Airports Economic Regulatory Authority of India

In the matter of determination of aeronautical tariffs in respect of Biju Patnaik International Airport (BBI), Bhubaneswar for the first Control Period (01.04.2018 to 31.03.2023)

8th March, 2019

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi - 110003

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1. Introduction

1.1 Biju Patnaik International Airport (BBI Airport), located in the city of Bhubaneswar is the 15th busiest airport in India. The airport was accorded international status in October, 2013 after which international operations were commenced at the airport.

1.2 Details of the terminal building and other key assets of BBI Airport are provided in the table below:

Table 1: Technical details and terminal building details

Details of BBI Airport	
Particulars	**Details**
Total airport area	836 acres
Runway orientation and length	05/23: 1,380m 14/32: 2,743 m
No. of taxi tracks	4
No. of apron bays	13
Operational hours	24 hours
Terminal building details (domestic plus international)	
Particulars	**Details**
Terminal building area	32,244 sq. meters
Immigration counters	-
Customs counters	-
Departure conveyors	2
Arrival conveyors	5
Peak hour passenger capacity	550
No. of check-in counters	18 domestic and 4 international
Total area of car parking	13,035 sq. meters

1.3 In the financial year ending March 31, 2016, BBI Airport crossed annual passenger throughput of 1.5 million to become a Major Airport, as defined in Section 2(i) of Airports Economic Regulatory Authority of India (AERA, the Authority) Act. Accordingly, starting from financial year 2016-17, tariff determination of aeronautical services at the airport is to be undertaken by the Authority.

1.4 AAI had submitted its Multi-Year Tariff Proposal dated 10/08/2018 to the Authority for determination of aeronautical tariffs for the 1st control period.

1.5 The Authority conducted a detailed review of the Multi-Year Tariff Proposal submitted by AAI. The Authority's proposals regarding the same were placed for stakeholder consultations by way of Consultation Paper No. 24/2018-19 dated 16th November, 2018.

1.6 A meeting with the stakeholders for inviting responses on the proposed decisions taken by the Authority was held on 10/12/2018.

1.7 This Order of the Authority takes into account the proposals of AAI, views expressed by stakeholders in the meeting, the written submissions received from the stakeholders and examination by the Authority with reference to its guidelines for airport operators.

2. Summary of stakeholders' comments

2.1 In response to Consultation Paper No. 24/2018-19 dated 16/11/2018, the Authority had received several responses from stakeholders, which were uploaded on the website of the Authority vide Public Notice No. 31/2018-19 dated 18/12/2018 for information of all the concerned stakeholders. The list of stakeholders, who have commented on the Consultation Paper No. 24/2018-19 is presented below.

Table 2: Summary of stakeholders' comments

S. No.	Stakeholder	Issues commented
1.	Airports Authority of India	• Traffic projections • O&M expenses • Tax expenses • Allocation of RAB
2.	Federation of Indian Airlines (FIA)	• Shortfall in projected aeronautical revenues • Increase in tariff • ANS and cargo handling services • Traffic projections • Capital expenditures • Allocation of RAB • Initial RAB • Useful lives of assets • O&M Expenditure • Non-aeronautical revenues • Tax expenses • Tariff determination methodology
3.	Business Aircraft Operators Association	• Fuel Throughput Charges
4.	Hindustan Petroleum Corporation Limited (HPCL)	• Fuel Throughput Charges
5.	State Government of Odisha	• Additional facilities at the airport

2.2 The Authority has carefully considered the comments made by stakeholders (produced as-is in this Order) and has obtained response of AAI on these comments. The position of the Authority in its Consultation Paper No. 24/2018-19, issue-wise comments of the stakeholders on the Consultation Paper, the response from AAI thereon, Authority's examination, and its decisions are given in the relevant sections of this Order.

3. Methodology for tariff determination

3.1 The Authority, vide its Order No. 13/2010-11 dated 12/01/2011 ("Airport Order") and Direction No. 5/2010-11 dated 28/02/2011 ("Airport Guidelines"), had issued guidelines to determine tariffs at major airports based on Single Till mechanism. Subsequently, the Authority has amended guidelines vide its Order No. 14, 2016-17 dated 12/01/2017 to determine the future tariffs using Hybrid Till.

3.2 The Authority had decided the 1st control period for the airport to be the five year period from FY 2018-19 till FY 2022-23. However considering that the airport came under the definition of a major airport by FY 2016-17, the Authority decided to include FY 2016-17 and FY 2017-18 under its regulatory ambit and accordingly consider the shortfall/surplus of these two financial years towards determination of aeronautical tariff for the 1st control period. The tariff determination process consists of determination of regulatory building blocks for the 1st control period under Hybrid Till.

3.3 The Aggregate Revenue Requirement (ARR) under the regulatory framework of the Authority is calculated as under:

$ARR = \sum_{t=1}^{5} ARRt$

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

Where,

3.3.1 t is the tariff year in the control period, ranging from 1 to 5

3.3.2 ARR_t is the Aggregate Revenue Requirement for tariff year t

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

3.3.4 RAB_t is the Aeronautical Regulatory Asset Base for tariff year t

3.3.5 D_t is the Depreciation corresponding to the Regulatory Asset Base for tariff year t

3.3.6 O_t is the Aeronautical Operation and Maintenance expenditure for the tariff year t

3.3.7 T_t is the aeronautical taxation expense for the tariff year t

3.3.8 α is the cross subsidy factor for revenue from services other than aeronautical services. Under the Hybrid Till methodology followed by the Authority, α = 30%.

3.3.9 NAR_t is the Non-Aeronautical Revenue in tariff year t.

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

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

Where,

3.4.1 PV (ARR_t) is the Present Value of ARR for all the tariff years. All cash flows are assumed to occur at the end of the year. Further, the date considered by the Authority for discounting of cash flows is one year from the start of the control period, i.e., 1st April, 2019.

3.4.2 VE_t is the passenger traffic in year t.

3.5 Further, shortfall/surplus of FY 2016-17 and FY 2017-18 was adjusted for time value of money and added to the ARR as computed above. For this purpose, ARR for FY 2016-17 and FY 2017-18 was computed in a manner similar to para 3.3. This ARR was compared with actual aeronautical revenues of the airport for these two financial years. The future value of this shortfall/surplus was added to the ARR computed for the control period.

Stakeholder comments

3.6 **Federation of Indian Airlines:**

Authority ought to follow Single Till Model for determination of Aeronautical Tariff:

As per para 2 of the CP, it is stated that the Authority shall determine tariffs for AAI using the Hybrid Till model. It is to be noted that FIA has from time to time, advocated the application of a Single Till model across the airports in India. It is submitted that Single Till is premised on the following legal framework being:

- Section 13(1)(a)(v) of AERA Act envisages that while determining tariff for aeronautical services, the Authority shall take into consideration revenue received from services other than the aeronautical services.
- Clause 4.2 of AERA Guidelines recognizes Single Till approach which sets out the following components on the basis of which ARR will be calculated:
  - Fair Rate of Return applied to the Regulatory Asset Base
  - Operation & Maintenance Expenditure
  - Depreciation
  - Taxation
  - Revenues from services other than aeronautical services
- It is submitted that determination of aeronautical tariff warrants a comprehensive evaluation of the economic model and realities of the airport – both capital and revenue elements. The Authority's approach of Hybrid Till for AAI deserves to be discarded.
- In the Single Till Order, Authority has strongly made a case in favour of the determination of tariff on the basis of 'Single Till'.

It is noteworthy that the Authority in its inter alia Single Till Order has:

- Comprehensively evaluated the economic model and realities of the airport – both capital and revenue elements.
- Taken into account the legislative intent behind Section 13(1)(a)(v) of the AERA Act.
- Concluded that the Single Till is the most appropriate for the economic regulation of major airports in India.
- The criteria for determining tariff after taking into account standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO.
- The Authority in its AERA Guidelines (Clause 4.3) has followed the Single Till approach while laying down the procedure for determination of ARR for Regulated Services. In this respect, the matter must be dealt with by the Authority considering the ratio pronounced by the Constitutional Bench in the Hon'ble Supreme Court Judgment in PTC vs. CERC reported as (2010) 4 SCC 603 (please ref: Paragraph Nos. 58 to 64 at Page Nos. 639 to 641) wherein it is specifically stated that regulation under a enactment/statute, as a part of regulatory framework, intervenes and even overrides the existing contracts between the regulated entities inasmuch as it casts a statutory obligation on the regulated entities to align their existing and future contracts with the said regulations.
- The fundamental reasoning behind 'Single Till' approach is that if the consumers/passengers are offered cheaper air-fares on account of lower airport charges, the volume of passengers is bound to increase leading to more foot-fall and probability of higher non-aeronautical revenue. The benefit of such non aeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower aeronautical charges. It is a productive chain reaction which needs to be taken into account by the Authority.

- FIA therefore submits as under:
  - 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.
  - 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.
  - MoCA's views 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.

AAI's reply to stakeholder comments

3.7 AAI did not respond to these comments.

Authority's examination of stakeholders comments and AAI's submission to stakeholders comments

3.8 The Authority has noted the comments from FIA regarding the regulatory Till applicable for the airport. The Authority has decided to adopt Hybrid Till as per the revised guidelines issued vide its Order No. 14, 2016-17 dated 12th January 2017.

3.9 The Authority has provided detailed reasoning and adequately responded to the stakeholders' comments on the adoption of Hybrid Till in its Order No. 14, 2016-17 and passed the following order:

(i) The Authority will in future determine the tariffs of major airports under "Hybrid Till" wherein 30% of non-aeronautical revenues will be used to cross-subsidize aeronautical charges. Accordingly, to that extent the airport operator guidelines of the Authority shall be amended. The provisions of the Guidelines issued by the Authority, other than regulatory Till, shall remain the same.

(ii) In case of Delhi and Mumbai airports, tariff will continue to be determined as per the SSA entered into between Government of India and the respective airport operators at Delhi and Mumbai.

3.10 In view of above, the Authority decides to determine aeronautical tariffs at Bhubaneswar Airport for the first control period on Hybrid Till basis.

Decision No. 1: Methodology for Tariff Determination

1.a. The Authority decides to determine aeronautical tariffs at Bhubaneswar Airport for the first control period on Hybrid Till basis.

4. Multi-Year Tariff Proposal of BBI

4.1 AAI made submissions dated 10/08/2018 to the Authority for determination of tariffs for the 1st control period (01/04/2018 to 31/03/2023) on the basis of Hybrid Till.

4.2 AAI provides Air Navigation Services (ANS) in addition to landing, parking and other aeronautical services at BBI. AAI had submitted that the tariff proposal does not consider revenues, expenditure and assets on account of ANS. This order discusses the determination of tariffs for aeronautical services at the airport excluding ANS.

4.3 AAI had further submitted that all cargo operations have been transferred to AAI Cargo Logistics and Allied Services (AAICLAS), its wholly owned subsidiary and the tariff proposal does not consider revenues, expenditure and assets on account of cargo operations. This Order discusses the determination of tariffs for aeronautical services at the airport excluding cargo operations. The tariffs for cargo operations will be determined separately since the operations are carried out by a separate entity.

4.4 AAI had informed that accounts of AAI are audited by C&AG of India as mandated by the AAI Act. The C&AG's resident audit party audits the financial records and statements of AAI airports, regional and field offices. However, the C&AG issues the final audit certificate for the AAI as a whole and only trial balance is available for BBI. The Authority had considered the trial balance for BBI Airport as submitted by AAI while determining tariffs for BBI Airport.

Stakeholder comments

4.5 **Federation of Indian Airlines:**

Revenues from Air Navigation System (ANS) & cargo operations have not been included in computation of aeronautical revenues, thereby resulting in the increase of the projected shortfall.

FIA submits that as per para 3.2 & 3.3 of the CP, it is observed that the tariff proposal submitted by AAI did not consider revenues, expenses & assets related to air navigation services provided by AAI and cargo services provided by AAI Cargo Logistics and Allied Services (AAICLAS), a wholly owned subsidiary of AAI.

As per section 2 of AERA Act, 2008, under sub-section (a), "aeronautical services means any services provided-

(i) For navigation, surveillance and supportive communication thereto for air traffic management
(iv) For ground handling services relating to aircraft, passengers and cargo at an airport
(v) For the cargo facility at an airport"

Considering the above provisions, FIA submits that revenue from both services (ANS & cargo services should form part of aeronautical revenues and accordingly the Authority should take into account of the corresponding revenue and revise tariff card accordingly. As highlighted in Para 57 of DIAL TDSAT judgment, "...Even if DIAL engages in providing an Aeronautical Service through its servants or agents, in essence the service must be deemed to be one provided by DIAL".

Hence applying the same principle at BBI Airport, cargo operations which have been transferred to AAI Cargo Logistics and Allied Services (AAICLAS), services will deemed to be provided by AAI. Therefore, revenue from cargo services should be considered for determining tariff for first control period.

Accordingly, FIA submits that Authority should consider the revenue from air navigation services and cargo services while determining tariff for first control period & propose a new tariff card accordingly.

AAI's reply to stakeholder comments

4.6 Revenue from cargo operations cannot be the part of tariff proposal as the cargo operation have been hived off to the AAICLAS, and air navigation services cannot be formed part of tariff proposal as the same is determined by the MoCA.

Authority's examination of stakeholders comments and AAI's submission to stakeholders comments

4.7 The Authority has noted the comments of FIA regarding ANS and AAICLAS operations.

4.8 The Authority carries out separate exercise for tariff determination of ground handling service providers and cargo handling service providers. Therefore, any expenses, revenues, and assets for the same should not be considered in determination of aeronautical tariffs for the airport operations. The Authority, however, recognizes that monies earned by AAI from AAICLAS as a concessionaire of cargo business at Bhubaneswar Airport should be accounted for in the current Order and has discussed the same in 17.11.3 below.

4.9 For ANS, the tariffs are determined by MoCA. Because it is a separate exercise, which considers ANS specific assets, expenses and revenues, these should not be considered in determination of aeronautical tariffs for the airport operations.

4.10 The Authority, hence, decides to not consider the ANS and cargo operations for the purposes of determination of aeronautical tariffs except for monies earned by AAI from AAICLAS for undertaking cargo business at Bhubaneswar Airport.

Decision No. 2: Regarding consideration of ANS and AAICLAS operations

2.a. The Authority decides to not consider the assets, expenses and revenues pertaining to ANS and AAICLAS operations for the purposes of aeronautical tariff determination of Bhubaneswar Airport except for monies earned by AAI from AAICLAS for doing cargo business at Bhubaneswar Airport.

5. Traffic forecast

5.1 The traffic handled by BBI Airport during the past years is given in the table below:

Table 3: Passenger and aircraft traffic

Year	Domestic passengers	International passengers	Domestic ATM	International ATM
2007-08	7,02,201	2	12,272	2
2008-09	6,71,861	0	9,962	0
2009-10	8,25,958	0	10,708	0
2010-11	10,44,860	0	11,788	0
2011-12	12,53,263	0	14,672	2
2012-13	13,89,552	0	13,883	0
2013-14	13,35,832	0	11,752	0
2014-15	14,93,342	17	12,506	6
2015-16	18,78,559	16,173	14,032	4
2016-17	23,03,623	28,810	17,071	7
2017-18	31,58,916	91,719	22,532	623
Past 10 years CAGR	**16.2%**	**NA**	**6.3%**	**NA**
Past 5 years CAGR	**17.9%**	**NA**	**10.2%**	**NA**

5.2 The traffic growth rates as submitted by AAI for the 1st control period are as follows:

Table 4: Traffic projections proposed by AAI

Year	Passenger			ATM		
	Domestic	International	Combined	Domestic	International	Combined
Growth rates						
2018-19	16%	35%	16.54%	15%	35%	15.54%
2019-20	16%	35%	16.62%	15%	35%	15.63%
2020-21	16%	35%	16.72%	15%	35%	15.73%
2021-22	16%	35%	16.83%	15%	35%	15.86%
2022-23	10%	20%	10.51%	9%	18%	9.45%
Traffic						
2018-19	3,664,343	123,821	3,788,163	25,912	841	26,753
2019-20	4,250,637	167,158	4,417,795	29,799	1,135	30,934
2020-21	4,930,739	225,663	5,156,402	34,268	1,533	35,801
2021-22	5,719,658	304,645	6,024,303	39,409	2,069	41,478
2022-23	6,291,623	365,574	6,657,198	42,955	2,442	45,397

5.3 AAI submitted that the passenger traffic and aircraft movement projections are based on past trends, econometric and regression analysis, and various economic factors including policy framework.

Authority's Examination at Consultation Stage:

5.4 The Authority carefully examined the submissions from AAI. As part of its examination of AAI's forecast of traffic at BBI Airport, the Authority calculated Compounded Annual Growth Rate, or CAGR, for passenger traffic and ATM from FY 2007-08 to FY 2017-18 (10 year CAGR) and FY 2012-13 to FY 2017-18 (5 year CAGR). There is no historical data on the international operations at BBI Airport since they began only in FY 2014-15. Hence the Authority did not compute CAGR for international passenger traffic and ATM. The details have been provided in the table below:

Table 5: Comparison of traffic growth rates as per AAI's submission and actual CAGR

Particulars	Growth rates as per AAI	10 year CAGR	5 year CAGR
Passengers:			
Domestic	16% (reduced to 10% in year 5)	16.2%	17.9%
International	35% (reduced to 20% in year 5)	**NA**	**NA**
ATM:			
Domestic	15% (reduced to 9% in year 5)	6.3%	10.2%
International	35% (reduced to 18% in year 5)	**NA**	**NA**

5.5 The Authority observed that the domestic passenger traffic grew from 7.02 lakh passengers in FY 2007-08 to 31.58 lakh passengers in FY 2017-18, i.e., a 10 year CAGR of 16.2%. The traffic in FY 2012-13 was 13.89 lakh domestic passengers, which grew at a CAGR of 17.9% up to FY 2017-18 (5 year CAGR). The Authority noted the spurt in traffic in the recent past, which causes CAGR for 5 year period to be higher than that for 10 year period. The Authority also notes that existing traffic at BBI Airport (3.25 million for FY 2017-18) exceeds its terminal capacity (at 2.5 million) and to that extent, the future growth may not follow the high growth trend of recent past till capacity expansion is undertaken by BBI Airport. Having considered 5 and 10 year CAGRs of passenger traffic and likely capacity constraint, the Authority is of the view that 10 year CAGR provides more realistic traffic growth rates for future projections of domestic passenger traffic. The Authority noted that domestic passenger traffic growth rate proposed by AAI is closer to 10 year CAGR, and hence the Authority did not propose a change in the same, except the last year's projection, which the Authority proposed to change from 10% to 16%.

5.6 The Authority noted that AAI projected ATMs to grow at a much higher rate (15% per annum except for FY 2022-23 where it is 9%) than historically observed at BBI Airport (10 year CAGR at 6%). For domestic ATM, AAI submitted that it considered trends in passengers to aircraft movement ratios combined with the load factors. The Authority noted that BBI Airport is experiencing high load factors and there will need to be more aircraft movements to address likely increase in passenger traffic. Data for the past 6 months of current Financial Year 2018-19 indicates that aircraft movements at BBI Airport have exceeded passenger traffic movements. On account of these patterns, the Authority is of the view to not follow 10 year CAGR in case of ATMs. The Authority is of the view to accept ATM projections made by AAI, except the last year's projection, which the Authority proposed to change from 9% to 15%.

5.7 The Authority noted that the international operations at BBI Airport began in FY 2014-15 and international traffic has increased in multiples over the last 3-4 years. However the international traffic base for FY 2016-17 at 91,719 is still low and the airport is likely to experience similar growth pattern in the recent future. The Authority noted AAI's proposal to consider traffic projection for international segment at 35% per annum except at 20% for the 5th year of the Control Period. Given the volatility in international traffic since then, the Authority proposed to consider the growth rates as submitted by AAI for international passenger and ATM traffic, except for the reduction proposed by AAI in 5th year of the control period, FY 2022-23.

5.8 The traffic growth rates and the corresponding traffic for passengers and ATM as considered by the Authority for the 1st control period as part of its proposal in the Consultation Paper have been given in the table below.

Table 6: Traffic forecast as considered by the Authority – Consultation Paper

Year	Passenger			ATM		
	Domestic	**International**	**Combined**	**Domestic**	**International**	**Combined**
			Growth rates			
2018-19	16%	35%	16.54%	15%	35%	15.54%
2019-20	16%	35%	16.62%	15%	35%	15.63%
2020-21	16%	35%	16.72%	15%	35%	15.73%
2021-22	16%	35%	16.83%	15%	35%	15.86%
2022-23	16%	35%	16.96%	15%	35%	16.00%
			Traffic			
2018-19	36,64,343	1,23,821	37,88,163	25,912	841	26,753
2019-20	42,50,637	1,67,158	44,17,795	29,799	1,135	30,934
2020-21	49,30,739	2,25,663	51,56,402	34,268	1,533	35,801
2021-22	57,19,658	3,04,645	60,24,303	39,409	2,069	41,478
2022-23	66,34,803	4,11,271	70,46,074	45,320	2,794	48,113

5.9 Based on the material before it and the analysis, the Authority had proposed the following regarding traffic forecast:

5.9.1 To consider the ATM and passenger traffic as per Table 6.

5.9.2 To true-up the traffic volume (ATM and passengers) on the basis of actual traffic in 1st control period while determining tariffs for the 2nd control period.

Stakeholder comments

5.10 **Airports Authority of India (AAI):**

The Authority has though accepted projection of AAI from FY18-19 to FY21-22 for 4 years and also requested to consider the same growth rate for FY22-23.

Further, the projections made by AAI as same has been done based on trend analysis for last fifteen years and also considering GDP as predictor variable.

5.11 **Federation of Indian Airlines (FIA):**

Traffic projections are based on the data received from AAI and Authority has not conducted independent study of its own. Projected growth rates for passenger traffic are not in line with the historical 5-year CAGR of domestic traffic.

FIA submits that in respect of the projections of traffic, the Authority sought historical passenger & ATM traffic from FY 08 to FY 18 and its projections for the first control period from BBI Airport. FIA observed that the Authority has done an upward revision in BBI airport for YoY growth rates for domestic passenger traffic from 10% to 16% in FY23 and from 20% to 35% in FY23 in case of international passenger growth (refer table below). For FY19 to FY22, growth rate projections submitted by AAI for passenger traffic have been accepted by the Authority.

Traffic forecast

Table #5 on Page 10 of CP No. 24/2018-19

Particulars	FY19	FY20	FY21	FY22	FY23	Grand Total	Common size	YoY FY20	YoY FY21	YoY FY22	YoY FY23	5-year CAGR FY19 - FY23
Passenger traffic												
Domestic	3,664,343	4,250,637	4,930,739	5,719,658	6,634,303	25,200,180	95%	16%	16%	16%	16%	16%
International	123,821	167,158	225,663	304,645	411,271	1,232,558	5%	35%	35%	35%	35%	35%
Total	3,788,164	4,417,795	5,156,402	6,024,303	7,046,074	26,432,738	100%	17%	17%	17%	17%	17%
ATM												
Domestic	25,912	29,799	34,268	39,409	45,320	174,708	95%	15%	15%	15%	15%	15%
International	841	1,135	1,533	2,069	2,794	8,372	5%	35%	35%	35%	35%	35%
Total	26,753	30,934	35,801	41,478	48,114	183,080	100%	16%	16%	16%	16%	16%

Passenger traffic – Domestic

FIA submits that The Authority has noted that domestic passenger traffic growth rate proposed by AAI is closer to 10 year CAGR, and hence the Authority does not propose a change in the same, except the last year's projection, which the Authority proposes to change from 10% to 16%.However, the historical 5 year CAGR for passenger growth rate is 17.9%. FIA submits that considering the above, we recommend Authority to conduct an independent study on passenger growth rate, as the ATM growth has been projected at c.16% (YoY) (refer table above) which is higher than both 5-year CAGR and 10-year CAGR. FIA wish to submit that any increase in ATM growth will tantamount to increase in passenger throughput over the control period. Hence, FIA submits that the Authority should consider the historical 5-year CAGR of 17.9% for YoY growth rate projections for domestic passenger traffic for first control period.

