport,</p> <p>c. Airlines crew on duty including sky marshals &amp; airline crew on board for the particular flight only (this would not include Dead Head Crew, or ground personnel),</p> <p>d. Persons travelling on official duty on aircraft operated by Indian Armed Forces.</p> <p>e. Persons travelling on official duty for United Nations Peace Keeping Missions.</p> <p>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 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").</p> <p>g. Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions.</p>						
11	General Condition						
11a	<p>Flight operating under Regional Connectivity Scheme will be exempted from all charges as per order No. 20/2016-17 dated 31.03.2017 of the Authority from the date the scheme is operationalized by GOI except the following charges as specified in MoCA letter No. AV.13011/5/2017-DT(RCS) dated 10.08.2018.</p> <p>i. In line X-Ray charges</p> <p>ii. Aero bridge charge</p> <p>iii. Fuel Throughput charges</p> <p>iv. CUTE/CUSS/BRs/CUPPS</p> <p>v. Self-Baggage Drop in charges</p> <p>vi. Ground Handling charges – Not chargeable if SAO has its own ground handling, otherwise, chargeable.</p>						
11b	All the airport charges and fee are subject to service tax (and cess thereon)/GST as per the applicable rates						