Passenger traffic – International

FIA has noted that the BBI Airport was accorded international status in October, 2013. However, based on Table 1 of the CP, FIA understands that the international operations have started in FY16. Hence, the 5-year CAGR or 10-year CAGR could not be computed for the control period. However, FIA noted that the volume for traffic international passengers have increased by 78% in FY17 & 218% in FY18 i.e. CAGR of 138% during 2 years. However, the Authority has considered the growth rate of 35% for the control period which is significantly lower than past.

AAI's reply to stakeholder comments

5.12 AAI did not respond to these comments.

Authority's examination of stakeholders comments and AAI's submission to stakeholders comments

5.13 **Authority's examination of comments by AAI:**

The Authority has noted the comments of AAI as regard traffic forecast. The Authority understands that AAI has asked for the traffic growth rate of the last year of the control period to be consistent with its proposal in MYTP. However, despite several requests, AAI has not provided any reasonable justification in this regard. Without any reasonable justification for a drop in the growth rate of passenger traffic from 16% to 10% in the last year of the first Control Period, the Authority is unable to accept AAI's proposal. The use of past CAGR for future projections takes into account the year-on-year volatility in traffic. Therefore, the Authority decides to keep the growth rates constant for the fifth year of the control period.

5.14 **Authority's examination of comments by FIA:**

The Authority has carefully examined the comments from FIA regarding traffic projections.

5.14.1 **Domestic traffic projections:** FIA has suggested that the Authority should consider the 5-year CAGR of 17.9% for domestic passenger growth projections instead of the 10-year CAGR of 16%. The Authority has already provided the reasoning behind the use of 10-year CAGR of 16%. To reiterate, following are the reasons for the same:

- There has been a spurt in traffic growth over the past 5 years. For example, traffic grew at 37% in FY 2018, 23% in FY 2017, and 26% in FY 2016. These are very high traffic growth rates, leading to a higher 5-year CAGR of 17.9%, as against the 10-year CAGR of 16%.

- The Authority also notes that existing traffic at BBI Airport (3.25 million for FY 2017-18) exceeds its terminal capacity (at 2.5 million) and to that extent, the future growth may not follow the high growth trend of recent past till capacity expansion is undertaken by BBI Airport. This capacity expansion, by way of an additional terminal, is expected to be operationalized only by the last year of the control period.

- FIA has pointed out that domestic ATM projections have been considered at a higher rate than the 5 or 10-year CAGRs. As mentioned during the consultation stage, the Authority noted that BBI Airport is experiencing high load factors and there will need to be more aircraft movements to address likely increase in passenger traffic. Data for first 8 months of current Financial Year 2018-19 indicates that aircraft movements at BBI Airport have exceeded passenger traffic movements. Domestic passengers grew by 39.2% from April to November 2018 as compared to the previous year. Domestic ATM grew by 45.5% in the same period. On account of these patterns, the Authority is of the view to not follow 5 or 10 year CAGR in case of ATMs.

- Due to the above reasons, the Authority is of the view that the 10-year CAGR provides a more realistic estimate to project passenger traffic growth rates up to the next 5 years.

The Authority contemplates conduct of an independent study for traffic projections of AAI airports.

5.15 The Authority observed the actual traffic growth during the current FY 2018-19, for which data up to December 2018 was available. The Authority observed that the airport served 3.02 million domestic passengers from April to December, 2018. Extrapolating this to 12 months, the estimated domestic passenger traffic for FY 2018-19 comes out to be 4.03 million. This is annual growth of 28% over FY 2017-18 traffic, as against the projected 16% during the consultation stage. Because of these significant differences, the Authority has decided to consider a revised 10-year CAGR from FY 2008-19 to FY 2018-19. This revised 10-year CAGR was found to be 20%. Based on these assumptions, the revised traffic projections are given in the table below.

Table 7: Traffic projections for the first control period as per Authority - Final

Year	Passenger			ATM		
	Domestic	International	Combined	Domestic	International	Combined
			Growth rates			
2018-19	28%	35%	27.80%	15%	35%	15.54%
2019-20	20%	35%	20.45%	15%	35%	15.63%
2020-21	20%	35%	20.50%	15%	35%	15.73%
2021-22	20%	35%	20.56%	15%	35%	15.86%
2022-23	20%	35%	20.63%	15%	35%	16.00%
			Traffic			
2018-19	40,30,559	1,23,821	41,54,379	25,912	841	26,753
2019-20	48,36,670	1,67,158	50,03,828	29,799	1,135	30,934
2020-21	58,04,004	2,25,663	60,29,668	34,268	1,533	35,801
2021-22	69,64,805	3,04,645	72,69,451	39,409	2,069	41,478
2022-23	83,57,766	4,11,271	87,69,038	45,320	2,794	48,113

5.16 **International traffic projections:** FIA has also commented on international passenger traffic projections. FIA has pointed out that the Authority has assumed a growth rate of 35% for these, which is lower than the first two years' growth rates of 78% and 218%. In absence of any alternate suggestions in this regard, the Authority decides to keep its earlier proposal of 35% growth rate.

Decision No. 3: Regarding traffic forecast

3.a. The Authority decides to consider the ATM and passenger traffic as per Table 7.

3.b. The Authority decides to true-up the traffic volume (ATM and passengers) on the basis of actual traffic in 1st control period while determining tariffs for the 2nd control period.

6. Allocation of Initial Regulatory Asset Base

6.1 Under Hybrid Till, only aeronautical assets are included as part of the Regulatory Asset Base (RAB). Therefore, all airport assets need to be segregated between aeronautical and non-aeronautical. Further, projections of capitalizations during the control period with regard to only aeronautical assets need to be considered as part of RAB.

6.2 For the purposes of this segregation, AAI has divided its assets into three components - aeronautical, non-aeronautical and common. Common components have been further segregated into aeronautical and non-aeronautical assets by applying one of the following ratios:

a) **Terminal Area Ratio:** This is a ratio of aeronautical area to non-aeronautical area and is applied for all terminal related common assets.

b) **Employee Ratio:** This is a ratio of staff providing non-aeronautical services (i.e. commercial and land management) to total staff employed at the airport excluding ANS and cargo.

c) **Quarter ratio:** This is a ratio based on number of non-aeronautical staff to aeronautical staff residing at the residential quarters at the airport. It is applied to assets pertaining to such residential quarters.

d) **Integrated office building ratio:** This is a ratio based on area reserved for non-aeronautical services (commercial and land management) to total area in the separate administrative building at the airport.

6.3 The table below provides the details of these ratios used for allocation.

Table 8: Ratios used for allocation of assets into aeronautical and non-aeronautical

Particulars	Ratio	
	FY 2016-17	FY 2017-18
Terminal Area Ratio	7.53%	7.55%
Employee Ratio	7:98	6:100
Quarter ratio	5:55	5:55
Integrated office building ratio	10:72	10:72

6.4 The allocation of gross block of assets as on 01/04/2016 between aeronautical and non-aeronautical services as submitted by AAI is given in the table below:

Table 9: Allocation of gross block of assets between aeronautical and non-aeronautical

S. No.	Asset category	Total assets (INR Crores)	Aero assets (INR Crores)	% Aero	Remarks

S. No.	Asset category	Total assets (INR Crores)	Aero assets (INR Crores)	% Aero	Remarks
1.	Freehold Land	3.42	-	0%	
2.	Runways, Aprons and Taxiways	42.05	42.05	100%	
3.	Road, Bridges & Culverts	42.49	33.49	79%	Refer Table 10
4.	Building – Terminal	74.45	70.01	94%	Refer Table 10
5.	Building – Residential	6.21	6.00	97%	Refer Table 10
6.	Boundary Wall – Operational	3.46	3.46	100%	
7.	Boundary Wall – Residential	3.47	3.47	100%	
8.	Computer - End user	0.75	0.75	100%	
9.	Computer - Servers and networks	0.59	0.59	100%	
10.	Intangible Assets – Software	0.38	0.38	100%	
11.	Plant & Machinery	17.56	17.53	100%	Refer Table 10
12.	Tools & Equipment	0.93	0.92	99%	
13.	Furniture & Fixtures: Other Than Trolley	3.01	2.95	98%	Refer Table 10
14.	Furniture & Fixtures: Trolley	0.54	0.54	100%	
15.	Vehicles	0.75	0.75	100%	
16.	Electrical Installations	51.68	50.93	99%	Refer Table 10
17.	Other Office Equipment	0.81	0.78	97%	
18.	X Ray Baggage System	1.85	1.85	100%	
19.	CFT/Fire Fighting Equipment	12.79	12.79	100%	
	Total	**267.19**	**249.24**	**93%**	

Authority's Examination at Consultation Stage

6.5 AAI submitted the workings for the calculation of the terminal area ratio, i.e., ratio of non-aeronautical portion to the aeronautical portion of the terminal building. This has been presented in the table below.

Table 10: Terminal area ratio

S. No.	Category	Area (Sq. meters)
1.	Commercial entities - domestic	1,483
2.	Commercial entities - international	271
3.	Airlines - domestic	226
4.	Airlines - international	122
5.	Regulatory & allied agencies - domestic	25

S. No.	Category	Area (Sq. meters)
6.	Regulatory & allied agencies - international	262
7.	Ground handling	39
8.	**Total non-aeronautical area (1)**	**2,429**
9.	**Total area of terminal (2)**	**32,244**
10.	**Terminal area ratio (1/2)**	**7.53%**

6.6 The Authority verified the above working, with details of exact area given to various entities - commercial, airlines, and regulatory and allied agencies. The Authority observed that the proportion of non-aeronautical area is on similar lines as those of other AAI airports of similar nature. In view of this, the Authority accepted the terminal area ratio as proposed by AAI.

6.7 The Authority verified the workings provided by AAI for other three ratios, i.e., employee ratio, quarter ratio, and the integrated office building ratio. On the basis of its verification, the Authority accepted these ratios as proposed by AAI.

6.8 The Authority observed the use of various ratios for segregation of common assets into aeronautical and non-aeronautical. These are explained in the table below.

Table 11: Allocation of common assets and its justification

S. No.	Asset category	Common assets (INR cr.)	Ratio used for allocation of common assets	Remarks
1.	Freehold Land	-	-	-
2.	Runways, Aprons and Taxiways	-	-	-
3.	Road, Bridges & Culverts	0.36	86% - Quarter ratio 14% - Terminal area ratio	There are assets worth INR 8.97 crores that pertain to the car parking area. These have been considered as exclusively non-aeronautical. Out of total common assets of INR 36 lakh, INR 31 lakh (i.e. 86%) pertains to strengthening of colony road at employee quarters, thereby requiring a quarter ratio based allocation. Remaining assets (worth INR 5

S. No.	Asset category	Common assets (INR cr.)	Ratio used for allocation of common assets	Remarks
				lakh) have been allocated as per terminal area ratio.
4.	Building – Terminal	55.95	90.5% - Terminal area ratio 9.0% - Integrated office building ratio 0.3% - Quarter ratio 0.3% - Employee ratio	Majority of these assets (INR 51 lakh out of INR 56 lakh) have been allocated as per terminal area ratio.
5.	Building – Residential	2.57	100% - Quarter ratio	Residential building pertains to employee quarters, which is allocated on the basis of quarter ratio.
6.	Boundary Wall – Operational	0.02	100% - Employee ratio	-
7.	Boundary Wall – Residential	-	-	-
8.	Computer - End user	-	-	-
9.	Computer - Servers and networks	-	-	-
10.	Intangible Assets – Software	-	-	-
11.	Plant & Machinery	0.48	99% - Terminal area ratio 1% - Employee ratio	Allocation of plant and machinery, which is majorly located inside the terminal building, is on the basis of terminal area ratio.
12.	Tools & Equipment	0.09	73% - Employee ratio 27% - Integrated office ratio	-
13.	Furniture & Fixtures: Other Than Trolley	0.50	99% - Integrated office building ratio 1% - Quarter ratio	Almost all office furniture is located in the administrative building, and hence allocated on the basis of integrated office building ratio.
14.	Furniture & Fixtures: Trolley	-	-	-
15.	Vehicles	-	-	-

S. No.	Asset category	Common assets (INR cr.)	Ratio used for allocation of common assets	Remarks
16.	Electrical Installations	8.19	61.8% - Terminal area ratio 35.9% - Integrated office ratio 2.4% - Quarter ratio	Allocation of electrical installations has been done on the basis of the location of specific assets - either terminal building or integrated office building. Some assets have been installed in employee quarters, requiring an allocation on the basis of quarter ratio.
17.	Other Office Equipment	0.28	98% - Employee ratio 2% - Terminal area ratio	-
18.	X Ray Baggage System	-	-	-
19.	CFT/Fire Fighting Equipment	-	-	-

6.9 On the basis of its observations, the Authority proposed the allocation of gross block of assets in accordance with the table below.

Table 12: Allocation of assets proposed by the Authority (gross block)

S. No.	Asset category	Total assets (INR Crores)	Aero assets (INR Crores)	% Aero
1.	Freehold Land	3.42	-	0%
2.	Runways, Aprons and Taxiways	42.05	42.05	100%
3.	Road, Bridges & Culverts	42.49	33.49	79%
4.	Building – Terminal	74.45	70.01	94%
5.	Building – Residential	6.21	6.00	97%
6.	Boundary Wall – Operational	3.46	3.46	100%
7.	Boundary Wall – Residential	3.47	3.47	100%
8.	Computer - End user	0.75	0.75	100%
9.	Computer - Servers and networks	0.59	0.59	100%
10.	Intangible Assets – Software	0.38	0.38	100%
11.	Plant & Machinery	17.56	17.53	100%
12.	Tools & Equipment	0.93	0.92	99%
13.	Furniture & Fixtures: Other Than Trolley	3.01	2.95	98%
14.	Furniture & Fixtures: Trolley	0.54	0.54	100%

S. No.	Asset category	Total assets (INR Crores)	Aero assets (INR Crores)	% Aero
15.	Vehicles	0.75	0.75	100%
16.	Electrical Installations	51.68	50.93	99%
17.	Other Office Equipment	0.81	0.78	97%
18.	X Ray Baggage System	1.85	1.85	100%
19.	CFT/Fire Fighting Equipment	12.79	12.79	100%
	Total	**267.19**	**249.24**	**93%**

6.10 Based on the material before it and the analysis, the Authority had proposed the allocation of gross block of assets as on 1st April 2016 between aeronautical and non-aeronautical assets as detailed in Table 12.

Stakeholder comments

6.11 **Federation of Indian Airlines (FIA):**

6.11.1 **Authority has broadly relied on AAI's submission on allocation of RAB additions between aeronautical and non-aeronautical without conducting technical study by independent agency**

Allocation of RAB additions — INR crores

Asset	Gross value	Allocation ratio	Aero asset	% to total Aero asset
New terminal building	608.0	90:10	547.2	46%
New terminal building-electrical installation	327.4	90:10	294.6	25%
New link building between T1 & T2-building	56.7	90:10	51.0	4%
New link building between T1 & T2-electrical installation	30.5	90:10	27.5	2%
Solar power plant	41.2	100:0	41.2	3%
Runways, Aprons and Taxiways	147.1	100:0	147.1	12%
Other assets	77.3	100:0	77.3	7%
Total	1288.2	92.1%	1185.9	100%

The Authority proposed to allocate the terminal building & new link building in aeronautical & non-aeronautical in the ratio of 90:10. No basis, benchmarking or independent study has been conducted by Authority for ascertaining this ratio.

FIA submits that the allocation of the airport assets between aeronautical or non-aeronautical categories is critical under shared till approach, hence the same should be carried out on the basis of independent study rather than on tentative basis.

FIA understands entire other assets additions during the control period has been considered as aeronautical by Authority. Although, this has not been specifically mentioned in the CP. Hence, certain additions which could have been allocated to non-aeronautical have not been considered by Authority. Hence, on an overall basis, 92.1% of total additions are considered as aeronautical assets on a tentative basis.

FIA submits that rather than proposing tentative allocation, the Authority to consider the asset allocation ratio of 80% : 20% in the 1st control period to reduce ARR & minimize shortfall and conduct an independent study on asset allocation which may be used for truing up in the 2nd control period.

6.11.2 **Ratios used for calculating initial RAB are not correct. Authority has accepted the ratios given by AAI without any independent study.**

FIA submits that under Para 5.2 of the CP, AAI has divided its initial RAB assets with a gross block of INR 267.19 crores, accumulated depreciation of INR 249.24 crores & net block of INR 96.45 crores as on 01 April 2016 into aeronautical, non-aeronautical and common assets.

FIA submits that aeronautical assets include the clearly identified aeronautical assets and a portion of common assets at the airport bifurcated on the basis of above mentioned ratios.

AAI has allocated the common assets of initial RAB based on four ratios namely terminal area ratio, employee ratio, quarter ratio & integrated office building. However, the basis of calculating two ratios are apparently wrong and accordingly the allocation of initial RAB into aeronautical & non-aeronautical assets have been wrongly computed.

FIA submits that the following two ratios have been wrongly calculated by Authority:-

Employee Ratio: This is a ratio of staff providing non-aeronautical services (i.e. commercial and land management) to total staff employed at the airport excluding ANS and cargo. As per Para 12.7 of the Consultation Paper, the Authority examined the correct ratio for allocation of payroll expenses should be 7:105 instead of 7:98. Hence, the corrected ratio i.e. 7:105 should be used for allocating the common assets into aeronautical and non-aeronautical assets.

Quarter Ratio: This is a ratio based on number of non-aeronautical staff to aeronautical staff residing at the residential quarters at the airport. To arrive at the correct ratio, denominator should be total staff (aeronautical staff & non-aeronautical staff) rather than just non-aeronautical staff. Therefore, the corrected ratio should be 5:60 rather than 5:55. Hence, the correct ratio of 5:60 should be used for allocating the common assets into aeronautical and non-aeronautical assets.

After the allocation of common assets, 93% of total assets are aero assets & balance are non-aero assets as depicted in the table.

Initial RAB considered by Authority

Table #11 on Page 17 of CP No. 24/2018-19

INR crores

S.No.	Asset category	Ratio used for allocation of common assets	Total assets (A)	Aero assets (B)	% Aero assets (A/B)	Accumulated depreciation (C)	Opening net block (B-C)
1	Freehold Land		3.42	-	0%	-	-
2	Runways, Aprons and Taxiways		42.05	42.05	100%	39.33	2.72
3	Road, Bridges & Culverts	86% quarter ratio, 14% terminal area ratio	42.49	33.49	79%	21.36	12.13
4	Building - Terminal	90.5% terminal area ratio, 9% integerated office building ratio, 0.3% quarter ratio, 0.3% employee ratio	74.45	70.01	94%	29.09	40.92
5	Building - Residential	100% quarter ratio	6.21	6.00	97%	2.46	3.54
6	Boundary Wall - Operational	100% quarter ratio	3.46	3.46	100%	2.62	0.84
7	Boundary Wall - Residential	-	3.47	3.47	100%	0.77	2.70
8	Computer - End user	-	0.75	0.75	100%	0.50	0.26
9	Computer - Servers and networks	-	0.59	0.59	100%	0.54	0.05
10	Intangible Assets - Software	-	0.38	0.38	100%	0.37	0.01
11	Plant & Machinery	99% terminal area ratio, 1% employee ratio	17.56	17.53	100%	13.81	3.71
12	Tools & Equipment	73% employee ratio, 27% integerated office building ratio	0.93	0.92	99%	0.65	0.27
13	Furniture & Fixtures: other than trolley	99% integerated office building ratio, 1% quarter ratio	3.01	2.95	98%	2.30	0.65
14	Furniture & Fixtures: Trolley		0.54	0.54	100%	0.43	0.11
15	Vehicles		0.75	0.75	100%	0.55	0.20
16	Electrical Installations	61.6% terminal area ratio, 35.9% integerated office building ratio, 2.4% quarter ratio	51.68	50.93	99%	25.20	25.73
17	Other Office Equipment	98% employee ratio, 2% terminal area ratio	0.81	0.78	97%	0.49	0.30
18	X Ray Baggage System	-	1.85	1.85	100%	1.78	0.07
19	CFT/Fire Fighting Equipment	-	12.79	12.79	100%	10.53	2.26
	Total		267.19	249.24	93%	152.79	96.45

AAI's reply to stakeholder comments

6.12 Regarding employee ratio, the ratio of staff providing Non-aeronautical service to Aeronautical service is 7:98.

6.13 Regarding quarter ratio, it is a ratio based on number of non-aeronautical staff to aeronautical staff residing at the residential quarters at the airport, which is 5:55.

Authority's examination of stakeholders comments and AAI's submission to stakeholders comments

6.14 **Authority's examination of comments by FIA:**

6.14.1The Authority has noted the comments from FIA regarding allocation ratios for RAB. FIA has suggested the following:

- The Authority should conduct an independent study for allocation of RAB.
- The Authority should consider this ratio as 80:20 for initial RAB as well as for proposed capital additions.

The Authority is the view that an independent study on allocations of assets may be conducted depending upon the size, scale, complexity, and multiple ownerships of overall assets to ascertain the aeronautical part. The Authority exercised its own diligence and sought necessary clarifications from AAI to form its view on the admissible part of the overall assets towards RAB. For the current Control Period, the Authority is not persuaded to conduct an independent study.

Regarding the actual allocation ratios for initial RAB, the Authority has provided detailed justifications for the ratios considered. These can be found on Page 13, Table 9 of the Consultation Paper, which are reproduced in this Order as well.

For other proposed asset additions, the Authority observed each asset addition proposed and appropriately allocated them to aeronautical and non-aeronautical. For example, the Authority considered a ratio of 90:10 for new terminal building and the new link building. The Authority considered the existing terminal building's ratio, which was 92.5:7.5. Considering that the new building is expected and being planned to generate higher non-aeronautical revenues and the typical area allocation by AAI in its master plans for non-aeronautical purposes at other AAI airports, the Authority considered a lower aeronautical ratio of 90:10. FIA has suggested a ratio of 80:20. However, no reasonable justification has been provided to support this ratio. It also does not seem to be supported by analysis of master plans of AAI for BBI airport. In absence of this, the Authority decides to keep the ratio at 90:10.

Further, the Authority has decided to revise the allocation ratio for proposed solar power plant at the airport. The revised allocation ratio is 99:1.

6.14.2FIA has suggested that there are errors in employee ratio and quarter ratio. However, the Authority has ensured that these ratios are accurate. Please note the following clarifications in this regard:

- **Employee ratio:** Number of non-aeronautical employees were 7 and number of aeronautical employees were 98. Therefore, the correct ratio should be 7:98. When this ratio is stated as 7:98, the ratio of non-aeronautical employees to total employees is implied as 7/105. The Authority has correctly computed and applied the same.

- **Quarter ratio:** Number of non-aeronautical employees residing at residential quarters were 5 and number of aeronautical employees were 55. Therefore, the correct ratio should by 5:55. When this ratio is stated as 5:55, the ratio of non-aeronautical employees to total employees is implied as 5/60. The Authority has correctly computed and applied the same.

Decision No. 4: Regarding allocation of assets between aeronautical and non-aeronautical

4.a. The Authority decides the allocation of gross block of assets as on 1st April 2016 between aeronautical and non-aeronautical assets as detailed in Table 12.

7. Initial Regulatory Asset Base

7.1 As per AAI's submission, the Initial RAB as on 31/03/16 amounted to INR 96.45 crores. AAI submitted the following working for the computation of initial RAB.

Table 13: Initial RAB as per AAI's submission (figures in INR crores)

Asset category	Opening gross block	Accumulated depreciation	Opening net block
Freehold Land	-	-	-
Runways, Aprons and Taxiways	42.05	39.33	2.72
Road, Bridges & Culverts	33.49	21.36	12.13
Building – Terminal	70.01	29.09	40.92
Building – Residential	6.00	2.46	3.54
Boundary Wall – Operational	3.46	2.62	0.84
Boundary Wall – Residential	3.47	0.77	2.70
Computer - End user	0.75	0.50	0.26
Computer - Servers and networks	0.59	0.54	0.05
Intangible Assets – Software	0.38	0.37	0.01
Plant & Machinery	17.53	13.81	3.71
Tools & Equipment	0.92	0.65	0.27
Furniture & Fixtures: Other Than Trolley	2.95	2.30	0.65
Furniture & Fixtures: Trolley	0.54	0.43	0.11
Vehicles	0.75	0.55	0.20
Electrical Installations	50.93	25.20	25.73
Other Office Equipment	0.78	0.49	0.30
X Ray Baggage System	1.85	1.78	0.07
CFT/Fire Fighting Equipment	12.79	10.53	2.26
Total	**249.24**	**152.79**	**96.45**

Authority's Examination at Consultation Stage:

7.2 The Authority is undertaking a separate study to analyze the appropriate treatment of the cost of land. Meanwhile, the Authority proposed to exclude the cost of land in initial RAB, as has been done by AAI in its proposal. On the basis of the outcome of the study, the Authority proposed to true-up the RAB during the 2nd control period.

7.3 The Authority verified the depreciation rates used by AAI for the Initial RAB. The observations by the Authority on these depreciation rates has been discussed in detail in Chapter 9 of this Order.

7.4 The Authority considered the allocation of Initial RAB between aeronautical and non-aeronautical assets. The Authority's observations in this regard have been discussed in Chapter 6 of this Order.

7.5 The Authority accepted AAI's submission for Initial RAB, and therefore, did not propose a change in the same.

7.6 Based on the material before it and the analysis, the Authority proposed to consider the initial regulatory asset base for the first control period as INR 96.45 crores in accordance with Table 13.

7.7 The Authority did not receive any comments from the stakeholders in this regard.

Decision No. 5: Regarding Initial Regulatory Asset Base

5.a. The Authority decides to consider the initial regulatory asset base for the first control period as INR 96.45 crores in accordance with Table 13.

8. Capital Expenditure for the 1st control period

8.1 AAI in its submission proposed aeronautical capital expenditure of INR 1,002.78 crores for the 1st control period. This has been shown in the table below.

Table 14: Capital expenditures proposed by AAI

Asset category	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Building – Terminal	0.50	-	87.21	935.39	-	**1023.1**
Runways, Aprons and Taxiways	-	-	65.65	-	81.43	**147.08**
Electrical Installations	5.62	43.01	-	-	-	**48.63**
Other Buildings	31.99	-	-	-	-	**31.99**
Plant & Machinery	25.70	-	-	-	-	**25.70**
Road, Bridges & Culverts	5.43	-	-	-	-	**5.43**
CFT/Fire Fighting Equipment	-	4.03	-	-	-	**4.03**
Vehicles	1.21	-	-	-	-	**1.21**
Furniture & Fixtures: Trolley	0.61	-	-	-	-	**0.61**
Other Office Equipment	0.14	-	-	-	-	**0.14**
Tools & Equipment	0.14	-	-	-	-	**0.14**
Office Furniture	0.10	-	-	-	-	**0.10**
Total	**71.45**	**47.04**	**152.86**	**935.39**	**81.43**	**1288.17**

8.2 In respect of these proposed items of capital expenditure, AAI submitted supporting documents like administrative approvals, letters of award (if available), and minutes of AUCC consultations.

Authority's Examination at Consultation Stage:

8.3 The Authority observed the following in respect of the some key proposed capital expenditures.

8.3.1 **New terminal building (T3) – INR 935.39 crores:**

The current capacity of the airport stands at 2.5 million passengers per annum. However, in FY 2017-18, the airport served 3.25 million passengers, exceeding its capacity by 30%. In order to cater to further raise in demand, AAI has proposed a new terminal building (T3), spanning across 78,800 square meters with a capacity of 4.25 million passengers per annum. The combined capacity of the airport would become almost 7 million passengers per annum, which would be sufficient to serve the demand for the next few years.

The Authority examined the submissions made by AAI in this regard. It was observed that the project is in initial stages, with only preliminary approvals in place. Some initial necessary processes like construction schedule, investment planning and phasing, etc. have not been carried out. Due to these reasons, the Authority is of the view that it may not be possible to operationalize the new terminal building by FY 2021-22, as has been proposed by AAI. Therefore, the Authority proposed to defer its capitalization by one year, i.e., FY 2022-23. Subsequently, the proposed date of completion of these assets is 30th September, 2022. The Authority notes that should AAI fail to commission the same by 30th September 2022, in addition to the normal true-up with carrying cost, 1% additional penalty, by way of reduction of the said value from ARR, will be imposed on AAI.

The Authority observed that AAI proposed to consider the full expense as aeronautical, which was not found to be appropriate. The Authority understands that AAI endeavors to enhance its share of revenue from non-aeronautical sources and the Authority intends to encourage the same. Accordingly, it proposed to consider a terminal area ratio of 10% for allocation to non-aeronautical RAB.

On examination of the amount of investment required, AAI originally submitted an estimate of INR 650 crores for the building. However, no technical basis for this estimate were provided. On Authority's request, AAI submitted revised investment estimates for the new terminal building. As per the revised estimates, the new terminal building would cost INR 935.39 crores. The Authority considered a normative cost of INR 100,000 per sq. mt. at FY 2018 prices. The area of the proposed building was observed to be planned at 78,800 sq. mt. The normative cost was indexed to 5% inflation. The resultant amount was observed as INR 919.30 crores. The Authority proposed to seek a detailed final estimate of unit area cost with proposed date of completion for assessment of cost for inclusion in the RAB for final determination of tariff. AAI should go through the consultation protocol and present its plans for additions to RAB to the users and airlines as required in the Authority's Guidelines.

Further, it was observed that AAI considered the full asset as part of the asset category 'Terminal Building'. However, the Authority proposed that only 65% of the investment be allocated to 'Terminal Building', and the remaining 35% be allocated to 'Electrical Installations'.

8.3.2 **Parallel taxi track, rapid exit taxiway, and apron for parking of 8 Code C aircraft – INR 147 crores:**

Due to operational constraints of landing, take-off and taxing at the runway, AAI has planned a parallel taxi track, a rapid exit taxiway, and a new apron for parking of 8 numbers of Code C aircraft at the airport. The Authority examined the rationale behind the proposed capital expenditure, along with its status. AAI submitted that in order to ensure smooth operations, this project is being undertaken in two phases, with phase 1 already awarded, and expected to be completed by FY 2020-21. The second phase would be completed by FY 2022-23. The Authority found the proposed amounts and the expected timelines to be appropriate.

8.3.3 **New link building between T1 and T2 – INR 87.21 crores:**

Currently, there are two terminals at the airport. T2, the newer terminal operationalized in FY 2013-14, is used for domestic and international operations, whereas T1 is used as a support to T2. AAI submitted that there have been operational issues with these two segregated terminals. To address these operational issues, AAI proposed to construct a new building to link these two terminals, along with two additional passenger boarding bridges. The Authority examined the rationale, along with the estimated investment amount and the project's status. The Authority proposed to consider the expenditure as submitted by AAI.

The Authority observed that AAI proposed to consider the full expense as aeronautical, which was not found to be appropriate. The Authority proposed to consider a terminal area ratio of 90:10 for allocation to aeronautical and non-aeronautical assets.

Further, it was observed that AAI considered the full asset as part of the asset category 'Terminal Building'. However, the Authority proposed that only 65% of the investment be allocated to 'Terminal Building', and the remaining 35% be allocated to 'Electrical Installations'.

8.3.4 **Solar power plant – INR 41.24 crores:**

The generation of renewable power is a national agenda. Government of India has set a target of 175 GW of renewable power installed capacity by end of 2022. In line with this larger initiative as well as to benefit from potential savings on electricity bills, AAI submitted that it has undertaken construction of solar power plants in seven airports, with Bhubaneswar being one of them. This power plant will have an installed capacity of 4 MW. To assess the appropriateness of investment proposed, the Authority observed various Indian airports where solar power plant projects have been undertaken, considering the effects of inflation. These include Kolkata, Cochin, Delhi, Hyderabad, among others. The Authority is of the view that the investment proposed by AAI is appropriate, and therefore, the Authority did not propose a change in this regard.

8.3.5 **Other Capital additions:**

Other than the above mentioned assets, AAI has proposed 37 other assets of smaller nature amounting to a total of INR 77.25 crores. The prominent ones among these include the following. For these assets, the Authority verified the administrative approvals and award letters, and discussed the rationale with AAI for proposing them.

a) Construction of a fire station (category IX) and emergency medical center amounting to INR 17 crores in tariff year 1.
b) Construction of an Electrical & Mechanical workshop amounting to INR 14.65 crores in tariff year 1.
c) Establishment of an inline baggage system of INR 12.50 crores in tariff year 1.
d) Two new passenger boarding bridges amounting to INR 8.26 crores in tariff year 1.

8.4 The Authority observed that a capital expenditure of INR 1.82 crores pertaining to 'Rotunda building & fixed finger for two passenger boarding bridges' was not included in the proposed capital expenditure. The Authority found this to be on account of a calculation error. The Authority observed the documents submitted by AAI in this regard, and considered the same to be appropriate. Therefore, the Authority proposed to include this capital expenditure in RAB additions in tariff year 1, i.e., FY 2018-19.

8.5 In accordance with above, the Authority revised the capital expenditure during the 1st control period as per the table below.

Table 15: Capital Expenditures proposed by Authority – Consultation Paper

Asset category	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Building – Terminal	0.50	-	51.02	-	547.20	**598.72**
Runways, Aprons and Taxiways	-	-	65.65	-	81.43	**147.08**
Electrical Installations	5.62	43.01	27.47	-	294.65	**370.75**
Other Buildings	31.99	-	-	-	-	**31.99**
Plant & Machinery	25.72	-	-	-	-	**25.72**
Road, Bridges & Culverts	5.43	-	-	-	-	**5.43**
CFT/Fire Fighting Equipment	-	4.03	-	-	-	**4.03**
Vehicles	1.21	-	-	-	-	**1.21**
Furniture & Fixtures: Trolley	0.61	-	-	-	-	**0.61**
Other Office Equipment	0.14	-	-	-	-	**0.14**
Tools & Equipment	0.14	-	-	-	-	**0.14**
Office Furniture	0.10	-	-	-	-	**0.10**
Total	**71.47**	**47.04**	**144.14**	**-**	**923.28**	**1185.93**

8.6 Based on the material before it and the analysis, the Authority had proposed to adopt the capital expenditures in accordance with Table 15. However, for all the capital expenditures mentioned above in this chapter, the Authority had proposed to seek from AAI a detailed action plan, current status and proposed date of completion for their inclusion in the RAB for final determination of tariff.

Stakeholder comments

8.7 **Airports Authority of India (AAI):**

The total area of proposed new Link Building - INR 87.21 crores is 2500 sq. meters and 100 sq. meters will be allocated for non-aeronautical activities. The Authority is requested to consider the ratio of 96:4 instead of 90:10.

8.8 **Federation of Indian Airlines (FIA):**

Due process in AUCC meeting not followed. Discrepancies in the capital expenditures projected by AAI in the CP. Authority has accepted the proposed capital expenditure on basis of high level review: a) without firm financial closure b) without detailed technical evaluation & c) without key initial process like construction schedule, phasing etc.

FIA submits that the on the review of the minutes of the meeting of the Airport Users Consultative Committee (AUCC) held at BBI Airport on 3.07.2018 and 9.10.2018, it was observed that BBI Airport has not followed the due process of AUCC as prescribed under AERA Guidelines, in terms of the following:

(i) BBI Airport has failed to share a Project Investment File (PIF) with the AUCC stakeholders. In terms of the AERA Guidelines, the final PIF submitted to the Authority, should clearly specify the process of consultation undertaken and highlight suggestion, areas of concerns and decision made by the AUCC. The PIF shall need to highlight the rational for the final position and the next steps in the project development;

(ii) BBI Airport has failed to provide the following information in relation to the capital expenditure projects:

(a) Justification for the project, including if it will result in improvement in the quality of service at the airport;

(b) Options for development

(c) Airport traffic forecast and methodology thereof

(d) Relevant benchmark for project costs.

(e) Likely impact on Tariff including UDF/PSF, if any

(f) Proposed funding mechanism

(iii)The AUCC conducted by BBI Airport failed to undertake the three stages prescribed under AERA Guidelines i.e. Needs Identification Stage, Options Development Stage and Detail project design stage.

FIA submits that in view of the above deficiencies, it is apparent that the AUCC meetings have not been conducted following the due process laid down under the AERA Guidelines. Accordingly, FIA submits that Authority should direct BBI Airport to re-convene the AUCC by following the due compliance of AERA Guidelines.

Without prejudice to the above, FIA submits the following table on the comparison of certain major capital expenditure project costs as seen from the minutes of meeting of AUCC and compared with costs of projects stated by AAI under the present CP.

INR in crores

Nature of work	Capex as per 2nd meeting of AUCC minutes	Capex as per AAI in Table 12 of CP 24	Gap	Remarks
Expansion of terminal T2 for integerated operation using PEB	62	87.21	(25)	Project cost of INR 25 crores is mentioned in 1st AUCC held on 03.07.2018 which has been subsequently increased to INR 62 crores. No explanation has been mentioned for such increase.
SITC of substation equipment, DG sets and associated works for link building T1, T2 and new ATC tower(new scheme)	8		8	
Inline x-ray baggage	12.5	12.5	-	
Control tower, technical block, fire station and EBM workshop	64.24	31.65	33	Capital expenditure for control tower & technical block cannot be mapped in CP 24
Parallel taxi track (PTT), rapid exit taxi way (RET) & apron for parking of 08 nos., code C aircraft	147	147.08	(0.08)	
Construction of hangers	10.74	Could not be mapped	11	
Shaded walkway and tensile canopy for vehicular lanes in front of T-1	2	Could not be mapped	2	
Rotunda building & fixed finger including provision and installation of 02 nos. passenger boarding bridge	10	10.06	(0.06)	
New domestic terminal building T3	450	935.39	(485)	Area mentioned in AUCC PPT is 18,000 sqm (excluding basement). However, area mentioned in CP is 75,800 sq mt. No explanation has been given by AAI for such increase.
Recarpeting of runway	35	Could not be mapped	35	
Design, supply, installation testing and commissioning of grid connected ground mounted solar PV power system	41	41.24	(0.24)	
Sub Total	842.48	1265.15	(423)	
Other capital expenditure mentioned in CP		23.02	(23.02)	
Total	842.48	[illegible]	(446)	

FIA submits that, from the above table it is observed that in respect of certain projects mentioned in the minutes of AUCC meetings and those claimed by AAI in the CP:

(i) There is an astronomical increase in the costs of project (for example New Terminal building (T3) i.e. from INR 450 cr. To INR 935.39 cr., expansion of Terminal (T2) from INR 62 cr. to INR 87.21 cr.). AAI has not explained as to how the costs shown in the AUCC in October, 2018 has increased manifolds during the consultation stage under the CP; and

(ii) Certain projects were projected in the AUCC, however the same have not been dealt under the CP (for example Construction of hangars, re-carpeting of runway etc.). FIA submits that the status of such projects and the manner in which the same will be capitalized under RAB, present or next control period is not known.

FIA would like to submit that the very purpose of conducting an AUCC is to ensure transparency and fairness in the process of executing works for major capital expenditure at an airport. Keeping in view the significant deviation in the projection and submissions of AAI in the AUCC and the CP, it may be stated that AAI has not conducted the AUCC at BBI Airport in an efficient, complete, fair and transparent manner.

In view of the above, FIA reserves its rights to comment on the capital expenditure project which need to be duly scrutinized by the Authority, pursuant to an AUCC which needs to be re-convened by AAI following the due process under AERA Guidelines. Without prejudice to the above, FIA submits its view on the capital expenditure projects considered by the Authority under the CP as below:

(i) New terminal Building of INR 935.39 crores - Deferment of capitalisation to next control period

FIA submits that as highlighted by AAI in Para 7.3.1, a new terminal building (T3) spanning across 78,800 square metres has been proposed with an estimated expenditure of INR 935.39 crores. New terminal building is proposed to be capitalised during FY22 by AAI.

FIA further submits that the Authority has tried to estimate the cost of terminal building by considering normative cost of INR 1,00,000 per sq. mt. at FY18 prices which is further indexed to 5% inflation. However, as per Normative Order No. 07/2016-17 "In the matter of normative approach to building blocks in economic regulation of major airports – capital costs reg." dated 13.06.2016, the ceiling cost per sq. metre for terminal building is INR 65,000. FIA submits that no basis has been provided by Authority to calculate the normative cost of INR 1,00,000 per sq. mt. Also, based on Authority's calculation, projected cost of terminal building is INR 919.3 crores. But no consideration to Authority's own calculation has been given while calculating average RAB.

Hence, per Proposal 4, new terminal building has been capitalised considering the total cost of INR 935.39 crores (as projected by AAI). Authority has proposed to split the cost of new terminal building between terminal building and electrical installation in the ratio of 65:35. No basis or benchmarking has been mentioned by Authority to split the total capex under two heads. FIA would like to highlight that this split cannot be on a high level basis, as it will impact depreciation as the useful life of electrical installation (10 years) is different from other assets like building (30/60 years), Plant & machinery (15 years).

Per Para 7.3.1, Authority has examined "the project is in initial stages, with only preliminary approvals in place. Some initial processes like construction schedule, investment planning and phasing etc. have not been carried out." Therefore, Authority has proposed to defer the capitalisation to FY23.

Hence, it is very clear that basic planning & financial closure for the said expansion has not been initiated. Also, per Para 10.3, Authority understands the fact " it may not be reasonable to expect AAI to contract large amounts of debt over a short period of time" and there are losses in previous years & in first few years of control period. Accordingly, Authority has assumed that project can be delayed by one year i.e. FY23, however, no basis has been mentioned in the CP for this assumption.

It is evident that Authority has considered AAI proposal without conducting a technical evaluation. As the project is in initial stages, FIA cannot comment upon the numbers computed by Authority in absence of detailed breakup. It is submitted to Authority to conduct detailed technical evaluation, although we have requested for deferment of capex.

It is submitted that lack of basic planning, financial closure for new terminal building has not been achieved yet for capex to be incurred in first control period, this can lead to deferment of capex to subsequent control period.

Hence it is submitted that the Authority to consider the proposed capitalisation of new terminal building in next control period and true up the expenditure/capitalisation based on actuals in second control period.

(ii)Runways, Aprons and Taxiways

FIA submits that AAI has proposed to construct a new apron for parking of 8 numbers of Code C aircraft. Phase 1 of the project has already been awarded and will be completed by FY21 and phase 2 will be completed by FY23.

No area of aprons has been mentioned in the CP and the Authority has accepted the cost as projected by AAI. No benchmarking with similar airports/ normative order has been conducted by Authority to check the reasonableness of the proposed capital expenditure.

It is submitted to Authority to mention the area and conduct benchmarking study with comparable airports and normative order. In the absence of key information, FIA cannot comment on proposed capital expenditure on aprons proposed by Authority.

(iii) Other assets

FIA submits that the Authority has not mentioned the detailed breakup of other assets of INR 77.25 crores. Also, the split of these other assets under various categories mentioned in table 13 of the CP has not been provided. These assets have been considered 100% aeronautical, for which no basis has been given by Authority. Also, the categorisation for these assets has not been provided under the CP & no allocation has been proposed by Authority into aeronautical & non-aeronautical assets.

It is submitted to Authority to give a detailed breakup of each category of additions along with year of capitalisation & the same shall be considered for the purpose of calculation of depreciation.

8.9 **State Government of Odisha:**

The suggestions on behalf of State Government in the matter of determination of aeronautical tariff in respect of Biju Patnaik International Airport, Bhubaneswar are as follows:

1. E-Visa facility
2. Embarkation point for Haj Pilgrims
3. Additional X-Ray baggage system
4. Common men tea stall with minimum cost
5. More international flights / domestic flight may be started
6. To enhance the car parking problem

AAI's reply to stakeholder comments

8.10 **AAI's reply to comments by FIA:**

8.10.1 Regarding increase in cost estimates of the new terminal building, the initial costs were based on the estimates and revised later based on operational requirements.

8.10.2 As the costs of project (Terminal Building-T3) have been revised, AUCC would be re-convened as per Authority's guidelines.

8.11 **AAI's reply to comments by State Government of Odisha:**

It is noted for further compliance.

Authority's examination of stakeholders comments and AAI's submission to stakeholders comments

8.12 **Authority's examination of comments by AAI:**

The Authority has noted AAI's request to consider a terminal area ratio of 96:4 instead of 90:10 proposed by the Authority. The Authority has provided the rationale for allocating the assets pertaining to proposed link building into aeronautical and non-aeronautical. While computing such a ratio, the Authority needs to consider an efficient use of space at terminal building, more specifically for use in non-aeronautical activities. The terminal area ratio of the existing terminal building is 92.5:7.5. For a new building, with more modern facilities, a ratio that is more than that of the existing terminal building will incentivise an even more inefficient use of space for non-aeronautical activities. Therefore, the Authority decides to consider the ratio of 90:10 for the proposed link building.

8.13 **Authority's examination of comments by FIA:**

8.13.1 The Authority has carefully examined FIA's comments regarding the AUCC process. As per the suggestions put forth by FIA, the Authority directed AAI to re-convene the AUCC meeting. In response, AAI conducted this meeting, the details of which were furnished to the Authority. These have been discussed below.

Date of meeting: 17th January, 2019
Venue: Bhubaneswar Airport
Attendants: 16 AUCC members, 15 AAI officials, two members from CISF and one observer from the Authority.

The Authority observed that no comments were made in the AUCC that would require a change in tariff determination in the reconvened AUCC meeting.

8.13.2 The Authority considered a ratio of 65:35 for allocation of new terminal building and new link building between terminal building category and electrical installations category. FIA has commented that this ratio is without any basis or benchmarking.

In this regard, the Authority would like to state the analysis it underwent to arrive at this ratio. The Authority first consulted AAI to provide its own estimate of this ratio. AAI provided the ratio of 65:35.

To verify the appropriateness of the same, the Authority performed the following checks:

- **Basis:** The Authority observed the ratio of terminal building and electrical installations at Bhubaneswar Airport on an overall basis. These ratios were observed as follows:

    - FY 2015-16: 61:39
    - FY 2016-17: 61:39
    - FY 2017-18: 64:36
    - FY 2018-19: 67:33 (estimates)
    - FY 2019-20: 65:35 (estimates)

  Beyond FY 2019-20, there were additions proposed specific to electrical installations, and hence the ratio was not comparable. An average of these 5 years suggested a ratio of 64:36. The Authority found this to match very closely with the ratio proposed by AAI of 65:35.

- **Benchmarking:**
  While the Authority considered the above basis to be sufficient, nevertheless, a separate benchmarking exercise was carried out to check with other airports. Therefore, the Authority observed such ratios at other AAI airports, specifically those for which the Authority has in recent past issued tariff orders. These airports were Kolkata, Jaipur and Trivandrum. Following were the findings:

Table 16: Ratio of terminal building and electrical installations at other AAI airports (Figures in INR crores)

Airport	Terminal Building	Electrical Installation	Ratio	Reference
Kolkata	1,891	659	74:26	Order No. 23, 2017-18; Page 33, Table 23
Jaipur	103	57	65:35	Order No. 10, 2017-18; Page 29, Table 23
Trivandrum	191	144	57:43	Order No. 03, 2017-18; Page 37, Table 23
		Average Ratio	**65:35**	

As can be seen from the table above, the average of these three airports, 65:35, matched with the ratio suggested by AAI.

Due to the above two reasons, the Authority agreed for the ratio of 65:35 and therefore, the Authority decides to keep this ratio.

8.13.3 Regarding the normative approach towards determination of cost of terminal building, the Authority had considered a normative cost of INR 100,000 per sq. meters instead of INR 65,000 as per Order No. 7/2017-17. The Authority has given clarification regarding this revised cost in previous tariff orders pertaining to other airports such as Guwahati, Lucknow. The Authority undertook studies for a few major airports for determining the reasonableness of the capital expenditures for their respective terminal buildings. As per these studies, the cost worked out to be in the range of 0.95 to 1.25 lakhs per sq. meter. Accordingly the Authority decides to adopt INR 100,000 per sq. meter for terminal buildings of this design and specifications. This cost is subject to review during the determination of tariff for the 2nd control period.

On the basis of this revision, the cost of terminal building considered by the Authority is INR 788 crores.

8.13.4 FIA has requested to defer the capitalization of the terminal building towards the 2nd control period. However, the Authority has already stated reasons as to why deferment by one year is sufficient. Moreover, the Authority has proposed a penalty of 1% during true-up for the 2nd control period, in case of delay in operationalization of the new terminal building beyond the proposed date of completion.

8.13.5 The Authority carefully examined the comments by FIA regarding the capital expenditure proposed for aprons and taxiways. In this regard, the Authority has now inspected the area for various facilities that are part of this proposed package. As per information received from AAI, total area under Phase 1 (FY 2021) is 116,160 sq. mt. For Phase 2 (FY 2023), the area is 73,840. Considering a normative cost of INR 4,700 as on 1st April, 2016 and annual indexation of 5%, the normative cost comes out to be INR 118.51 crores. The normative cost excludes earth work and drainage work. The expected cost of these works, as per information received from AAI, was INR 11.83 crores and INR 8.89 crores. Adding these to the normative cost, the total cost of the proposed capital expenditure works out to be INR 139.23 crores. Because this is lower than INR 147 crores as proposed by AAI, the Authority decides to consider the normative cost of INR 139.23 crores for these assets.

8.13.6 **Other assets:**

The Authority, in the consultation paper, had discussed that AAI had proposed 37 other assets of smaller nature amounting to a total of INR 77.25 crores. For these assets, the Authority verified the administrative approvals and award letters, and discussed the rationale with AAI for proposing them. The Authority also provided a list and description of the most prominent of these assets. However, in response to the comment received from FIA, the Authority is providing a complete list of these other assets, as provided to it by AAI as part of MYTP. This list of assets (in descending value) is given in the table below.

Table 17: Other capital expenditure (Figures in INR crores)

Asset category	Constituents	Year 1	Year 2	Total
Other Buildings	Fire station, emergency medical centre, E&M workshop	32.0	-	**32.0**
Plant & Machinery	Baggage handling system, 2 numbers PBBs, Rubber removal machine, BDDS (12 numbers), Fire alarm	25.7	-	**25.7**
Electrical Installations	Replacement of lights at terminal building, replacement of cables, apron flight lights, airfield ground lighting system, LED wall lights, exhaust fans	5.6	1.8	**7.4**
Road, Bridges & Culverts	Box culvert, widening and strengthening of perimeter road	5.4	-	**5.4**
CFT/Fire Fighting Equipment	ACFT	0.0	4.0	**4.0**
Vehicles	Grass collecting machine, ambulance	1.2	-	**1.2**
Furniture & Fixtures: Trolley	600 Trolleys	0.6	-	**0.6**
Building – Terminal	External signage, reading platform	0.5	-	**0.5**
Other Office Equipment	Explosive trace detector (2 numbers)	0.1	-	**0.1**
Tools & Equipment	Bird scaring device, sanitary napkin vending machines (6 numbers)	0.1	-	**0.1**
Office Furniture	Decorative furniture	0.1	-	**0.1**
	Grand Total	**71.4**	**5.8**	**77.2**

Further, the Authority evaluated the appropriate allocation of these assets between aeronautical and non-aeronautical. A major portion of these assets were found to be purely aeronautical. There were a few assets which may require an allocation. However, considering the immaterial nature of these assets, any allocation would have a negligible impact of ARR. Therefore, the Authority has decided to consider these as aeronautical.

8.14 **Authority's examination of comments by State Government of Odisha:**

The Authority has noted the comments made by State Government of Odisha on capital expenditure at Bhubaneswar airport. The Authority does not have any further comments to provide.

8.15 Authority's examination post consultation stage:

Apart from the suggestions put forth by the stakeholders, the Authority re-evaluated the cost of proposed solar power plant. The Authority benchmarked the costs of solar power plants installed at various airports in India. From this exercise, the Authority observed that the cost works out to be in the range of INR 6 to 7 crores per MW capacity. AAI has proposed a capacity of 4 MW. Therefore, the cost should range from INR 24-28 crores. The Authority asked for revised cost estimates from AAI. According to the response received from AAI, the contract has now been awarded at INR 31.14 crores. This was found to be considerably less than the amount initially proposed by AAI, i.e. INR 41 crores. Therefore, the Authority proposes to revise the cost estimates of the proposed power plant to INR 31.14 crores. Further, the Authority decides to allocate the cost among aeronautical and non-aeronautical in the ratio of 99:1.

Based on all the above changes, the following table presents revised schedule of capital expenditure decided by the Authority for the 1st control period.

Table 18: Capital expenditure for the first control period as per Authority – Final (in INR crores)

Asset category	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Building – Terminal	0.50	-	51.02	-	460.98	**512.50**
Runways, Aprons and Taxiways	-	-	62.15	-	77.09	**139.23**
Electrical Installations-Non Solar	5.62	1.77	27.47	-	248.22	**283.08**
Electrical Installations- Solar		31.14				
Other Buildings	31.99	-	-	-	-	**31.99**
Plant & Machinery	25.72	-	-	-	-	**25.72**
Road, Bridges & Culverts	5.43	-	-	-	-	**5.43**
CFT/Fire Fighting Equipment		4.03	-	-	-	**4.03**
Vehicles	1.21	-	-	-	-	**1.21**
Furniture & Fixtures: Trolley	0.61	-	-	-	-	**0.61**
Other Office Equipment	0.14	-	-	-	-	**0.14**
Tools & Equipment	0.14	-	-	-	-	**0.14**
Office Furniture	0.1	-	-	-	-	**0.11**
Total	**71.47**	**36.94**	**140.64**	**-**	**786.29**	**1004.20**

Decision No. 6: Regarding capital expenditure

6.a. The Authority decides to adopt the capital expenditures in accordance with Table 18.

9. Depreciation

9.1 AAI follows its own set of rates of depreciation for different asset classes, which are approved by its Board. While submitting the Multi-Year Tariff proposal for the first control period, AAI has taken cognizance of the rates of depreciation approved by the Authority in previous tariff orders. Accordingly, AAI proposed three different sets of rates. These are based on three different periods – up to FY 2015-16, from 01/04/16 to 31/03/18, and beyond 01/04/18.

9.2 In the first period, i.e., up to FY 2015-16, the airport was not under the definition of a Major Airport as per Section 2(i) of Airports Economic Regulatory Authority of India Act. Therefore, the depreciation rates for this period has been proposed by AAI to be as per AAI's accounting policy. For the second period, i.e., from 01/04/16 to 31/03/18, the airport was covered under the definition of the Major Airport. Therefore, the depreciation rates for this period has been proposed by AAI to be as per the Authority's examination. For the 3rd period, i.e., beyond 01/04/18, the depreciation rates has been proposed by AAI to be as per the Authority's order No. 35/2017-18 titled "In the matter of Determination of Useful life of Airport Assets", which defines the normative useful lives for various airport assets.

9.3 Further, depreciation has been computed separately on opening block of assets and on proposed additions.

9.4 The depreciation rates considered by AAI have been summarized in the table below.

Table 19: Depreciation rates proposed by AAI

Asset category	Up to FY 2016	Between FY 2016 and FY 2018		Beyond FY 2018
		For opening block of assets	For proposed additions	
Freehold Land	0.00%	0.00%	0.00%	0.00%
Runways, Aprons and Taxiways	13.00%	3.33%	3.33%	3.33%
Road, Bridges & Culverts	13.00%	3.33%	3.33%	10.00%
Building – Terminal	8.00%	3.33%	3.33%	3.33%
Building – Residential	5.00%	3.33%	3.33%	3.33%
Boundary Wall – Operational	8.00%	3.33%	3.33%	10.00%
Boundary Wall – Residential	5.00%	3.33%	3.33%	10.00%
Other Buildings	8.00%	3.33%	3.33%	3.33%
Computer - End user	20.00%	16.67%	16.67%	33.33%
Computer - Servers and networks	20.00%	16.67%	16.67%	16.67%
Intangible Assets – Software	20.00%	20.00%	20.00%	20.00%
Plant & Machinery	11.00%	6.67%	6.67%	6.67%

Asset category	Up to FY 2016	Between FY 2016 and FY 2018		Beyond FY 2018
		For opening block of assets	For proposed additions	
Tools & Equipment	20.00%	6.67%	6.67%	6.67%
Office Furniture	20.00%	10.00%	10.00%	14.29%
Furniture & Fixtures: Other Than Trolley	20.00%	10.00%	10.00%	14.29%
Furniture & Fixtures: Trolley	20.00%	6.67%	10.00%	33.33%
Vehicles	14.00%	12.50%	12.50%	12.50%
Electrical Installations	11.00%	6.67%	10.00%	10.00%
Other Office Equipment	18.00%	20.00%	20.00%	20.00%
X Ray Baggage System	11.00%	6.67%	6.67%	6.67%
CFT/Fire Fighting Equipment	13.00%	6.67%	6.67%	6.67%

9.5 The depreciation proposed by AAI for the 1st control period has been presented in the table below.

Table 20: Depreciation proposed by AAI

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Depreciation	8.12	8.63	13.91	17.54	21.92	39.94	54.60

Authority's Examination at Consultation Stage:

9.6 The Authority noted the submission of three different rates of depreciation by AAI for different periods under consideration and duly examined these for consideration towards determination of aeronautical tariff.

9.7 For period up to FY 2016, the BBI Airport did not come under the regulatory ambit of the Authority. Therefore, the Authority determined that the depreciation rates used by AAI according to its internal accounting policies are allowed to be followed in order to compute the net block of opening RAB. The Authority observed that the depreciation rates used by AAI up to FY 2016 were in line with its accounting policies, and hence the Authority did not propose any change in these.

9.8 As far as the period between 01/04/2016 and 31/03/2018 is considered, the Authority has had reference to its previous Tariff Orders for various AAI airports (Order No. 23/2017-18 dated 27/11/2017 for Kolkata airport, Order No. 10/2017-18 dated 04/08/2017 for Jaipur airport, and Order No. 03/2017-18 dated 02/06/2017 for Trivandrum Airport). In these Tariff Orders, the Authority considered the depreciation rates as prescribed in the Companies Act, 2013 for the purposes of tariff determination. Continuing with this approach, the Authority proposed to consider these rates of depreciation for the period between 01/04/2016 and 31/03/2018 for the purposes of tariff determination of BBI Airport as well.

9.9 Upon examination of rates of depreciation proposed by AAI for this period, the Authority observed that except in case of two asset categories, the rates proposed by AAI were in line with the above mentioned previous tariff orders. These two asset categories, and the rates used for them are presented in the table below.

Table 21: Differences in appropriate depreciation rates

Asset category	Rate as per Authority's previous orders for AAI airports	Rate used by AAI
Furniture and fixtures – trolley	10%	6.67%
Electrical installations	10%	6.67%

9.10 Therefore, the Authority proposed to change the depreciation rates in these two asset categories, from 6.67% to 10%.

9.11 For the period from 01/04/2018 onwards, the Authority has had reference to its study, which was commissioned to determine appropriate depreciation rates for regulation of airports in line with the provisions of the Companies Act, 2013.

9.12 As a result of this study, the Authority, vide its Order No. 35/2017-18 titled "In the matter of Determination of Useful life of Airport Assets", spelled out the normative depreciation rates which need to be used for computation of Aggregate Revenue Requirement.

9.13 These normative depreciation rates of airport assets as per the above mentioned Order, relevant to Bhubaneswar Airport, have been presented in the table below.

Table 22: Depreciation rates as per Authority's Order No. 35 / 2017-18

Asset category	Beyond FY 2018
Freehold Land	0.00%
Runways, Aprons and Taxiways	3.33%
Road, Bridges & Culverts	10.00%
Building – Terminal	3.33%
Building – Residential	3.33%
Boundary Wall – Operational	10.00%
Boundary Wall – Residential	10.00%
Other Buildings	3.33%
Computer - End user	33.33%
Computer - Servers and networks	16.67%
Intangible Assets – Software	20.00%
Plant & Machinery	6.67%

Asset category	Beyond FY 2018
Tools & Equipment	6.67%
Office Furniture	14.29%
Furniture & Fixtures: Other Than Trolley	14.29%
Furniture & Fixtures: Trolley	33.33%
Vehicles	12.50%
Electrical Installations	10.00%
Other Office Equipment	20.00%
X Ray Baggage System	6.67%
CFT/Fire Fighting Equipment	6.67%

9.14 The Authority observed that the depreciation rates used by AAI for the period beyond 01/04/2018 are in line with the rates as per the above mentioned Order. Therefore, the Authority did not propose any change in these.

9.15 Combining its observations across the three periods, the Authority proposed the depreciation rates to be considered for tariff determination in respect of BBI Airport as per the following table.

Table 23: Depreciation rates proposed by the Authority – Consultation Paper

Asset category	Up to FY 2016	Between FY 2016 and FY 2018	Beyond FY 2018
Freehold Land	0.00%	0.00%	0.00%
Runways, Aprons and Taxiways	13.00%	3.33%	3.33%
Road, Bridges & Culverts	13.00%	3.33%	10.00%
Building – Terminal	8.00%	3.33%	3.33%
Building – Residential	5.00%	3.33%	3.33%
Boundary Wall – Operational	8.00%	3.33%	10.00%
Boundary Wall – Residential	5.00%	3.33%	10.00%
Other Buildings	8.00%	3.33%	3.33%
Computer - End user	20.00%	16.67%	33.33%
Computer - Servers and networks	20.00%	16.67%	16.67%
Intangible Assets – Software	20.00%	20.00%	20.00%
Plant & Machinery	11.00%	6.67%	6.67%
Tools & Equipment	20.00%	6.67%	6.67%
Office Furniture	20.00%	10.00%	14.29%
Furniture & Fixtures: Other Than Trolley	20.00%	10.00%	14.29%
Furniture & Fixtures: Trolley	20.00%	10.00%	33.33%
Vehicles	14.00%	12.50%	12.50%
Electrical Installations	11.00%	10.00%	10.00%
Other Office Equipment	18.00%	20.00%	20.00%
X Ray Baggage System	11.00%	6.67%	6.67%
CFT/Fire Fighting Equipment	13.00%	6.67%	6.67%

9.16 The Authority further observed that in case of two asset categories, the depreciation computed by AAI for FY 2022 and FY 2023 exceeded the opening net block plus additions. The Authority proposed to correct this error.

9.17 On account of changes in depreciation rates, and the changes in proposed capital expenditure, the Authority proposed the following depreciation to be considered for tariff determination in respect of BBI Airport during the 1st control period.

Table 24: Depreciation proposed by the Authority

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Depreciation	9.49	9.87	13.85	17.47	22.67	25.26	48.49

9.18 Based on the material before it and the analysis, the Authority had proposed the following:

9.18.1 To adopt depreciation rates as per Table 23 for the 1st control period.

9.18.2 To consider depreciation amounts as per Table 24 for the 1st control period.

Stakeholder comments

9.19 **Federation of Indian Airlines (FIA):**

Useful life of 30 years considered for terminal building and aprons accepted by Authority is a conservative view. Considering terminal building & aprons have useful life up to 60 & 99 years respectively in international airports, 60 years useful life for terminal buildings and aprons ought to be considered by Authority.

FIA submits that on an overall basis, average useful life ranging between 10-15 years during control period accepted by the Authority, is lower considering the international airports & new additions.

FIA's review of RAB additions & its allocation indicated that shorter useful lives, incorrect capitalization have been broadly considered by Authority. Further, a detailed component level breakup has not been provided by Authority & accordingly the same has been considered for the purpose of depreciation. Broad heads of capitalization has been provided. Hence, we understand that depreciation has also been computed as per depreciation order on basis of useful life of these asset heads rather than useful life of these components. This might lead to accelerated depreciation. For instance, solar power plant has been classified under electrical installation rather than component level.

Depreciation on new terminal building:

FIA submits that as per Para 8.12 of the CP, depreciation from FY18 onwards has been computed as per rates prescribed under the Authority's Order No. 35/ 2017-18 "In the matter of Determination of Useful life of Airport Assets" dated 12 January 2018. Further, half yearly rates of depreciation have been considered for additions to RAB in the first year of capitalization. For terminal building and other buildings, while Order No. 35 states useful life as 30 or 60, the useful life considered by AAI and accepted by Authority in the CP is 30 years. For reference FIA would like to highlight, life of buildings as 30 years, considered by Authority is not in accordance with Part C of Schedule II of Companies Act, 2013, which provides useful life of buildings having Reinforced Concrete Cement (RCC) frame structure to be 60 years. It is submitted that there is no mention with respect to the structure of buildings, although it is highly unlikely that the terminal buildings are not built with RCC technology.

Hence, Authority has taken a conservative view with respect to useful life of terminal and other buildings. Accordingly FIA submits that, in the interest of consumers, the Authority should consider useful life of buildings as 60 years instead of taking a conservative view.

Further, our review of useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal building have useful life of as long as 60 years and aprons have it as long as 99 years. Also, the useful life of terminal building for Kannur & Cochin airports have been considered 60 years by Authority. However as per the present CP, average life of airport assets additions between FY18 to FY23, which primarily comprises Terminal & other buildings and Aprons, is ranging between 10-15 years. FIA accordingly submits that, in the interest of consumers, Authority could consider useful life of buildings as 60 years.

As submitted under RAB section, to defer the capitalization of new terminal building of INR 841.85 crores (90% of INR 935.39 crores) to next control period in absence of key necessary processes (construction schedule, investment planning and phasing etc.) performed till date. It is submitted to Authority to not to consider new terminal building for the purpose of capitalization and accordingly, revise depreciation calculation for FY23.

Depreciation on correct allocation ratio:

Allocation of assets: The Authority has given a tentative allocation of RAB additions for first control period. As submitted under RAB allocation section, "to consider the asset allocation ratio of 80%:20% in the 1st control period", it is submitted that Authority to re-compute the depreciation basis the allocation of RAB assets in the ratio of 80:20 for this control period. Also, the allocation of initial RAB assets under aeronautical and non-aeronautical assets has been done on incorrect ratios. Hence, FIA submits that the Authority should revise the depreciation on initial RAB based on revised/corrected ratios.

Depreciation on solar power plant:

FIA noted that solar power plant of INR 41.24 crores has been considered as electrical installation by virtue of which its useful life has been considered as 10 years. However, FIA submits that as per CERC (Terms and Conditions for Tariff determination from Renewable Energy Sources) Regulations, 2017, the useful life of solar power plants is 25 years whereas the Authority has considered the life of such assets as 10 years under electrical installation. Hence, FIA submits to revise the depreciation on solar plant considering the life of solar power plant as 25 years instead of 10 years.

FIA further submits that Authority should provide detailed calculations for depreciation charged on opening RAB & additions made therein, rather than just giving a consolidated number. In the absence of detailed calculations for depreciation, FIA cannot comment on the depreciation considered for tariff determination.

AAI's reply to stakeholder comments

9.20 Regarding further deferment in capitalization of new terminal building: Work of construction of New Terminal Building will be awarded in July 2019 with 3 year completion period. (P.D.C: July 2022). The Authority is requested to consider the same in the control period.

9.21 Regarding terminal area ratio: The actual usage/space allocation ratio of Aero/Non aero of Terminal Buildings T1 and T2 are as under:

T1: 92.20(Aero):7.80(Non-Aero)

T2: 93.02(Aero):6.98(Non Aero)

Even the new proposed Link Building would have ratio of 94(Aero):6(Non-Aero).

The Authority is requested to consider the ratio 95:5 as Aero/Non-Aero as proposed by AAI in MYTP.

Authority's examination of stakeholders comments and AAI's submission to stakeholders comments

9.22 **Authority's examination of comments by FIA:**

The Authority has carefully examined the comments received from FIA regarding depreciation. The Authority understands that FIA has two suggestions regarding useful life of assets:

- Terminal building - 60 years instead of 30 years, and
- Solar power plant - 25 years instead of 10 years

9.22.1 **Regarding the terminal building,** the Authority has followed its Order No. 35 / 2017-18 dated 12th January, 2018. Following are the relevant extracts from this Order:

- As per Annexure I - Useful life of assets, the Authority decided to consider useful life of terminal building as either 30 years or 60 years. The choice between 30 years and 60 years should be evaluated by the airport operator (AAI). AAI has evaluated the useful life of terminal building at Bhubaneswar Airport as 30 years.

- As part of the consultation proceedings before the Order was made effective, the Authority invited suggestions from various stakeholders. Various airport operators submitted their suggestions regarding useful life of terminal buildings. These are reproduced below:

    - BIAL commented, "We would like to draw reference to Para 2.2.5 of Consultation Paper wherein Part-C Building and Roads, Companies Act 2013 rates for different types of buildings has been specified as RCC frame structure/ Other than RCC frame structure/ factory buildings etc. In the final rates proposed under Annexure-5, the useful lives have been specified as 30/60 years. As the Terminal Building, even though RCC frame structure, **because of 24* 7 usage for 365 days and due to high wear and tear**, we request the Authorities to consider the Terminal Buildings to be equated to Factory Building with life of **30** years in line with Companies Act 2013."

    - GHIAL commented, "In the above-mentioned consultation paper, Authority has proposed useful life of 60 years for the building with RCC Frame Structure. **However, keeping in mind the airport operations which is 24X7 365 days in a year, building has got higher wear and tear** and hence the said structure needs to be treated as factory building and should be depredated as per the rate prescribed by Companies Act for factory building. Accordingly we suggest that the useful life of asset with respect to building with RCC structure should be lower of **30** years or the residual period of initial concession term."

- HIAL commented, "In the abovementioned consultation paper Authority has proposed useful life of 60 years for the building with RCC Frame Structure. **However, keeping in mind the airport operations which is 24X7 365 days in a year, building has got higher wear and tear** and hence the said structure needs to be treated as factory building and should be depredated as per the rate prescribed by Companies Act for factory building. Accordingly we suggest that the useful life of asset with respect to building with RCC structure should be lower of **30** years or the residual period of initial concession term.

- The Authority, at that time, had carefully evaluated these comments. In all these comments, the Authority noted that because of 24 hour operations, the airport operator felt that terminal buildings face faster wear and tear as compared to other buildings, despite the RCC Frame structure. It is also noted that most of the new Terminal Buildings are steel and glass structures, and, they have to be rebuilt due to wear & tear, and, capacity expansion, within 30 years. In response to these comments, the Authority decided to keep the provision unchanged. Thereby, the airport operator was given the option to evaluate the useful life of the terminal building as either 30 years or 60 years. Further, considering the fact that Bhubaneswar airport is 24 hours operational, and is being operated beyond its capacity, the Authority does not see a need to re-evaluate the useful life of the building.

Therefore, the Authority decides to keep the useful life of the terminal building at Bhubaneswar Airport unchanged at 30 years.

9.22.2 **Regarding the solar power plant,** the Authority had classified the asset as electrical installations, thereby attracting a depreciation rate of 10%, i.e., a useful life of 10 years. FIA has submitted that as per CERC (Terms and Conditions for Tariff determination from Renewable Energy Sources) Regulations, 2017, the useful life of solar power plants is 25 years. The Authority acknowledges that CERC Regulations are an appropriate source for determination of useful life of solar power plant. Therefore, the Authority decides to change the useful life from 10 years to 25 years.

On the basis of above change in depreciation rate, the Authority decides to adopt the depreciation rates as per the table below.

Table 25: Depreciation rates as per Authority - Final

Asset category	Up to FY 2016	Between FY 2016 and FY 2018	Beyond FY 2018
Freehold Land	0.00%	0.00%	0.00%
Runways, Aprons and Taxiways	13.00%	3.33%	3.33%
Road, Bridges & Culverts	13.00%	3.33%	10.00%
Building – Terminal	8.00%	3.33%	3.33%
Building – Residential	5.00%	3.33%	3.33%
Boundary Wall – Operational	8.00%	3.33%	10.00%
Boundary Wall – Residential	5.00%	3.33%	10.00%
Other Buildings	8.00%	3.33%	3.33%
Computer - End user	20.00%	16.67%	33.33%
Computer - Servers and networks	20.00%	16.67%	16.67%
Intangible Assets – Software	20.00%	20.00%	20.00%
Plant & Machinery	11.00%	6.67%	6.67%
Tools & Equipment	20.00%	6.67%	6.67%
Office Furniture	20.00%	10.00%	14.29%
Furniture & Fixtures: Other Than Trolley	20.00%	10.00%	14.29%
Furniture & Fixtures: Trolley	20.00%	10.00%	33.33%
Vehicles	14.00%	12.50%	12.50%
Electrical Installations	11.00%	10.00%	10.00%
Electrical Installations: Solar power plant	NA	NA	4.00%
Other Office Equipment	18.00%	20.00%	20.00%
X Ray Baggage System	11.00%	6.67%	6.67%
CFT/Fire Fighting Equipment	13.00%	6.67%	6.67%

The depreciation expense as per revised rates is presented in the table below.

Table 26: Depreciation proposed by the Authority- Final

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Depreciation	9.49	9.87	13.85	16.03	19.73	22.26	41.67

Decision No. 7: Regarding depreciation

7.a. The Authority decides to adopt depreciation rates as per Table 25 for the 1st control period.

7.b. The Authority decides the depreciation amounts as per Table 26 for the 1st control period.

10. Regulatory Asset Base for the 1st control period

10.1 For determination of aeronautical tariff for the 1st control period for BBI Airport, AAI submitted RAB as follows:

Table 27: RAB for the 1st control period as per AAI's submission

S. No	Particulars	Pre-control regulatory period		Control period				
		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
A	Opening RAB	96.5	101.3	103.0	160.5	190.0	320.9	1216.4
B	Capitalizations	13.0	10.3	71.4	47.0	152.9	935.4	81.4
C	Disposals	-	-	-	-	-	-	-
D	Depreciation	8.1	8.6	13.9	17.5	21.9	39.9	54.6
E	Closing RAB	101.3	103.0	160.5	190.0	320.9	1216.4	1243.2
F	**Average RAB**	**98.9**	**102.1**	**131.7**	**175.3**	**255.5**	**768.7**	**1229.8**

Authority's Examination at Consultation Stage:

10.2 The Authority duly examined each element of RAB in the previous sections. It proposed to adopt the opening RAB as per Table 13, the capital expenditures as per Table 15, and the depreciation expense as per Table 24.

10.3 Combining all its propositions, RAB to be considered by the Authority for determination of aeronautical tariff for the 1st Control Period in respect of BBI Airport is as follows:

Table 28: RAB for the 1st control period after Authority's examination – Consultation Paper (figures in INR crores)

S. No	Particulars	Pre-control regulatory period		Control period				
		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
A	Opening RAB	96.5	99.9	100.3	158.0	187.5	309.0	283.7
B	Capitalizations	13.0	10.3	71.5	47.0	144.1	0.0	923.3
C	Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D	Depreciation	9.5	9.9	13.8	17.5	22.7	25.3	48.5
E	Closing RAB	99.9	100.3	158.0	187.5	309.0	283.7	1158.5
F	**Average RAB**	**98.2**	**100.1**	**129.1**	**172.7**	**248.3**	**296.4**	**721.1**

10.4 Based on the material before it and the analysis, the Authority had proposed to consider average RAB for the 1st control period in respect of BBI Airport as per Table 28.

10.5 Based on the changes made in Regulatory Asset Base post suggestions from stakeholders, the Authority decides the following RAB schedule for the 1st control period.

Table 29: RAB for the 1st control period after Authority's examination – Final (figures in INR crores)

S. No	Particulars	Pre-control regulatory period		Control period				
		FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
A	Opening RAB	96.5	99.9	100.3	158.0	178.9	299.8	277.5
B	Capitalizations	13.0	10.3	71.5	36.9	140.6	0.0	786.3
C	Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D	Depreciation	9.5	9.9	13.8	16.0	19.7	22.3	41.7
E	Closing RAB	99.9	100.3	158.0	178.9	299.8	277.5	1022.1
F	**Average RAB**	**98.2**	**100.1**	**129.1**	**168.4**	**239.3**	**288.6**	**649.8**

Decision No. 8: Regarding average Regulatory Asset Base

8.a. The Authority decides to consider average RAB for the 1st control period in respect of BBI Airport as per Table 29.

11. Fair Rate of Return (FRoR)

11.1 AAI has considered Fair Rate of Return (FRoR) as 14% in line with the decision taken by the Authority for other AAI airports, including Kolkata, Jaipur and Trivandrum, among others.

11.2 AAI has submitted that all financing activities are undertaken centrally at the corporate office of AAI. The funds are apportioned among airports by the corporate office.

Authority's Examination at Consultation Stage:

11.3 The Authority recognized that AAI's capital structure may not be regarded as an efficient one in that it doesn't optimize the cost of funds from a regulatory perspective. The Authority desires that the FRoR allowed to AAI should come down over a period of time by optimizing capital gearing. The Authority may also consider a normative capital structure to determine the FRoR at a later date. It may not be reasonable to expect AAI to contract large amounts of debt over a short period of time.

11.4 The Authority notes that as per a study conducted in respect of the 'Fair Rate of Return Estimation for AAI' in July 2011, it estimated a figure of 14.96% as Fair Rate of Return for AAI. The Authority notes that it has considered FRoR at 14% for other AAI airports considering the recommendations of another study done by NIPFP.

11.5 Based on the above, the Authority had proposed to consider FRoR at the rate of 14% for BBI for the 1st control period as submitted by AAI.

11.6 The Authority did not receive comments from stakeholders for this chapter.

Decision No. 9: Regarding Fair Rate of Return

9.a. The Authority decides to consider FRoR at 14% for BBI Airport for the 1st control period.

12. Non-aeronautical revenue

12.1 AAI has forecasted revenue from services other than aeronautical services as below.

Table 30: Non-aeronautical revenue projections as per AAI (figures in INR crores)

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
1. Trading concessions							
Restaurant / snack bars	0.88	1.10	1.03	1.13	1.25	1.37	1.65
T.R. stall	2.08	2.84	6.68	7.35	8.08	8.89	10.67
Hoarding & display	2.46	5.38	5.91	6.50	7.15	7.87	9.44
2. Rent and services							
Land leases	4.74	5.17	5.56	5.98	6.43	6.91	7.43
Building (residential)	0.02	0.03	0.04	0.04	0.04	0.04	0.04
Building (non-residential)	1.25	0.65	0.72	0.79	0.87	0.96	1.15
3. Miscellaneous							
Car rentals	0.36	0.65	1.21	1.52	1.67	1.84	2.20
Car parking	1.81	2.39	2.63	2.89	3.18	3.50	4.20
Admission tickets	0.61	0.79	0.87	0.95	1.05	1.15	1.39
Other income	1.33	1.03	0.10	0.11	0.12	0.13	0.15
Total	**15.54**	**20.03**	**24.75**	**27.27**	**29.84**	**32.66**	**38.31**

12.2 The growth rates assumed by AAI have been presented in the table below.

Table 31: Growth rates assumed by AAI for non-aeronautical revenue

Particulars	Control period				
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
1. Trading concessions					
Restaurant / snack bars	Bottom up	10%	10%	10%	20%
T.R. stall	Bottom up	10%	10%	10%	20%
Hoarding & display	10%	10%	10%	10%	20%
2. Rent and services					
Land leases	7.5%	7.5%	7.5%	7.5%	7.5%
Building (residential)	5%	5%	5%	5%	5%
Building (non-residential)	10%	10%	10%	10%	20%
3. Miscellaneous					
Car rentals	Bottom up	10%	10%	10%	20%
Car parking	10%	10%	10%	10%	20%
Admission tickets	10%	10%	10%	10%	20%

Other income	-90%	10%	10%	10%	10%
Total	**24%**	**10%**	**9%**	**9%**	**17%**

Authority's Examination at Consultation Stage:

12.3 The Authority examined the non-aeronautical revenues for FY 2017 and FY 2018 from the trial balances of the respective years submitted by AAI. The Authority found these to be in line with the trial balances.

12.4 **Revenue from restaurant / snack bars:** The Authority observed that AAI did a bottom-up projection for revenue from F&B outlets for FY 2019. Upon examination, the Authority found that with effect from FY 2018-19, AAI awarded a master concession to develop, market, setup, operate, maintain and manage multiple food and beverages outlets at Bhubaneswar airport. The concession includes a minimum of two international brand outlets, one domestic brand outlet, and two locally popular outlets. The concession was applicable with effect from 1st April, 2018 and applicable for 7 years. The concession fee was decided as INR 101.7 lakh per month, or a certain percentage of net sales, whichever is higher. Further, this would increase by 10% each year. The Authority notes that it is not possible to forecast the actual sales at these F&B outlets. Therefore, the Authority proposed to consider the minimum monthly guaranteed amount of INR 101.7 lakh per month to forecast the revenues to AAI. However, AAI has considered INR 1.03 crores as an annual figure. On further discussions with AAI, it was observed that INR 1.03 crores is indeed a monthly amount and hence the Authority proposes to consider it accordingly. Further, a new concession was awarded for a variety of small outlets. The income accruing to AAI would be INR 16,544 per month from 1st August, 2018.

12.5 The Authority observed that for lease rentals, AAI has assumed a growth rate of 7.5%. However, on further discussions with AAI, it was observed that AAI will not be increasing the land lease rates in BBI Airport up to FY 2022. Therefore, the Authority proposed to change the growth rates assumed for land lease revenue – from 7.5% to 0% for period up to FY 2022.

12.6 The Authority observed that AAI had proposed a growth rate of 20% in last year for most of the non-aeronautical revenue sources. AAI submitted that this was done on account of new terminal building being operationalized. However, because the Authority has proposed to shift the capitalization of this new building by one year, the Authority proposed that the growth rate for non-aeronautical revenues in last year be the same as that for the previous years.

12.7 **Retail and other stalls:** The Authority observed that AAI did a bottom-up projection for revenue from retail and other stalls for FY

2019. Upon examination, the Authority found that with effect from FY 2018-19, AAI awarded a master concession to develop, market, setup, operate, maintain and manage multiple retail outlets at Bhubaneswar Airport. The concession includes a minimum of two international brand outlets and one domestic brand outlet. The concession was applicable with effect from 1st April, 2018 and applicable for 7 years. The concession fee was decided as INR 55.59 lakh per month, or a certain percentage of net sales, whichever is higher. Further, this would increase by 10% each year. The Authority noted that it is not possible to forecast the actual sales at the retail outlets. Therefore, the Authority proposed to consider the minimum monthly guaranteed amount of INR 55.59 lakh per month to forecast the revenues to AAI.

12.8 The Authority observed that AAI has awarded a new concession agreement with respect to car rentals at the airport. The Authority verified the agreement and found the projections to be in line with the same.

12.9 The Authority requested AAI to provide a basis for assuming a -90% growth in other income. In the absence of a valid basis, the Authority proposed to flat-line this income source.

12.10 The revised growth rates as per Authority's examination have been presented in the table below.

Table 32: Growth rates in non-aeronautical revenue considered by the Authority – Consultation Paper

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
1. Trading concessions							
Restaurant / snack bars			Bottom up	10%	10%	10%	10%
T.R. stall			Bottom up	10%	10%	10%	10%
Hoarding & display			10%	10%	10%	10%	10%
2. Rent and services							
Land leases			0%	0%	0%	0%	7.5%
Building (residential)			5%	5%	5%	5%	5%
Building (non-residential)			10%	10%	10%	10%	10%
3. Miscellaneous							
Car rentals			Bottom up	10%	10%	10%	10%
Car parking			10%	10%	10%	10%	10%
Admission tickets			10%	10%	10%	10%	10%
Other income			0%	0%	0%	0%	0%
Total			**82%**	**9%**	**8%**	**9%**	**9%**

12.11 Based on the material obtained and the analysis, the Authority had proposed to revise the non-aeronautical revenues as per the table below.

Table 33: Non-aeronautical revenues proposed by the Authority – Consultation Paper

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
1. Trading concessions							
Restaurant / snack bars	0.88	1.10	12.22	13.44	14.78	16.26	17.89
T.R. stall	2.08	2.84	6.68	7.35	8.08	8.89	9.78
Hoarding & display	2.46	5.38	5.91	6.50	7.15	7.87	8.66
2. Rent and services							
Land leases	4.74	5.17	5.17	5.17	5.17	5.17	5.56
Building (residential)	0.02	0.03	0.04	0.04	0.04	0.04	0.04
Building (non-residential)	1.25	0.65	0.72	0.79	0.87	0.96	1.05
3. Miscellaneous							
Car rentals	0.36	0.65	1.21	1.52	1.67	1.84	2.02
Car parking	1.81	2.39	2.63	2.89	3.18	3.50	3.85
Admission tickets	0.61	0.79	0.87	0.95	1.05	1.15	1.27
Other income	1.33	1.03	1.03	1.03	1.03	1.03	1.03
Total	**15.54**	**20.03**	**36.48**	**39.69**	**43.04**	**46.72**	**51.16**

Stakeholder comments

12.12 **Federation of Indian Airlines (FIA):**

Growth in non-aeronautical revenue has been projected on a conservative basis despite an increase of 29% in non-aero revenue in FY 18 and increase in passenger traffic - non-aero revenue per passenger is on a constant decline over the control period.

FIA submits that as per proposal 8(a) of the CP, the Authority has proposed to consider non- aeronautical revenues as per table below and to true up the non-aero revenue in second control period based on actual revenue of first control period.

Non-aeronautical revenues proposed by the Authority

Table [illegible] on Page [illegible] of CP No. [illegible]/2018-19 | Rs. crores

Particulars	Pre control regulatory period		Control period									YoY					
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Total	Revenue per passenger (INR)	% total	Basis of projection for first control period	FY18	FY19	FY20	FY21	FY22	FY23
Trading concession																	
Restaurant / snack bars	0.68	1.10	12.22	13.44	14.78	16.26	17.89	74.59	28.22	31%	10% increase YoY	25%	1011%	10%	10%	10%	10%
T.R. stall	2.08	2.84	6.66	7.35	8.08	8.89	9.78	40.76	15.43	19%	10% increase YoY	37%	135%	10%	10%	10%	10%
Hoarding & display	2.46	5.39	5.91	6.50	7.15	7.87	8.66	36.09	13.65	17%	10% increase YoY	119%	10%	10%	10%	10%	10%
Rent and service																	
Land leases	4.74	5.17	5.17	5.17	5.17	5.17	5.56	26.24	9.93	12%	[illegible] increase in FY23	9%	0%	0%	0%	0%	8%
Building (residential)	0.02	0.03	0.04	0.04	0.04	0.04	0.04	0.20	0.08	0%	5% increase YoY	50%	5%	5%	5%	5%	5%
Building (non-residential)	1.25	0.65	0.72	[illegible]	0.87	0.96	1.05	4.39	1.66	2%	10% increase YoY	(48%)	11%	10%	10%	10%	9%
Miscellaneous																	
Car rentals	0.36	0.65	[illegible]	1.52	1.67	1.84	2.02	8.26	3.13	4%	10% increase YoY as per agreement	81%	86%	26%	10%	10%	10%
Car parking	1.81	2.39	2.62	2.89	3.18	3.50	3.85	16.05	6.07	7%	10% increase YoY	32%	10%	10%	10%	10%	10%
Admission tickets	0.61	0.78	0.87	0.96	1.05	1.16	1.27	5.31	2.01	2%	10% increase YoY	30%	10%	10%	10%	10%	10%
Other income	1.33	1.03	1.03	1.03	1.03	1.03	1.03	5.17	1.95	2%	Flat income	(23%)	0%	0%	0%	0%	0%
Total	15.54	20.03	36.48	39.69	43.04	46.72	51.46	217.08	82.13	100%		29%	82%	9%	8%	9%	9%
30% of non aero revenue			10.94	11.91	12.91	14.02	15.25										
Passengers (domestic + international) (in millions)			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	26.45						17%	17%	17%	17%
Non-aero revenue per passenger (INR)			96.36	89.84	83.46	72.55	72.90	82.13						(7%)	(7%)	(7%)	(6%)

Increase in non-aeronautical revenue is a function of passenger traffic growth, inflationary increase and real increase in contract rates. Despite all these factors increasing during the control period, on examination of the non-aeronautical revenue projected for the first control period by Authority, FIA noted that a conservative approach has been taken by the Authority.

Issue 1: Conservative approach while projecting growth in non-aeronautical revenue:

FIA submits that as per agreements entered by AAI with various vendors, five non-aeronautical revenue streams (namely restaurant/snack bar, T.R. stall, hoarding & display, car rentals, car parking) which contributes 81% of total non-aeronautical revenue for first control period, year on year 10% increase has been proposed by Authority between FY20 to FY23. As per Para 11.7 & 11.8, we understand that Authority has verified the agreements with retail store vendors & car rental vendor. However, no further details & breakup pertaining to agreements have been mentioned in the CP. No details has been mentioned with respect to key terms, duration, and tenure of these agreements.

BBI Airport being the 15th busiest airport in India and per table 4 of CP had registered domestic passenger growth over 5 year CAGR is 17.9%. However, as per table 5 of CP, on a conservative basis, passenger growth over the control period has been projected to be 16%-17% p.a. On comparing the passenger growth rate with the escalation clauses in agreement, we analyzed that escalation clauses as per agreements is 8% to 10% during FY20 to FY23, which is far lower than year on year projected passenger growth over the control period. Therefore, non-aeronautical revenue per passenger was analyzed for each year of the first control period and a decreasing trend was noted in the same, which clearly indicated that the Authority has taken lower growth rate projections for non-aero revenue.

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, on the review of CP indicated that for the purpose of determining non-aeronautical revenue, Authority, rather than evaluating non-aeronautical revenue in detail as per AERA Guidelines to consider the impact of inflationary increase and real increase while projecting these non-aero revenue has relied on ad-hoc growth rate and basis provided by BBI Airport.

FIA submits that the Authority to reconsider growth rates for non-aero revenues so as to keep them in line with the growth in passengers. Further, Authority has not commented on the real increase, inflationary increase and passenger traffic based increase for the growth rates proposed for the first control period. Since, each of them affect the non-aeronautical revenues, FIA submits that the Authority should re-evaluate the growth rates for non-aeronautical revenue on the basis of an independent expert/consultant study. However, in case of paucity of time for the purpose of issuance of the order, it is submitted that Authority to consider 17.9% YoY growth (being 5-year passenger growth CAGR) in non-aero revenue during the control period except in case of long term contracts where YoY escalation is agreed.

It is submitted that Authority should direct AAI to enter into contracts where an escalation clause is linked with passenger growth and propose true up in second control period based on actuals.

It is submitted to Authority, in the event that the capitalization for new terminal building is done in FY23, then the Authority should re-consider the growth rates projected in FY23 as new contracts will be entered with various vendors which will lead to higher non-aeronautical income.

Issue 2: Authority to check restaurant income for FY17 & FY18:

FIA submits that as per Table 22 of the CP, AAI has given restaurant/snack bar income of INR 0.88 crores, INR 1.10 crores, INR 1.03 crores, INR 1.13 crores, INR 1.25 crores, INR 1.37 crores, INR 1.65 crores for FY17, FY18, FY19, FY20, FY21, FY22, FY23 respectively.

Under Para 11.4, "Authority observed that for restaurant and snack bars, AAI has awarded new master concession to a vendor. The commercial terms as examined by the Authority indicate that AAI will receive a minimum of INR 1.03 crore per month from the vendor. However, AAI has considered INR 1.03 crores as an annual figure. On further discussions with AAI, it was observed that INR 1.03 crores is indeed a monthly amount and hence the Authority proposes to consider it accordingly".

However, the Authority has rectified the revenue figures for FY19 onwards without making any correction in FY17 & FY18. Accordingly, FIA submits that the Authority to rectify the revenue figures for restaurant/snack bars for FY17 & FY18 (if not considered) and adjust the shortfall as computed on page 43 of the CP. Further, the Authority should calculate the ARR for first control period based upon revised figures & propose a new tariff card accordingly.

AAI's reply to stakeholder comments

12.13 The copies of all agreement related non aeronautical streams have been shared with the Authority.

12.14 Regarding Issue 1, AAI has proposed additional 10% increase in Non-Aeronautical revenue in FY23 considering the operation of new Terminal Building (T-3).

12.15 Regarding Issue 2, the new master concessioner has been awarded in January 2018.

Authority's examination of stakeholders comments and AAI's submission to stakeholders comments

12.16 **Authority's examination of comments by FIA:**

The Authority has carefully examined the comments received from FIA regarding the non-aeronautical revenue projections. The Authority notes that FIA has commented on two issues. Authority's position on each of these two issues is stated below:

12.16.1 **Issue 1: Conservative approach adopted for projections**

FIA has pointed out that details of concession agreements for retail stores and car rental were not mentioned in the consultation paper. The Authority accepts the point and therefore, has included the details of these agreements in this Order. The stakeholders may refer to the previous paragraphs of this chapter for the details.

The Authority notes that FIA suggests a growth rate in line with passenger growth rate for those non-aeronautical revenue streams for which long term agreements with vendors do not exist. The Authority evaluated each of such revenue streams. The observations thereon are discussed below:

- Restaurants / snack bars – These are bound by long term agreements with vendors.
- Retail stores - These are bound by long term agreements with vendors.
- Hoarding and display – These are bound by long term agreements.
- Land and building leases – While these are not bound by long term contracts, the Authority observed that for land leases, AAI will not be increasing the rates in BBI Airport up to FY 2022. Therefore, the Authority had proposed to consider the growth rate only in the last year of the control period. In such cases where the airport operator has decided to not increase rates due to commercial reasons, the Authority should not take a position where an increased rate is forced on the airport operator leading to lesser ARR.
- Car rentals - These are bound by long term agreements.
- Car parking – These are bound by long term agreements.
- Admission tickets – These are not bound by long term agreements. The Authority accepts FIA's suggestion of higher growth rate in line with passenger growth.
- Other income – These are not bound by long term agreements. These income streams are very uncertain. They are not regular in nature. As mentioned in Para 11.9 of the consultation paper, AAI had initially proposed a growth rate of negative 90% in the first year of the control period. The Authority had proposed to change the same to 0%. The Authority doesn't find any business logic to consider that these incomes will increase in line with growth in passengers. Therefore, the Authority decides to keep the growth rate unchanged.

FIA has compared growth in non-aeronautical revenues with the passenger growth. From this comparison, FIA has suggested that the passenger growth is assumed at 16%, whereas the growth in most non-aeronautical revenue streams is assumed at 10%, which is less than the growth in passenger traffic. However, this comparison has not taken into account the growth in non-aeronautical revenues from FY 2017-18 to FY 2018-19, which have been projected to grow at 82%. When this growth is considered, then the growth in non-aeronautical revenues over five years averages 21%, which is more than the passenger growth rate. Doing a selective comparison by excluding the first year of the control period is not appropriate.

FIA has also suggested a higher proportional increase in non-aeronautical revenues during the last year of the control period, when a new terminal building is being assumed to be operationalized. In this regard, the Authority expects a minor off-take in terms of non-aeronautical revenues for the last year. Considering that the building is assumed to be operational only for half of the last year, and that setting up new outlets (retail and food & beverages) will take time, the Authority decides to keep the growth rates unchanged.

Issue 2: Regarding calculations of restaurant income for FY 2017 and FY 2018:

The Authority has duly noted the comments received by FIA in this regard. The Authority hereby clarifies that the new concession agreement was effective from FY 2019. It is not supposed to have an impact on the revenues of FY 2017 and FY 2018, which have been considered on actual basis. Therefore, the Authority decides to keep the projections unchanged.

12.17 After considering the above, the revised projections of non-aeronautical revenues have been presented in the table below.

Table 34: Growth rates in non-aeronautical revenue as per the Authority - Final

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
1. Trading concessions							
Restaurant / snack bars			Bottom up	10%	10%	10%	10%
T.R. stall			Bottom up	10%	10%	10%	10%
Hoarding & display			10%	10%	10%	10%	10%
2. Rent and services							
Land leases			0%	0%	0%	0%	7.5%
Building (residential)			5%	5%	5%	5%	5%
Building (non-residential)			10%	10%	10%	10%	10%
3. Miscellaneous							
Car rentals			Bottom up	10%	10%	10%	10%

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Car parking			10%	10%	10%	10%	10%
Admission tickets			28%	20%	21%	21%	21%
Other income			0%	0%	0%	0%	0%
Total			**83%**	**9%**	**9%**	**9%**	**10%**

Table 35: Non-aeronautical revenues as per the Authority - Final

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
1. Trading concessions							
Restaurant / snack bars	0.88	1.10	12.22	13.44	14.78	16.26	17.89
T.R. stall	2.08	2.84	6.68	7.35	8.08	8.89	9.78
Hoarding & display	2.46	5.38	5.91	6.50	7.15	7.87	8.66
2. Rent and services							
Land leases	4.74	5.17	5.17	5.17	5.17	5.17	5.56
Building (residential)	0.02	0.03	0.04	0.04	0.04	0.04	0.04
Building (non-residential)	1.25	0.65	0.72	0.79	0.87	0.96	1.05
3. Miscellaneous							
Car rentals	0.36	0.65	1.21	1.52	1.67	1.84	2.02
Car parking	1.81	2.39	2.63	2.89	3.18	3.50	3.85
Admission tickets	0.61	0.79	1.01	1.21	1.46	1.76	2.13
Other income	1.33	1.03	1.03	1.03	1.03	1.03	1.03
Total	**15.54**	**20.03**	**36.62**	**39.95**	**43.45**	**47.33**	**52.01**

Decision No. 10: Regarding non-aeronautical revenue

10.a. The Authority decides to consider non-aeronautical revenues for the 1st control period in accordance with Table 35.

13. Operation and maintenance expenditure

13.1 Operation and Maintenance (O&M) expenditure submitted by AAI is segregated into the following:

i. Payroll expenses,
ii. Admin and general expenditure,
iii. Repair and maintenance expenditure,
iv. Utilities and outsourcing expenditure, and
v. Other outflows

13.2 The expenses related to Cargo, AAICLAS and ANS have not been considered by AAI.

13.3 AAI has segregated the expenses into aeronautical expenses, non-aeronautical expenses, and common expenses. The common expenses have been further segregated into aeronautical and non-aeronautical on the basis of relevant ratios.

13.4 AAI submitted that the allocation of CHQ/RHQ expenses among individual airports has been done on the basis of revenue.

13.5 The summary of aeronautical expenses proposed by AAI for the 1st control period has been presented in the table below:

Table 36: Operation and Maintenance (O&M) expenditure as per AAI

Particulars	**Pre control regulatory period**		**Control period**				
	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
Payroll expenses - non CHQ/RHQ	11.78	15.24	17.79	18.71	19.64	20.62	21.65
Payroll expenses - CHQ/RHQ	2.74	2.88	3.27	3.43	3.61	3.79	3.98
Administration and General expenses - non CHQ/RHQ	2.19	4.23	4.50	4.79	5.11	5.47	5.86
Administration and General expenses - CHQ/RHQ	25.64	26.92	28.26	29.68	31.16	32.72	34.35
Repairs and maintenance	5.88	8.51	9.36	10.29	11.32	12.45	14.95
Utilities and outsourcing expenses	4.75	4.87	4.79	4.84	4.90	4.96	5.88
Other outflows - Collection Charges on UDF	0.11	0.31	0.36	0.41	0.48	0.55	0.60
Total	**53.08**	**62.95**	**68.33**	**72.15**	**76.22**	**80.56**	**87.27**

13.6 The summary of growth rates assumed by AAI for the operation and maintenance expenses have been presented in the table below:

Table 37: Growth rates in O&M as per AAI

Particulars	Pre control regulatory period		Control period				
	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
Payroll expenses - non CHQ/RHQ			17%	5%	5%	5%	5%
Payroll expenses - CHQ/RHQ			14%	5%	5%	5%	5%
Administration and General expenses - non CHQ/RHQ			6%	7%	7%	7%	7%
Administration and General expenses - CHQ/RHQ			5%	5%	5%	5%	5%
Repairs and maintenance			10%	10%	10%	10%	20%
Utilities and outsourcing expenses			-2%	1%	1%	1%	19%
Other outflows - Collection Charges on UDF			16%	16%	16%	16%	9%
Total			**9%**	**6%**	**6%**	**6%**	**8%**

13.7 Further, summary of allocation of expenses between aeronautical and non-aeronautical as proposed by AAI has been presented in the table below:

Table 38: Allocation of O&M expenses as per AAI

Particulars	Aeronautical	Non-aeronautical
Payroll expenses - non CHQ/RHQ	94.25%	5.75%
Payroll expenses - CHQ/RHQ	100%	0%
Administration and General expenses - non CHQ/RHQ	96.2%	3.8%
Administration and General expenses - CHQ/RHQ	95%	5%
Repairs and maintenance	97.5%	2.5%
Utilities and outsourcing expenses	100%	0%
Other outflows - Collection Charges on UDF	100%	0%

Authority's Examination at Consultation Stage:

13.8 The Authority examined the trial balances for FY 2017 and FY 2018 to ensure that the actuals considered by AAI are accurate. In all instances except one, the numbers were found to be consistent with the trial balances. In case of utilities and outsourcing expenses, the expense pertaining to consumption of stores and spares amounting to INR 29 lakh was left out from the trial balance for FY 2018. Therefore, the Authority proposed to include the same.

13.9 The Authority observed the employee ratio considered by AAI for allocation of payroll expenses between aeronautical and non-aeronautical. For FY 2017, AAI used a ratio of 7/98. However, it was examined that the correct ratio to use would be 7:98, i.e. 7/105. The Authority proposes to use 7/105 instead of 7/98. This would change the allocation of payroll expenses to aeronautical and non-aeronautical for FY 2017. The Authority found the ratio used for FY 2017-18 to be correct.

13.10 The Authority observed that for two categories of employees, i.e. HR and Finance, which serve both the aeronautical and non-aeronautical services at the airport, AAI did not reduce the expenses pertaining to non-aeronautical portion of these common staff. The Authority considered to reduce these from the payroll expenses.

13.11 The Authority further observed that the ratio used to compute the non-aeronautical portion of the common staff expenses was not consistent throughout the control period. The ratio used by AAI for this purpose and the ratio proposed by the Authority on the basis of consistent formula have been presented in the table below.

Table 39: Difference in ratio of non-aero portion of common staff expenses

Particulars	For FY 2017	For FY 2018	For FY 2019 and beyond
Ratio used by AAI	1.35%	1.26%	1.03%
Ratio considered by the Authority	1.26%	1.19%	0.97%

13.12 The Authority examined the allocation of expenses between aeronautical and non-aeronautical. The Authority compared the allocation proposed by AAI to its recent orders for other AAI airports. A summary of these has been presented in the table below.

Table 40: Comparison of allocation of O&M expenses with other AAI airports

Expense category	BBI	Kolkata	Jaipur	Trivandrum
Payroll expenses - non CHQ/RHQ	94%	88%	94%	95%
Payroll expenses - CHQ/RHQ	100%	88%	95%	95%
Administration and General expenses - non CHQ/RHQ	96%	96%	88%	94%
Administration and General expenses - CHQ/RHQ	95%	85%	90%	90%
Repairs and maintenance	98%	89%	93%	97%
Utilities and outsourcing expenses	100%	91%	93%	98%
Other outflows - Collection Charges on UDF	100%	93%	100%	100%

13.13 On comparison with the other AAI airports, the Authority observed that the payroll expenses - CHQ/RHQ were not allocated between aeronautical and non-aeronautical. The Authority desired to have an ideal allocation based on actual deployment of staff at CHQ/RHQ for non-aeronautical purposes. In absences of actual numbers, the

Authority proposes to consider 5% of payroll expenses - CHQ/RHQ as non-aeronautical portion.

13.14 The Authority noted 100% allocation of the utilities and outsourcing expenses as aeronautical by AAI. The Authority desired to have an ideal allocation based on actual consumption by the non-aeronautical avenues like stalls, kiosks etc. at the airport. In absence of data pertaining to actual consumption by such avenues, the Authority proposed to consider 1% of power charges as non-aeronautical.

13.15 The Authority proposed the following allocation of O&M expenses into aeronautical and non-aeronautical.

Table 41: Allocation of O&M expenses as per the Authority

Particulars	Aeronautical	Non-aeronautical
Payroll expenses - non CHQ/RHQ	94.25%	5.75%
Payroll expenses - CHQ/RHQ	95%	5%
Administration and General expenses - non CHQ/RHQ	96.2%	3.8%
Administration and General expenses - CHQ/RHQ	95%	5%
Repairs and maintenance	97.5%	2.5%
Utilities and outsourcing expenses	99%	1%
Other outflows - Collection Charges on UDF	100%	0%

13.16 The Authority examined the growth rates assumed by AAI. For payroll expenses, AAI has assumed an overall growth rate of approximately 17% for FY 2019. The revised pay commission was implemented in FY 2018 for executive grade employees. The implementation for non-executive grade employees is proposed to be done in FY 2019. Therefore, the Authority proposed that it should be assumed that the growth in overall payout of non-executive grade employees should be similar to the actual growth in payout of executive grade of employees in FY 2018 based on revised pay commission. The Authority found this to be 37.16% increment. Based on the proportion of employees in the two grades, the Authority found the overall growth of 17% in FY 2018-19 to be reasonable.

13.17 AAI assumed a growth rate of 5% in payroll expenses beyond FY 2019. The Authority found this to be reasonable.

13.18 The Authority examined actual growth trend of other expenses for the past few years at the airport. Further, the Authority examined a few contractual agreements with vendors on a sample basis to understand the escalation dynamics. On the basis of these checks, the other growth rates were found to be reasonable.

13.19 The Authority observed that AAI considered a growth rate of 20% in FY 2023 for repairs and maintenance expenses and power charges. This was twice the growth rate assumed up to FY 2022. AAI submitted that a new terminal building (T3) has been planned and is expected to be in operation by FY 2023. Therefore, to accommodate for increased expenses, AAI assumed a growth rate of 20% for FY 2023. The Authority however noted the provisions of Defect Liability Period to be applicable for the initial period since the commencement of operations of T3. Further as the Authority proposed to shift the capitalization of this new building by one year, the corresponding growth rates in expenses are also proposed to grow as per the previous years.

13.20 For other outflows, i.e., collection charges on UDF, AAI considered the growth rate assumed for ATM traffic. The Authority found the same to be a reasonable driver of expense. Therefore, the Authority proposed to change the same in accordance with its proposal of ATM growth rate.

13.21 Based on above considerations, the Authority proposed the following growth rates in operation and maintenance expenses.

Table 42: Growth rates in O&M expenses considered by the Authority - Consultation Paper

Particulars	**Pre control regulatory period**		**Control period**				
	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
Payroll expenses - non CHQ/RHQ			17%	5%	5%	5%	5%
Payroll expenses - CHQ/RHQ			14%	5%	5%	5%	5%
Administration and General expenses - non CHQ/RHQ			6%	6%	7%	7%	7%
Administration and General expenses - CHQ/RHQ			5%	5%	5%	5%	5%
Repairs and maintenance			10%	10%	10%	10%	10%
Utilities and outsourcing expenses			0%	2%	2%	2%	2%
Other outflows - Collection Charges on UDF			16%	16%	16%	16%	16%
Total			**9%**	**6%**	**6%**	**6%**	**6%**

13.22 After incorporating the above observations by the Authority, the Authority had proposed to revise the O&M expenses as per the table below.

Table 43: Operation and maintenance (O&M) expenses as revised by the Authority - Consultation Paper

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Payroll expenses - non CHQ/RHQ	11.65	15.02	17.59	18.49	19.41	20.38	21.40
Payroll expenses - CHQ/RHQ	2.60	2.73	3.11	3.26	3.43	3.60	3.78
Administration and General expenses - non CHQ/RHQ	2.19	4.21	4.47	4.76	5.08	5.43	5.82
Administration and General expenses - CHQ/RHQ	25.64	26.92	28.26	29.68	31.16	32.72	34.35
Repairs and maintenance	5.88	8.51	9.36	10.29	11.32	12.45	13.70
Utilities and outsourcing expenses	4.71	5.12	5.11	5.20	5.29	5.39	5.50
Other outflows - Collection Charges on UDF	0.11	0.31	0.36	0.41	0.48	0.55	0.64
Total	**52.77**	**62.81**	**68.25**	**72.09**	**76.16**	**80.52**	**85.19**

13.23 During consultation with the stakeholders, the Authority acknowledged that the new solar power plant proposed at the airport will be used for AAI's internal consumption of electricity. This would lead to a reduced electricity bill. However, this reduced electricity expense was not factored up till the consultation stage. Therefore, the Authority requested from AAI a detailed revised computation of estimated electricity cost, after taking into consideration the electricity production and consumption from the proposed solar power plant.

13.24 AAI submitted the revised electricity cost computations. However, there were a number of calculation errors in the computations provided by AAI. Pointing out the calculation errors, the Authority subsequently requested a further revised computation. This computation, as proposed by AAI and accepted by the Authority, is provided below.

Table 44: Revised electricity expense after considering proposed solar power plant

Sl. No.	Particulars	Units	FY 2019 (2018-19)	FY 2020 (2019-20)	FY 2021 (2020-21)	FY 2022 (2021-22)	FY 2023 (2022-23)
a	Capacity of solar plant	MW	4	4	4	4	4
b	Annual electricity production (and consumption) planned by AAI from solar plant	kWh lakh	51.26	51.26	51.26	51.26	51.26

Sl. No.	Particulars	Units	FY 2019 (2018-19)	FY 2020 (2019-20)	FY 2021 (2020-21)	FY 2022 (2021-22)	FY 2023 (2022-23)
c	Electricity requirement	kWh	70.40	70.40	70.40	70.40	70.40
d	Electricity to be purchased (c-b)	kWh	19.14	19.14	19.14	19.14	19.14
e	Unit cost of electricity purchased	INR per kWh	6.22	6.22	6.22	6.22	6.22
f	**Total electricity cost**	**INR crores**	**1.19**	**1.19**	**1.19**	**1.19**	**1.19**
g	**Aeronautical portion of total electricity cost**	**INR crores**	**1.18**	**1.18**	**1.18**	**1.18**	**1.18**

Stakeholder comments

13.25 **Airports Authority of India (AAI):**

AAI has proposed 5% increase in payroll expenses for FY2018-19 to FY2022-23 in the MYTP, whereas the projection has to be 7%. The Authority is requested to consider 7% as has been considered in other airports.

13.26 **Federation of Indian Airlines (FIA):**

Without considering past trends, productivity improvements and cost drivers, the Authority has accepted the operating expenditure submitted by AAI on an "as is" basis, which was forecasted on very broad basis. Basis of allocation of operating expenditure has not been mentioned by the Authority

Operation and maintenance (O&M) expenditure as revised by the Authority

Table [illegible] Page [illegible] of CP No. [illegible]

INR crores

Particulars	Pre control regulatory period FY17	FY18	Control period FY19	FY20	FY21	FY22	FY23	Total	Cost per passenger (INR)	% of total	Basis of projection for first control period	YoY FY18	FY19	FY20	FY21	FY22	FY23
Payroll expenses - non CHQ/RHQ	11.65	15.02	17.59	18.47	19.41	20.38	21.40	97.27	36.8[illegible]	25%	[illegible] the implementation of [illegible] pay commission for non-executive grade overall growth of 17% has been assumed for FY19. For balance period 5% has been proposed	29%	17%	5%	5%	5%	5%
Payroll expenses - CHQ/RHQ	2.6[illegible]	2.73	3.1[illegible]	3.26	3.43	3.6[illegible]	3.78	17.[illegible]3	5.50	[illegible]	5% increase YoY	5%	[illegible]	5%	5%	5%	5%
Administration and General expenses - non CHQ-RHQ	2.19	[illegible]	[illegible]	4.76	5.09	5.4[illegible]	5.82	25.5[illegible]	9.67	7%	7% increase YoY from FY18 onwards	92%	[illegible]	7%	7%	7%	7%
Administration and General expenses - CHQ/RHQ	25.64	26.92	[illegible]	29.68	31.[illegible]	32.72	34.35	[illegible]	59.08	[illegible]	5% increase YoY	5%	5%	5%	5%	5%	5%
Repairs and maintenance	[illegible]	8.51	[illegible]	[illegible]	[illegible]	12.45	13.7[illegible]	[illegible]	21.6[illegible]	15%	10% increase YoY	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Utilities and outsourcing expenses	4.71	5.12	[illegible]	[illegible]	[illegible]	5.39	5.50	26.43	10.02	7%	2% increase YoY from FY19 onward	[illegible]	2%	2%	2%	2%	2%
Other outflows - Collection charges on PSF	[illegible]	[illegible]	0.36	0.41	0.48	0.55	0.64	[illegible]	0.92	1%	15% increase YoY	[illegible]	16%	16%	16%	16%	16%
Total	52.77	62.01	68.75	72.09	76.16	80.52	85.19	382.21	144.60	100%		-19%	9%	6%	6%	6%	6%

Issue 1: Reasonableness of operating expenditure:

FIA submits that the operating expenditure is one of the major component for determining ARR (56% of ARR), hence, the Authority should have evaluated these expenses in detail rather than accepting projections and basis provided by AAI on an "as is" basis. The Authority should have scrutinized the expenses in detail instead of leaving it for true-up in the next control period.

As per clause 5.4.2 of AERA Guidelines, while reviewing forecast of operating expenditure the Authority has to assess (a) baseline operation and maintenance expenditure based on review of actual expenditure indicated in last audited accounts and check for underlying factors impacting variance over the preceding year; and (b) efficiency improvement with respect to such costs based on review of factors such as trends in operating costs, productivity improvements, cost drivers as may be identified, and other factors as maybe considered appropriate.

Accordingly, FIA submits that keeping in view the approach of the Authority, it is submitted that in order to assess efficient operating expenditure the Authority should have conducted independent analysis in accordance with AERA Guidelines.

FIA submits that the BBI Airport has already completed a significant period of operations, hence benchmarking the costs would not be difficult for the Authority. Therefore, rather than truing up, price cap should be mandated by the Authority for each of the operating expenditures depending on the evaluation of past trends, cost drivers, productivity movements, future expansions otherwise the airport operator would not make palpable efforts to contain the costs. This would lead to additional burden on the passengers for the next control period.

Issue 2: Bifurcation of expenditure into aeronautical & non-aeronautical:

FIA submits that as per Proposal 9 of the Consultation Paper, the Authority has proposed the allocation of aeronautical and non-aeronautical expenses in the following ratios:

Allocation of O&M expenses as per the Authority

Table #31 on Page 37 of CP No. 24/2018-19

Particulars	Aeronautical	Non-aeronautical	Basis provided
Payroll expenses - non CHQ/RHQ	94.25%	5.75%	Employee ratio
Payroll expenses - CHQ/RHQ	95%	5%	Employee ratio
Administration and General expenses - non CHQ/RHQ	96.20%	3.80%	Not provided
Administration and General expenses - CHQ/RHQ	95%	5%	Not provided
Repairs and maintenance	97.50%	2.50%	Not provided
Utilities and outsourcing expenses	99%	1%	Not provided
Other outflows - Collection Charges on PSF	100%	0%	Not provided

FIA submits that apart from payroll expense ratio, other ratios have been accepted without conducting an independent analysis for the expenses in the first control period, Also, we noted as per Para 12.1.12, certain expenditures have been considered tentative, no data is available by virtue of which Authority ought to have done proper analysis. Accordingly, the Authority ought to have sought the information for the purpose of computing the ratios. Hence, FIA submits that the present ratios does not have any basis and is tentative, which depicts a very lenient approach of the Authority.

FIA submits that the allocation of the operating expenditure between aeronautical or non-aeronautical categories is critical under shared till approach. However, till the time study is conducted, FIA would like to highlight aero allocation ratio proposed as per CP 5/2014-15 of Normative approach of 80% should be used, hence it is submitted that aero expenditure should be considered at 80% for the first control period.

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.

AAI's reply to stakeholder comments

13.27 Regarding allocation of expenses: The actual usage/space allocation ratio of Aero/Non aero of Terminal Buildings T1 and T2 are as under:

T1: 92.20(Aero):7.80(Non-Aero)

T2: 93.02(Aero):6.98(Non Aero)

Even the new proposed Link Building would have ratio of 94(Aero):6(Non-Aero).

The Authority is requested to consider the ratio 95:5 as Aero/Non-Aero as proposed by AAI in MYTP.

Authority's examination of stakeholders comments and AAI's submission to stakeholders comments

13.28 **Authority's examination of comments by AAI:**

Because the Authority had considered a rate of 7% growth rate for payroll expenses at other AAI operated airports as well, the Authority decides to accept AAI's suggestion.

13.29 **Authority's examination of comments by FIA:**

The Authority has carefully examined the comments made by FIA for operation and maintenance expenses. FIA has raised two issues. Authority's examination of these is discussed below.

13.29.1 **Issue 1 - Reasonableness of expenses:**

FIA has suggested a separate independent study for determination of efficient operating and maintenance expenses. In this regard, the Authority would like to state that it carefully examines the requirement of an independent study vis-à-vis its own diligence based on size, scale, complexity, and involvement of multiple agencies in provision of airport services / operations. Having carefully examined the proposals submitted by AAI and sought necessary clarifications from it, the Authority has proceeded with its own diligence.

13.29.2 **Issue 2 – Allocation of expenses:**

FIA has commented that other than payroll expenses, the allocation of any other expense has not been discussed in the consultation paper, thereby implying that the allocation has been done without any basis. However, the Authority undertook a careful assessment of allocation for all expenses. These are discussed below:

- **Administration and general expenses:**
    - First, the Authority compared the allocation of these expenses with other AAI airports. Refer Para 12.10 of the consultation paper. Comparing with similarly placed other AAI airports, allocation of administration and general expenses was proposed at 96%.

- Second, the Authority examined the Trial Balance provided by AAI for these expenses. The Authority observed that all common expenses were allocated on an actual basis, or through an appropriate ratio. For example, common office expenses pertaining to administrative block were allocated in integrated office building ratio of 10:72. Similarly, upkeep expenses were assessed on an individual basis and allocated as per actual use derived out of such expenses. On an overall basis, 8% of upkeep expenses were allocated to non-aeronautical, mostly based on terminal area ratio.

- **Repairs and maintenance expenses:**

    - First, the Authority compared the allocation of these expenses with other AAI airports. Refer Para 12.10 of the consultation paper. Comparing with similarly placed other AAI airports, allocation of repairs and maintenance expenses was proposed at 97.5%.

    - Other than this, the Authority assessed the Trial Balance provided by AAI for repairs and maintenance expenses. Individual items were checked for the appropriateness of their allocation. For example, repairs and maintenance expenses pertaining to terminal building were allocated as per terminal area ratio. Expenses pertaining to residential quarters were allocated as per quarter ratio. Expenses at completely aeronautical places were not allocated.

- **Utilities and outsourcing expenses:**

    - AAI initially proposed an allocation of these expenses as 100% aeronautical. In absence of data regarding consumption of units at exact places of the airport and comparing with similarly placed other AAI airports, the Authority proposed to consider 99% aeronautical.

- **Other outflows:**

    - These expenses pertain to charges paid by AAI to airline operators for collecting UDF from passengers. These are purely aeronautical expenses and hence no allocation is needed.

FIA has further suggested a ballpark ratio of 80% for allocation of expenses. In the absence of any reasonable justification to do so, the Authority decides to not consider this suggestion.

FIA has also suggested that the Authority should conduct an independent study to determine allocation of expenses. In this regard, the Authority does not see the need to conduct an independent study for BBI Airport.

Due to above reasons, the Authority decides to not change the allocation ratios of operating and maintenance expenses.

13.30 Based on the change in growth rate of payroll expenses from 5% during consultation stage to 7%, and the change in electricity cost due to consumption of captive power, the Authority computed the O&M expenses for the first control period. These are presented in the two tables below.

Table 45: O&M expenses' growth rates as considered by the Authority - Final

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Payroll expenses - non CHQ/RHQ			19%	7%	7%	7%	7%
Payroll expenses - CHQ/RHQ			15%	7%	7%	7%	7%
Administration and General expenses - non CHQ/RHQ			6%	6%	7%	7%	7%
Administration and General expenses - CHQ/RHQ			5%	5%	5%	5%	5%
Repairs and maintenance			10%	10%	10%	10%	10%
Utilities and outsourcing expenses			-61%	4%	4%	5%	5%
Other outflows - Collection Charges on UDF			16%	16%	16%	16%	16%
Total			**4%**	**7%**	**7%**	**7%**	**7%**

Table 46: Operation and maintenance (O&M) expenses considered by the Authority - Final

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Payroll expenses - non CHQ/RHQ	11.65	15.02	17.80	19.07	20.41	21.83	23.36
Payroll expenses - CHQ/RHQ	2.60	2.73	3.15	3.37	3.60	3.86	4.13
Administration and General expenses - non CHQ/RHQ	2.19	4.21	4.47	4.76	5.08	5.43	5.82

Administration and General expenses - CHQ/RHQ	25.64	26.92	28.26	29.68	31.16	32.72	34.35
Repairs and maintenance	5.88	8.51	9.36	10.29	11.32	12.45	13.70
Utilities and outsourcing expenses	4.71	5.12	2.01	2.10	2.19	2.29	2.40
Other outflows - Collection Charges on UDF	0.11	0.31	0.36	0.41	0.48	0.55	0.64
Total	**52.77**	**62.81**	**65.41**	**69.68**	**74.24**	**79.13**	**84.40**

Decision No. 11: Regarding Operating and Maintenance expenses

11.a. The Authority decides to consider O&M expenses as per Table 46.

14. Taxation

14.1 To compute depreciation for tax purposes, AAI considered the depreciation rates in accordance with the following table:

Table 47: Depreciation rates for tax purposes as per AAI

Asset category	IT Depreciation rate - up to FY 18	IT Depreciation rate - from FY 19
Freehold Land	0%	0%
Runways, Aprons and Taxiways	15%	15%
Road, Bridges & Culverts	10%	10%
Building – Terminal	10%	10%
Building – Residential	5%	5%
Boundary Wall – Operational	15%	10%
Boundary Wall – Residential	5%	5%
Other Buildings	10%	10%
Computer - End user	60%	40%
Computer - Servers and networks	60%	40%
Intangible Assets – Software	60%	40%
Plant & Machinery	15%	15%
Tools & Equipment	15%	15%
Office Furniture	10%	10%
Furniture & Fixtures: Other Than Trolley	10%	10%
Furniture & Fixtures: Trolley	10%	10%
Vehicles	15%	15%
Electrical Installations	10%	10%
Other Office Equipment	10%	10%
X Ray Baggage System	15%	15%
CFT/Fire Fighting Equipment	15%	15%

14.2 The tax calculation as submitted by AAI has been presented in the table below:

Table 48: Taxation as per AAI

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Aero revenue with revised rates	27.17	36.83	72.10	119.31	140.42	165.51	184.49
O&M expenses	-53.08	-62.95	-68.33	-72.15	-76.22	-80.56	-87.27
Depreciation	-10.80	-11.07	-14.64	-19.64	-29.10	-81.71	-125.72
Profit before tax	-36.71	-37.20	-10.86	27.53	35.11	3.24	-28.51
Tax rate (%)	34.068	34.068	34.944	34.944	34.944	34.944	34.944
Taxes	-	-	-	**9.62**	**12.27**	**1.13**	-

Authority's Examination at Consultation Stage:

14.3 The Authority observed that AAI had proposed 01/10/2018 as the implementation date of the new tariffs. The Authority proposes to revise the same to 01/01/2019. This had an impact on the projected aeronautical revenues, leading to difference in tax computation. After consultation process, the Authority has decided to further revise this date to 01/04/2019.

14.4 The Authority examined the depreciation rates considered by AAI and compared them with the rates prescribed in the Income Tax Act, 1961. The Authority observed that in case of two categories of assets, the depreciation rates proposed by AAI were not in line with the Income Tax Act. These have been presented in the table below.

Table 49: Difference in depreciation rates for tax purposes

Asset category	Up to FY 2018		Beyond FY 2018	
	Rate used by AAI	**Rate as per Income Tax Act**	**Rate used by AAI**	**Rate as per Income Tax Act**
Runways, aprons and taxiways	15%	10%	15%	10%
Boundary wall-operational	15%	10%	10%	10%

14.5 The Authority observed that the tax treatment of losses by AAI is not appropriate. AAI did not consider carry-forward of losses and their set –off in subsequent years of profit. In the period between FY 2016-17 and FY 2017-18, existing airport charges were levied. Further, in the first year of the control period, i.e. FY 2018-19, existing charges are being levied until the implementation of revised charges. The Authority observed that the existing charges led to aeronautical losses in these years. In its computation of tax expenses, AAI did not consider the benefit of these losses on taxable aeronautical profits of subsequent years, leading to increase in overall projected tax expenses. The Authority proposed to consider the carry forward and set-off of these losses.

14.6 The Authority observed that the tax rate considered by AAI for FY 2017 and FY 2018 was not correct. AAI used 34.068%. However, the correct tax rate would be 34.608% (30% plus 12% surcharge plus 3% cess). The Authority found the tax rate for FY 2019 and beyond to be correct. (30% plus 12% surcharge plus 4% cess).

14.7 The Authority observed that for FY 2017, the aeronautical revenues considered for computation of taxes did not include income from extension of watch hours. These amounted to INR 4.22 lakh. The Authority proposed to consider the same.

14.8 The Authority proposed to consider the O&M expenses in accordance with Table 43 for computation of tax expense.

14.9 The Authority proposed to consider the capital expenditures for computation of depreciation in accordance with Table 15.

14.10 The projected aeronautical revenues for the control period are based on the charges proposed by AAI as part of its initial submission of Multi-Year Tariff Proposal.

14.11 After considering the above, the Authority had proposed the following tax expense during the 1st control period.

Table 50: Tax expense as per Authority – Consultation Paper (figures in INR Crores, except those in %)

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Aero revenue with revised rates	27.21	36.83	57.74	119.47	140.61	165.74	195.71
O&M expenses	-52.77	-62.81	-68.25	-72.09	-76.16	-80.52	-85.19
Depreciation	-10.50	-10.59	-14.26	-19.37	-26.83	-31.13	-73.99
Profit before tax	**-36.06**	**-36.57**	**-24.77**	**28.02**	**37.61**	**54.09**	**36.53**
Set-off of loss	-	-	-	28.02	37.61	31.77	-
Profit before tax after set-off of loss	**-36.06**	**-36.57**	**-24.77**	**-**	**-**	**22.32**	**36.53**
Tax rate (%)	34.61%	34.61%	34.94%	34.94%	34.94%	34.94%	34.94%
Taxes	**-**	**-**	**-**	**-**	**-**	**7.80**	**12.77**

Stakeholder comments

14.12 **Airports Authority of India (AAI):**

As AAI is not filing tax return on standalone basis, the Authority is requested not to carry forward and set off the losses.

14.13 **Federation of Indian Airlines (FIA):**

Carry forward of losses prior to FY17 should be allowed to be set-off from future profits

FIA submits that as per Proposal 10 of CP, Authority has considered carry forward of losses for prior 2 years i.e. FY17 & FY18 only and setoff the carried forward losses in 3 years (INR 28.02 crores in FY20, INR 37.61 crores in FY21, INR 31.77 crores in FY22).

FIA submits that as per AERA Guidelines Para 5.5.1 which states "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 guidelines are clear that tax payments under Income Tax Act, 1961 will be considered for calculation of target revenue.

FIA submits that Para 5.5.2 of AERA Guidelines states "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". However as per proviso to sub-section (ii) Section 72 of Income Tax Act, 1961,"if the loss cannot be wholly so set off, the amount of loss not so set off shall, in case the business so re-established, reconstructed or revived continues to be carried on by the assese, be carried forward to the following assessment year and so on for seven assessment years immediately succeeding". Hence, business losses can be carried forward for 8 years and can be set off with profits in future years. Hence, the actual tax paid by the Company in control period shall be lower due to the set off of carry forward of losses prior to FY17.

FIA submits that losses for periods prior to FY17 (if any) that are allowed to carry forward as per Income Tax Act, 1961 should be considered while computing taxation in the first control period rather than leaving it for true up in the second control period. Also, the actual payment of income taxes should be considered for true up purposes.

AAI's reply to stakeholder comments

14.14 Regarding carry forward and set-off of losses, the Authority has shifted the control period from F.Y.2018-19 to F.Y 2022-23. The carry forward of losses is applicable during the control period and not prior period.

Authority's examination of stakeholders comments and AAI's submission to stakeholders comments

14.15 **Authority's examination of comments by AAI:**

The Authority has noted the comments made by AAI regarding taxes. AAI has suggested that no carry forward and set-off of aeronautical losses should be done while computing tax expense. The Authority has examined the matter in depth. The Authority's reasoning for considering the carry forward and set-off of aeronautical losses is briefly discussed below.

- AAI operates more than 100 airports. Some of these airports are profitable, while others are not. As a whole, AAI is profitable and pays corporate tax every year.

- Specific to Bhubaneswar, the airport has been making losses up to FY 2017-18. After being categorized as a major airport, it has come under the ambit of the Authority for tariff determination.

- The Authority has considered BBI Airport on standalone basis, as it has done for other AAI airports as well. Treatment on standalone basis for computation of aeronautical taxes as a building block for determination of ARR means computing tax based on levels of profitability of these airports individually and not getting clouded by levels of profitability at the corporate or group level.

- For AAI airports that are profitable and under the ambit of the Authority for tariff determination purposes, the Authority computes aeronautical taxes as a building block on the basis of their levels of profits without any consideration to levels of profits (losses) at other AAI airports.

- Similarly for AAI airports that are making losses and under the ambit of the Authority for tariff determination purposes, the Authority computes aeronautical taxes as a building block on the basis of their levels of losses without any consideration to levels of profits (losses) at other AAI airports.

- Following the suggestion from AAI to not consider these losses will lead to an enhanced ARR for such loss making airports, leading to a double benefit to AAI, which is not logical, and is unjust to the users of the airport.

Due to above reasons, the Authority has decided to consider the carry forward and set-off of losses.

14.16 **Authority's examination of comments by FIA:**

The Authority has carefully examined the comments made by FIA regarding tax expense. FIA has suggested that aeronautical losses from earlier years (before FY 2016-17) should be considered for carry forward and set off from aeronautical profits during the control period.

The Authority does not agree with this view presented by FIA. Before FY 2016-17, the airport was not under the regulatory ambit of the Authority. Therefore, the Authority does not intend to compute the regulatory building blocks for years prior to FY 2016-17.

14.17 The Authority separately verified the depreciation rate for solar power plant for tax purposes. This was found to be 40%. Therefore, the

Authority decides to change this rate to 40% instead of 10% considered during the consultation stage.

14.18 Based on the revised components of aeronautical income, the Authority computed the tax expense. This has been presented in the table below.

Table 51: Tax expense considered by the Authority - Final (figures in INR crores)

Particulars	Pre control regulatory period		Control period				
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Aero revenue with revised rates	27.2	37.3	45.5	143.6	172.8	208.0	250.8
O&M expenses	-52.8	-62.8	-65.4	-69.7	-74.2	-79.1	-84.4
Depreciation	-10.5	-10.6	-14.3	-23.5	-32.7	-33.2	-67.2
Profit before tax	**-36.1**	**-36.1**	**-34.1**	**50.4**	**65.8**	**95.7**	**99.2**
Set-off of loss	0.0	0.0	0.0	50.4	55.9	0.0	0.0
Profit before tax after set-off of loss	**-36.1**	**-36.1**	**-34.1**	**0.0**	**9.9**	**95.7**	**99.2**
Tax rate (%)	34.61%	34.61%	34.94 %	34.94 %	34.94 %	34.94 %	34.94 %
Taxes	**0.0**	**0.0**	**0.0**	**0.0**	**3.5**	**33.4**	**34.6**

Decision No. 12: Regarding taxation expense

12.a. The Authority decides to consider the tax expense as per Table 51.

15. True-up

15.1 As explained in Chapter 3 of this Order, the Authority considered the Aggregate Revenue Requirement, or ARR, for the first two years, i.e. FY 2016-17 and FY 2017-18. This ARR would be compared with the actual aeronautical revenues earned by AAI. Any shortfall (or surplus) would be added (true-up) to the ARR for the five-year control period.

15.2 AAI submitted a computation of true-up based on actual figures of FY 2016-17 and FY 2017-18.

15.3 The shortfall has been compounded up to 1st April, 2019. The true-up computation proposed by AAI has been presented in the table below.

Table 52: True up calculation as per AAI (Figures in INR crores)

Particulars	FY 2017	FY 2018	FY 2019
ARR	70.37	79.87	
Actual aero revenues	27.21	36.83	
Shortfall	**43.16**	**43.04**	
Future value factor at 14%	1.30	1.14	
Future value of shortfall at 14%			**105.16**

Authority's Examination at Consultation Stage:

15.4 The Authority proposed to revise the above computation on the basis of its proposals of various regulatory building blocks discussed in this paper. Accordingly, the Authority's computation of true-up is presented in the table below.

Table 53: True up calculation as per the Authority – Consultation Paper (Figures in INR crores)

Particulars	FY 2017	FY 2018	FY 2019
ARR	71.35	80.69	
Actual aero revenues	27.21	36.83	
Shortfall	**44.14**	**43.87**	
Future value factor at 14%	1.30	1.14	
Future value of shortfall at 14%			**107.37**

15.5 Based on the material before it and the analysis, the Authority had proposed to consider the true up computation as per Table 53.

15.6 After considering the changes in aeronautical revenues (refer Chapter 18), the Authority changed the true up computation, as presented in the table below.

Table 54: True up calculation as per the Authority – Consultation Paper (Figures in INR crores)

Particulars	FY 2017	FY 2018	FY 2019

ARR	71.35	80.69	
Actual aero revenues	28.40	38.01	
Shortfall	**42.95**	**42.68**	
Future value factor at 14%	1.30	1.14	
Future value of shortfall at 14%			**104.47**

15.7 The Authority did not receive any comments regarding computation of True-up. During the consultation, the Authority noticed that the cargo operations were with AAI for FY 2016-17 before being handed over to AAICLAS from FY 2017-18 onwards. The Authority has accordingly included the ARR and revenue from cargo operations in its calculation of True-up for FY 2016-17 and outlined its approach in 17.11.5. Therefore, after revising the regulatory building blocks after consultation with stakeholders as per the separate chapters discussed in this Order, the Authority has decided the following true-up, as presented in the table below.

Table 55: True up calculation as per the Authority – Final (Figures in INR crores)

Particulars	FY 2017	FY 2018	FY 2019
ARR	72.03	80.69	
Actual aero revenues	28.41	37.30	
Shortfall	**43.63**	**43.39**	
Future value factor at 14%			
Future value of shortfall at 14%			**106.17**

Decision No. 13: Regarding true-up

13.a. The Authority decides to consider the true up calculations as per Table 55.

16. Aggregate Revenue Requirement for the 1st control period

16.1 AAI has submitted Aggregate Revenue Requirement (ARR) and yield per passenger (Y) for the 1st control period as per the regulatory building blocks discussed.

16.2 All cash flows are assumed to occur at the end of the year. Further, all cash flows are discounted to 1st April, 2019.

16.3 The summary of ARR and Yield has been presented in the table below.

Table 56: ARR and Yield as per AAI – Consultation Paper

Particulars	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Average RAB (INR crores)	131.73	175.25	255.48	768.68	1229.89
Fair Rate of Return	14%	14%	14%	14%	14%
Return on average RAB (INR crores)	18.44	24.54	35.77	107.61	172.19
O&M expenses (INR crores)	68.33	72.15	76.22	80.56	87.27
Depreciation (INR crores)	13.91	17.54	21.92	39.94	54.60
Tax expense (INR crores)	-	9.62	12.27	1.13	0.00
Less: 30% NAR (INR crores)	-7.42	-8.18	-8.95	-9.80	-11.49
ARR per year (INR crores)	**93.25**	**115.66**	**137.22**	**219.45**	**302.56**
Add: True up	105.16				
PV of ARR based @14% (INR crores)	198.41	101.46	105.58	148.12	179.14
Total present value of ARR (INR cr.)	732.72				
Total traffic	26,043,862				
Yield per passenger (Y) (INR)	**281.34**				

Authority's Examination:

16.4 The Authority decides to consider the average RAB in accordance with Table 29.

16.5 The Authority decides to consider the FRoR at 14%.

16.6 The Authority decides to consider the O&M expenses as per Table 46.

16.7 The Authority decides to consider the depreciation expense as per Table 26.

16.8 The Authority decides to consider the tax expense as per Table 51.

16.9 The Authority decides to consider the non-aeronautical revenue as per Table 35.

16.10 The Authority decides to consider the total traffic in accordance with Table 7.

16.11 The Authority did not receive any comments regarding computation of ARR. Therefore, after revising the regulatory building blocks after consultation with stakeholders as per the separate chapters discussed in this Order, the Authority has decided the following ARR and Yield, as presented in the table below.

Table 57: ARR and Yield as per Authority – Final

Particulars	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Average RAB (INR crores)	129.15	168.41	239.31	288.64	649.81
Fair Rate of Return	14%	14%	14%	14%	14%
Return on average RAB (INR crores)	18.08	23.58	33.50	40.41	90.97
O&M expenses (INR crores)	65.41	69.68	74.24	79.13	84.40
Depreciation (INR crores)	13.85	16.03	19.73	22.26	41.67
Tax expense (INR crores)	0.00	0.00	3.46	33.43	34.65
Less: 30% NAR (INR crores)	-10.99	-11.99	-13.04	-14.20	-15.60
ARR per year (INR crores)	**86.35**	**97.30**	**117.90**	**161.03**	**236.08**
Add: True up	106.17				
PV of ARR based @14% (INR crores)	86.35	85.35	90.72	108.69	139.78
Total present value of ARR (INR cr.)	**617.06**				
Total traffic	31,226,363				
Yield per passenger (Y) (INR)	**197.61**				

16.12 It is to be noted that the above yield is based on total passengers expected at the airport, i.e., departing as well as arriving. The yield per departing passenger in similar terms would be twice of this yield as per the above table, i.e. INR 395.

Decision No. 14: Regarding Aggregate Revenue Requirement

14.a. The Authority decides to consider the ARR and Yield for the 1st control period in accordance with Table 57.

17. Annual Tariff Proposal

17.1 As part of the Multi-year Tariff proposal, AAI submitted a tariff card for all five years of the first control period. This tariff card has been reproduced in this chapter. The Authority examined AAI's Multi-year Tariff Proposal, along with all regulatory building blocks. The Authority's examination has been discussed in this Order in the previous chapters. AAI has not revised the tariff card after Authority's examination.

17.2 AAI has proposed the implementation date of new tariffs from 01/10/2018. The Authority has proposed to revise the implementation date to 01/01/2019. After consultation with stakeholders, the Authority has further revised this date to **01/04/2019.**

17.3 The tariff card proposed for the first control period has been reproduced here. For purposes of comparison, the existing aeronautical charges have been provided along with each charge.

I) LANDING CHARGES

Table 58: Landing charges proposed for the first control period

Weight of the Aircraft	Domestic rate per landing (INR)	International rate per landing (INR)
Up to 25 MT	160 Per MT	240 Per MT
Above 25 MT up to 50 MT	4,000+280 per MT in excess of 25 MT	6,000+450 per MT in excess of 25 MT
Above 50 MT up to 100	11,000+320 per MT in excess of 50 MT	17,250+520 per MT in excess of 50 MT
Above 100 MT to 200 MT	27,000+390 per MT in excess of 100 MT	43,250+600 per MT in excess of 100 MT
Above 200 MT	66,000+440 per MT in excess of 200 MT	1,03,250+720 per MT in excess of 200 MT

Table 59: Existing landing charges

Weight of Aircraft	Domestic flights	International flights
Up to 10 MT	INR 67.10 per MT	INR 141 per MT
Above 10 MT up to 20 MT	INR 671 plus INR 117.70 per MT in excess of 10 MT	INR 1,410 plus INR 207.10 per MT in excess of 10 MT
Above 20 MT up to 50 MT	INR 1,848 plus INR 231 per MT in excess of 20 MT	INR 3,481 plus INR 409.10 per MT in excess of 20 MT
Above 50 MT up to 100 MT	NA	INR 15,754 plus INR 477.80 per MT in excess of 50 MT
Over 100 MT	NA	INR 39,644 plus INR 545.10 per MT in excess of 100 MT

17.3.1 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 schedule operators at airport, b) helicopters of all types, and c) DGCA approved Flying school/flying training institute aircrafts.

17.3.2 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.

17.3.3 Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg).

17.3.4 Flights operating under Regional connectivity scheme will be completely exempted from Landing charges from the date of the scheme is operationalized by GOI.

II) PARKING AND HOUSING CHARGES

Table 60: Parking and housing charges proposed for the first control period

Weight of the Aircraft	Parking Charges Rates per Hour (in INR)	Housing Charges Rates per Hour (in INR)
Up to 25 MT	3.00 Per Hour Per MT	6.00 Per Hour Per MT
Above 25 MT up to 50 MT	75.00+4.00 per Hour per MT in excess of 25 MT	150.00+8.00 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	175.00+8.00 per MT per Hour in excess of 50 MT	350.00+16.00 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	575.00+10.00 per MT per Hours in excess of 100 MT	1150.00+20.00 per MT per Hours in excess of 100 MT
Above 200 MT	1575.00+11.00 per MT per Hours in excess of 200 MT	3150.00+22.00 per MT per Hours in excess of 200 MT

Table 61: Existing parking, housing and night parking charges

Weight of Aircraft	Domestic flights	International flights
Housing charges:		
Up to 40 MT	INR 3.50 per hour per MT	INR 4.10 per hour per MT
Above 40 MT up to 100 MT	INR 140 plus INR 6.80 per hour per MT in excess of 40 MT	INR 164 plus INR 7.90 per hour per MT in excess of 40 MT
Above 100 MT	INR 548 plus INR 10.30 per hour per MT in excess of 100 MT	INR 638 plus INR 11.90 per hour per MT in excess of 100 MT
Parking charges:		
Up to 40 MT	INR 1.80 per hour per MT	INR 2.10 per hour per MT

Weight of Aircraft	Domestic flights	International flights
Above 40 MT up to 100 MT	INR 72 plus INR 3.40 per hour per MT in excess of 40 MT	INR 84 plus INR 3.90 per hour per MT in excess of 40 MT
Above 100 MT	INR 276 plus INR 5.20 per hour per MT in excess of 100 MT	INR 318 plus INR 6.00 per hour per MT in excess of 100 MT
Night parking charges (between 2200 hours and 0600 hours):		
Up to 40 MT	INR 0.90 per hour per MT	INR 1.10 per hour per MT
Above 40 MT up to 100 MT	INR 36 plus INR 1.70 per hour per MT in excess of 40 MT	INR 44 plus INR 2.00 per hour per MT in excess of 40 MT
Above 100 MT	INR 138 plus INR 2.60 per hour per MT in excess of 100 MT	INR 164 plus INR 3.00 per hour per MT in excess of 100 MT

17.3.5 No parking charges shall be levied for the first two hours. While calculating free parking period, standard time of 15 minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of taxing time of aircraft from parking stand to take off point. These periods shall be applicable for each aircraft irrespective of actual time taken in the movement of aircraft after landing and before take-off.

17.3.6 For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour.

17.3.7 Charges shall be calculated on the basis of nearest MT.

17.3.8 Charges for each period parking shall be rounded off to nearest rupee.

17.3.9 At the in-contact stands and open 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.

17.3.10 It is proposed to waive off the night parking charges in principle for all domestic scheduled operators at Bhubaneshwar Airport if the State Government has brought the rate of tax (VAT) on ATF $\leq$ 5%. The above waiver of night parking charges (between 2200 hrs. to 0600 hrs.) will be made applicable from the date of implementation of $\leq$ 5% tax on ATF by the State Govt. In the event of upward revision in the tax rate of ATF by the State Govt., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State.

17.3.11 Tariff for flights operating under Regional Connectivity Scheme will be governed by AIC issued on this subject by DGCA.

III) THROUGHPUT CHARGES

Proposed Rate Per KL (IN INR)
322.52

IV) PASSENGER SERVICE FEE (PSF) – FACILITATION/USER DEVELOPMENT FEES (UDF)

Passenger	Existing rate – PSF (FC) - INR per embarking passenger	Proposed rate – UDF - INR per embarking passenger
Domestic	77	400
International Passenger	89	450

Note:

- At consultation stage, the Authority had proposed a UDF of INR 350 for domestic passengers and INR 400 for international passengers. This was leading to a shortfall of INR 112 crores. Considering all changes made to the regulatory building blocks after stakeholder consultation stage, such UDF would have led to a shortfall of approximately INR 54 crores. The Authority acknowledges that such a shortfall is at a higher side, and must be brought down in the interests of the airport operator. With a revised UDF of INR 400 for domestic passengers and INR 450 for international passengers, the shortfall works out at INR 21.45 crores.

- PSF (FC) is proposed to be subsumed under UDF. PSF (SC) would be applicable as prescribed by the Ministry of Civil Aviation.

17.3.12 Collection charges: If the payment is made within 15 days of receipt of invoice then collection charges at INR 5 per departing passenger shall be paid by AAI. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days or in case of any part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any account with AAI. Wherever collection charges are payable the amount shall be settled within 15 days.

17.3.13 No collection charges are payable to casual operator/non-scheduled operators.

17.3.14 For conversion of UDF in foreign currency, the RBI reference conversion rate as on the last day of the previous month for tickets issued in the 1st fortnight and rate as on 15th of the month for tickets issued in the 2nd fortnight shall be adopted.

17.3.15 Revised UDF charges will be applicable on tickets issued on or after **01/04/2019.**.

V) EXEMPTION FROM LEVY AND COLLECTION FROM UDF AT THE AIRPORTS

The Ministry of Civil Aviation, Govt. of India vide order no. AV.16011/002/2008-AAI dated 30.11.2011 has directed AAI to exempt the following categories of persons from levy and collection of UDF.

17.3.16 Children (under age of 2 years),

17.3.17 Holders of Diplomatic Passport,

17.3.18 Airlines crew on duty including sky marshals & airline crew on board for the particular flight only (this would not include Dead Head Crew, or ground personnel),

17.3.19 Persons travelling on official duty on aircraft operated by Indian Armed Forces,

17.3.20 Persons traveling on official duty for United Nations Peace Keeping Missions,

17.3.21 Transit/transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hours. A passenger is treated in transit only if onward travel journey is within 24 hours from arrival into airport and is part of the same ticket. In case two separate tickets are issued, it would not be treated as transit passenger), and

17.3.22 Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions.

VI) GENERAL CONDITION:

All the above Charges are excluding GST. GST at the applicable rates are payable in addition to above charges.

Aeronautical revenue under the proposed tariff card:

17.3.23 The Authority observed that with the proposed tariff card, AAI will incur a shortfall of INR 112.92 crores. This has been further detailed below. The Authority proposed that any shortfall or surplus in aeronautical revenues for the 1st control period based on proposed tariffs by AAI to be considered while determining aeronautical tariffs for the 2nd control period.

Table 62: Computation of shortfall or surplus from proposed aeronautical charges (in INR crores) – Consultation Paper

Particulars	FY 2019 - up to 31/12/18	FY 2019 - from 01/01/19	FY 2020	FY 2021	FY 2022	FY 2023
Total PV of ARR including true up	611.40					
Landing charges:						
Domestic	14.16	6.18	29.57	35.37	42.30	50.59
International	0.75	0.32	1.78	2.50	3.50	4.92
Parking and housing charges:						
Domestic	0.09	0.06	0.31	0.37	0.44	0.52
International	0.00	0.00	0.01	0.02	0.02	0.03
Fuel Throughput charges	2.12	0.78	3.59	4.15	4.81	5.58
Ground handling charges	0.74	0.25	1.14	1.32	1.53	1.78
Land lease - Oil companies	1.07	0.36	1.54	1.66	1.78	1.91
Land lease - Ground Handling	0.08	0.03	0.11	0.12	0.13	0.14
CUTE charges	2.37	0.79	3.69	4.31	5.03	5.89
Total - before UDF	**21.39**	**8.76**	**41.74**	**49.81**	**59.56**	**71.37**
PV factor	1.00	1.00	0.88	0.77	0.67	0.59
PV of above	21.39	8.76	36.62	38.33	40.20	42.26
Σ PV of above	**187.55**					
Shortfall before UDF	**423.85**					
UDF:						
Domestic	10.58	16.03	74.39	86.29	100.09	116.11
International	0.36	0.62	3.34	4.51	6.09	8.23
PV of UDF	10.94	16.65	68.18	69.87	71.67	73.62
Σ PV of UDF	**310.93**					
Shortfall	**112.92**					

Authority's Examination at Consultation Stage:

17.4 The Authority had proposed to accept Annual Tariff Proposals as given in Section 17.3 for determination of tariff during 1st control period as the present value of proposed revenues by AAI was lower than the present value of ARR as per Authority. The Authority had proposed that any shortfall or surplus in revenues for the 1st control period based on proposed tariffs by AAI would be considered while determining aeronautical tariffs for the 2nd control period.

Stakeholder comments

17.5 **Federation of Indian Airlines (FIA):**

17.5.1 Authority has not discussed the means to recover shortfall in aeronautical revenue (18% of ARR). Shortfall stems from acceptance of AAI's submission in all building blocks leading to higher ARR. If shortfall is met through increase in tariffs, viability and affordability of the airport for airlines and passengers will be

ARR and Yield as per Authority

Table #41 on Page 45 of CP No. 24/2018-19 INR crores

S. No.	Particulars	FY19	FY20	FY21	FY22	FY23	Total	% of ARR
A	Average RAB	129.15	172.74	248.26	296.37	721.14		
B	Fair Rate of Return	14%	14%	14%	14%	14%		
C	Return on average RAB	18.08	24.18	34.76	41.49	100.96	219.47	32%
D	O&M expenses	68.25	72.09	76.16	80.57	85.19	382.21	56%
E	Depreciation	13.85	17.47	22.67	25.26	48.49	127.74	19%
F	Tax expense			-	7.80	12.77	20.57	3%
G	Subtotal [C+D+E+F]	100.18	113.74	133.59	155.07	247.41	749.99	110%
H	Less: 30% NAR	(10.94)	(11.91)	(12.91)	(14.02)	(15.35)	(65.12)	(10%)
I	Aggregate Revenue Requirement (ARR) [G+H]	89.24	101.84	120.68	141.05	232.08	684.87	100%
J	Add: True up	107.37						
K	PV of ARR based @14%	196.61	89.33	92.86	95.20	137.41	611.40	
L	PV of Aeronautical revenues	57.74	104.80	108.20	111.87	115.88	498.49	
M	Shortfall (L-K)	(138.87)	15.47	15.34	16.67	(21.53)	(112.91)	(18%)
N	Total traffic [in millions]	3.79	4.42	5.16	6.02	7.05	26.43	
O	Yield per passenger (Y) (INR) ((K/N)*10)	519.00	202.21	180.08	158.03	195.01	231.31	
P	Shortfall per passenger (Y) (INR) ((M/N)*10)	(366.58)	35.02	29.76	27.67	(30.55)	(42.72)	

hampered.

FIA submits that as per Proposal 12 of the CP, Authority has considered the ARR and its resultant shortfall of INR 112.91 crores. This shortfall represents 18% of the ARR (refer table below).
The Authority has not discussed or suggested the means to recover such a significant shortfall. FIA submits that if the shortfall of 18%, is met through increase in tariffs, viability and affordability of airport for airlines and passengers will be significantly hampered.

FIA further submits that the one of the key reasons of shortfall is acceptance of AAI's submission in all building blocks like higher RAB, higher FRoR, operating expenditure, and lower non-aero revenue. All such factors have led to a higher ARR. If the 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.

Also, FIA has noted that revenue from cargo operations and air navigation services have not been formed part of tariff proposal, which has led to an increase in shortfall during control period. FIA has conducted analysis on each of the building blocks in subsequent issues mentioned below.

FIA submits that the Authority should expressly comment about the measures to contain this shortfall by adjusting the current building blocks as it will impact the viability and affordability of BBI Airport vis.-a-vis. tariffs, for airlines and passengers.

17.5.2 Tariff card for 1st control period - increase in charges borne by airlines and UDF as proposed by BBI airport has been accepted by the Authority. Proposed percentage increase has not been mentioned in CP. Authority should consider 17.9% y-o-y growth rate for domestic passengers, other components of ARR to revaluate increase in charges.

FIA noted that the Authority has accepted the tariffs proposed by AAI. However, Authority has not mentioned the percentage increase in proposed tariff versus existing tariffs.

Further, the Authority has also proposed INR 350 as UDF per domestic and INR 400 per international embarking passenger, an increase of 133% from the existing rate of INR 150 per domestic passenger. In this regard, FIA submits that Authority should reduce the proposed rates of UDF, bearing in mind the YoY growth rate of 17.7% for domestic passengers while computing aeronautical tariffs.

Further, as per "Charges for airport services (major / non major airports) effective from 1 April 2017" as issued by AAI, it was noted that existing tariff rates at BBI Airport are based on the following slabs: (i) up to 40 MT, (ii) Above 40MT up to 100MT and (iii) Above 100MT. Since, weight slabs mentioned for existing charges as per AAI tariff card are different from the ones mentioned in Schedule of charges on Page 46-49 of the CP and no bridge has been provided between these slabs, FIA requests the Authority to substantiate the percentage increase for first control period over the existing tariff rates.

FIA submits that the Authority ought to confirm applicable tariff for CUTE charges. Further, the Authority should consider 17.9% YoY growth rate for domestic passengers while computing the said charges.

FIA also submits that to give due consideration to other issues highlighted by FIA in the present submission, while proposing a new tariff card in the Order.

17.5.3 FIA submits that Authority should consider the revenue from cargo services while determining tariff for first control period & propose a new tariff card accordingly.

17.6 Business Aircraft Operators Association (BAOA):

Authority's order may please elaborate the rationale behind authorising the amount of INR 322.52 as FTC, as to the service being provided by airport operator for levying charge and, how it has been calculated to be INR 322.52 per KL. Further, Authority may please provide for Airport Operator to levy the charge directly to the aircraft operator, uplifting ATF, rather than FTC being charged thorough the Fuel Supplier Company.

17.7 **Hindustan Petroleum Corporation Limited (HPCL):**

The Authority has proposed Throughput charges as INR 322.53 per KL. We shall abide by the decision taken by the Authority. However, any revision in Fuel Throughput Charges should be approved on prospective basis only.

AAI's reply to stakeholder comments

17.8 **AAI's reply to comments by FIA:**

17.8.1 Revenue from cargo operations cannot be the part of tariff proposal as the cargo operations have been hived off to AAICLAS, and air navigation services cannot be formed part of tariff proposal as the same is determined by MoCA.

17.8.2 AAI has proposed increase in Parking and Housing charges based on as average increase in parking/housing charges and same rate has been proposed for Domestic and International flights.

17.8.3 As per agreement with M/s SITA, the CUTE charges payable by M/s SITA are Rs.17.55 per passenger.

17.9 **AAI's reply to comments by BAOA:**

Throughput Charges are akin to royalty charges and as per agreement between the airport operator and the oil companies, these are services and come under GST.

17.10 **AAI's reply to comments by HPCL:**

AAI agrees with the comments of HPCL and accordingly the new rates will be made applicable from a prospective date by issuance of AIC.

Authority's examination of stakeholders comments and AAI's submission to stakeholders comments

17.11 **Authority's reply to comments by FIA:**

17.11.1 **Recovery of shortfall:** The Authority hereby clarifies that the shortfall will be carried forward to the second control period. The compounded value of this shortfall will be considered in computation of Aggregate Revenue Requirement for the 2nd control period.

17.11.2 **Comparison with existing tariff card:** The Authority acknowledges that a comparison with existing tariff card of

Bhubaneswar Airport was not provided in the Consultation Paper. Such a comparison has now been provided in this Order.

17.11.3 **Cargo revenues:** The Authority acknowledges that monies earned by AAI from AAICLAS for transfer of cargo business at Bhubaneswar Airport should be accounted for in this Order. The Authority accordingly asked AAI for agreement between AAICLAS and AAI for such details in terms of revenue share / other nature of payments to be made by AAICLAS to AAI in lieu of transfer of cargo business. AAI confirmed that the agreement is in progress, and as of now, there are no payments exchanged between the two entities. The Authority is of the view that an at-arms-length business transaction would involve monies to be paid by AAICLAS to AAI in lieu of transfer of business and assets thereof. Therefore, the Authority decides to consider notional revenue from AAICLAS to be included in projected revenue for AAI at Bhubaneswar Airport. The Authority will true this up once actual details are shared by AAI at the time of determination of aeronautical tariff for Bhubaneswar Airport for the next Control Period.

17.11.4 To estimate this notional revenue from AAICLAS to AAI for Bhubaneswar Airport, the Authority has considered the past trend in revenue from cargo operations at Bhubaneswar Airport and sought this information from AAI. AAI informed that revenue from cargo operations accrued to AAICLAS from FY 2017-18 onwards. Revenue from cargo operations were as follows:

Table 63: Revenue from cargo operations at Bhubaneswar Airport- Final (in INR crores)

	FY 2017#	**FY 2018**	**FY 2019***
(INR crores)	1.20	1.57	1.80
% per annum growth rate		31%	15%
CAGR			23%
* - Projected for FY 2019 based on actuals of 9 months of FY 2019 # - Revenue for FY 2017 accrued to AAI			

The Authority has considered the CAGR mentioned in Table 63 as the estimated growth in revenue from cargo operations at Bhubaneswar airport and considered 30% of this estimated revenue as the notional revenue from AAICLAS to AAI. The computation of this has been presented below:

Table 64: Notional revenue from AAICLAS- Final (in INR crores)

Notional revenue from AAICLAS	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
Estimated revenue from cargo operations (INR crores)	1.57	1.80	2.21	2.72	3.35	4.12
Notional revenue from AAICLAS to AAI (@ 30%)	0.47	0.54	0.66	0.82	1.00	1.24

The Authority decides to treat the above notional revenue as aeronautical revenue.

17.11.5 The Authority observed that management of cargo operations was transferred to AAICLAS from FY18. Because for FY 17, these operations were still under AAI, ARR for cargo operations for FY 17 has been calculated separately and added to its total ARR. The calculation of ARR for cargo operations has been presented in the table below.

Table 65: Computation of ARR for Cargo Operations- Final (in INR crores)

Cargo ARR Calculations	**FY 17**
Average RAB (INR crores)	-
Fair Rate of Return	14%
Return on average RAB (INR crores)	-
O&M expenses (INR crores)	0.42
Depreciation (INR crores)	-
Tax expense (INR crores)	0.27
ARR (INR crores)	**0.69**

17.11.6 The ARR and revenue for cargo operations have been included in True-up calculations shown in section 15.7.

17.12 Authority's reply to comments by BAOA:

The Authority has noted the comments from BAOA. The Authority has discussed the matter of FTC a number of times in the past. FTC is a result of an agreement between the airport operator and the oil marketing companies providing fuel to the aircraft at the airport. The contractual terms, including the charges to be exchanged, are discussed and agreed between the two parties and the Authority does not intend to interfere in the same. Therefore, the Authority ensures that such charges lead to aeronautical revenues that are within the ARR.

17.13 Authority's reply to comments by HPCL:

The Authority has noted the comments from HPCL. The Authority clarifies that all tariff proposed will be on prospective basis only.

17.14 Based on revised regulatory building blocks, ARR, yield and aeronautical tariffs, the Authority computed the projected aeronautical revenues. These are presented in the table below.

Table 66: Final computation of shortfall or surplus from proposed aeronautical charges (in INR crores)

Particulars	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Total PV of ARR including true up	617.06				
Landing charges:					

Domestic	18.88	29.57	35.37	42.30	50.59
International	1.01	1.78	2.50	3.50	4.92
Parking and housing charges:					
Domestic	0.12	0.31	0.37	0.44	0.52
International	0.00	0.01	0.02	0.02	0.03
Fuel Throughput charges	2.82	3.59	4.15	4.81	5.58
Ground handling charges	0.99	1.14	1.32	1.53	1.78
Land lease - Oil companies	1.43	1.54	1.66	1.78	1.91
Land lease - Ground Handling	0.10	0.11	0.12	0.13	0.14
CUTE charges	3.65	4.39	5.29	6.38	7.69
Notional revenue from AAICLAS to AAI	0.54	0.66	0.81	0.99	1.22
Total - before UDF	**29.54**	**43.10**	**51.60**	**61.89**	**74.39**
PV factor	1.00	0.88	0.77	0.67	0.59
PV of above	29.54	37.81	39.71	41.78	44.05
Σ PV of above	**192.88**				
Shortfall before UDF	**424.19**				
UDF:					
Domestic	15.52	96.73	116.08	139.30	167.16
International	0.48	3.76	5.08	6.85	9.25
PV of UDF	15.99	88.15	93.23	98.65	104.45
Σ PV of UDF	**400.47**				
Shortfall	**23.72**				

17.15 The Authority observed that with the revised tariff card and projections considered in this Order with respect to traffic, non-aeronautical revenues, operating expenses and proposed asset additions, AAI will incur a shortfall of INR 23.86 crores. The Authority is of the view to carry this shortfall forward into the next Control Period taking into consideration the projected profitability of the airport (as presented in Table 51: Tax expense considered by the Authority) and the need to have stability in tariff regime.

17.16 The Authority further recognizes that variation between projections considered in this Order and the actuals, as these may turn out to be during the first control period, will lead to a different value of shortfall. Hence the Authority will suitably consider this value at the time of determination of aeronautical tariffs for the second control period adjusting for actuals during the first control period. The Authority decides to consider such shortfall or surplus in aeronautical revenues for the 1st control period based on proposed tariffs by AAI while determining aeronautical tariffs for the 2nd control period.

Decision No. 15: Regarding tariff rate card

15.a. To fix the tariff for 1st Control Period as per Tariff Card given in Annexure-1. The Authority decides to consider the projected shortfall in aeronautical revenues for the 1st control period while determining aeronautical tariffs for the 2nd control period based on actuals during the 1st control period and accordingly required true-ups.

18. Annual Compliance Statement

18.1 The Airport Guidelines issued by the Authority have laid down the error correction mechanism with reference to the adjustment to the Estimated Maximum Allowed Yield per passenger, calculated using the error correction term of Tariff Year t-2 and the compounding factor. The error correction calculated as per the Airport Guidelines indicated the quantum of over-recovery or under-recovery due to increase or decrease respectively of the Actual Yield per passenger with respect to Actual Maximum Allowed Yield per passenger in the Tariff Year.

18.2 Accordingly, any recovery / over recovery during the first control period will be accounted for in the second control period.

18.3 Further, the Authority has noted that in view of all the corrections/truing up to be carried out at the end of the control period, Bhubaneswar Airport may submit Annual Compliance Statements for the tariff years FY 2018-19 to FY 2022-23 of the first control period.

Decision No. 16: Regarding Annual Compliance

16.a. Bhubaneswar Airport shall submit the Annual Compliance Statements as per the Guidelines for all the tariff years from FY 2018-19 to FY 2022-23 of the first control period along with the MYTP for the next Control Period.

19. Summary of Decisions

20. Order

20.1 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 Bhubaneswar Airport for the First Control Period from 01.04.2018 to 31.03.2023 effective from 01.04.2019 and the rate card so arrived at has been attached as Annexure 1 to the Order . The UDF rates indicated in the tariff card are also in accordance with section B(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

(Geetha Sahu)
AGM (F)

To,

Airports Authority of India,
Rajiv Gandhi Bhavan,
Safdarjung Airport,
New Delhi - 110003

Annexure 1 – Tariff card for Bhubaneswar Airport for the 1st Control Period

1. Landing charges:

Weight of the Aircraft	Domestic rate per landing (INR)	International rate per landing (INR)
Up to 25 MT	160 Per MT	240 Per MT
Above 25 MT up to 50 MT	4,000+280 per MT in excess of 25 MT	6,000+450 per MT in excess of 25 MT
Above 50 MT up to 100	11,000+320 per MT in excess of 50 MT	17,250+520 per MT in excess of 50 MT
Above 100 MT to 200 MT	27,000+390 per MT in excess of 100 MT	43,250+600 per MT in excess of 100 MT
Above 200 MT	66,000+440 per MT in excess of 200 MT	1,03,250+720 per MT in excess of 200 MT

- 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 schedule operators at airport, b) helicopters of all types, and c) DGCA approved Flying school/flying training institute aircrafts.
- 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.
- Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg).

2. Parking Charges

Weight of the Aircraft	Parking Charges Rates per Hour (in INR)	Parking Charges Rates per hour (beyond four hours) (in INR)
Up to 25 MT	3.00 Per Hour Per MT	6.00 Per Hour Per MT
Above 25 MT up to 50 MT	75.00+4.00 per Hour per MT in excess of 25 MT	150.00+8.00 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	175.00+8.00 per MT per Hour in excess of 50 MT	350.00+16.00 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	575.00+10.00 per MT per Hours in excess of 100 MT	1150.00+20.00 per MT per Hours in excess of 100 MT
Above 200 MT	1575.00+11.00 per MT per Hours in excess of 200 MT	3150.00+22.00 per MT per Hours in excess of 200 MT

- No parking charges shall be levied for the first two hours. While calculating free parking period, standard time of 15 minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of taxing time of aircraft from parking stand to take off point. These periods shall be applicable for each aircraft irrespective of actual time taken in the movement of aircraft after landing and before take-off.

- For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour.
- Charges shall be calculated on the basis of nearest MT.
- Charges for each period parking shall be rounded off to nearest rupee.
- At the in-contact stands and open 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.
- Night parking charges are waived off in principle for all domestic scheduled operators at Bhubaneshwar Airport if the State Government has brought the rate of tax (VAT) on ATF $\leq$ 5%. The above waiver of night parking charges (between 2200 hrs. to 0600 hrs.) will be made applicable from the date of implementation of $\leq$ 5% tax on ATF by the State Govt. In the event of upward revision in the tax rate of ATF by the State Govt., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State.
- Tariff for flights operating under Regional Connectivity Scheme will be governed by AIC issued on this subject by DGCA.

3. Fuel Throughput Charges – INR 322.52 per kilolitre

4. User Development Fees (UDF)

Passenger	UDF - INR per embarking passenger
Domestic	400
International Passenger	450

- **Collection charges for UDF:** If the payment is made within 15 days of receipt of invoice then collection charges at INR 5 per departing passenger shall be paid by AAI. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days or in case of any part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any account with AAI. Wherever collection charges are payable the amount shall be settled within 15 days.
- No collection charges are payable to casual operator/non-scheduled operators.

- For conversion of UDF in foreign currency, the RBI reference conversion rate as on the last day of the previous month for tickets issued in the 1st fortnight and rate as on 15th of the month for tickets issued in the 2nd fortnight shall be adopted.

- The UDF charges will be applicable on tickets issued from **01/04/2019.**

5. Exemption from levy and collection from UDF at the Airports

- The Ministry of Civil Aviation, Govt. of India vide order no. AV.16011/002/2008-AAI dated 30.11.2011 has directed AAI to exempt the following categories of persons from levy and collection of UDF.

  (i) Children (under age of 2 years),

  (ii) Holders of Diplomatic Passport,

  (iii) Airlines crew on duty including sky marshals & airline crew on board for the particular flight only (this would not include Dead Head Crew, or ground personnel),

  (iv) Persons travelling on official duty on aircraft operated by Indian Armed Forces,

  (v) Persons traveling on official duty for United Nations Peace Keeping Missions,

  (vi) Transit/transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hours. A passenger is treated in transit only if onward travel journey is within 24 hours from arrival into airport and is part of the same ticket. In case two separate tickets are issued, it would not be treated as transit passenger), and

  (vii) Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions.

6. Passenger Service Fee (PSF)- Facilitation

PSF (FC) is subsumed under UDF. PSF (SC) would be applicable as prescribed by the Ministry of Civil Aviation.

7. General condition

- All the above Charges are excluding GST. GST at the applicable rates are payable in addition to above charges.
- Flights operating under Regional connectivity scheme will be completely exempted from charges as per Order No. 20/2016-17 dated 31/03/2017 of the Authority from the date the scheme is operationalized by GOI.