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Order No. 34/2019-20

सत्यमेव जयते

Airports Economic Regulatory Authority of India

In the matter of Determination of Aeronautical Tariffs in respect of Rajiv Gandhi International Airport (HYD), Shamshabad, Hyderabad for the 2nd Control Period

(01.04.2016 – 31.03.2021)

Dated: 27th March, 2020

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1. BRIEF FACTS

Backdrop of the 1st Control Period and legal Proceedings

1.1. The GMR - MAHB (GMR Infrastructure Limited (GIL) and Malaysia Airports Holdings Berhad (MAHB) consortium was selected by the Government of Andhra Pradesh (GoAP) in December 2000 as the private partner for development of the proposed greenfield international airport at Shamshabad, Hyderabad.

1.2. GMR Hyderabad International Airport Limited (HIAL) was incorporated to design, finance, build, operate and maintain a world class Greenfield Airport at Shamshabad, Hyderabad. HIAL is a joint venture company with following shareholding pattern:

Table 1: Shareholding Pattern of HIAL as on 31.03.2016

Holding Company	Percentage Shareholding
GMR Airports Limited	63%
GoI through AAI	13%
Government of Telangana	13%
Malaysia Airports Holdings Berhad (Mauritius) Pvt. Ltd.	11%

1.3. The airport, named as Rajiv Gandhi International Airport (RGI Airport / RGIA), Hyderabad, is among the few airports to be operationalized under the PPP model in India. The airport was inaugurated on 14.03.2008 and started the commercial operations from 23.03.2008. RGIA has an integrated passenger terminal with a capacity of 12 million passengers per year. It presently has a Code-F runway and a parallel standby runway.

1.4. The Authority determined the tariff in respect of RGIA for the 1st Control Period, vide Order No. 38/2013-14 dated 24th February 2014, ("hereinafter called Order No. 38/2013-14") by adopting Single Till mechanism.

1.5. HIAL was aggrieved by the aforementioned tariff Order, and filed a writ petition before the Hon'ble High Court, Hyderabad on 06.03.2014. HIAL stated that *"Due to the aforementioned AERA order, there was no UDF revenue in FY 2015 and 3 quarters of FY 2016."*

1.6. Further, HIAL filed another appeal on 07.06.2014 before Airports Economic Regulatory Authority Appellate Tribunal ("AERAAT" which is currently "TDSAT" and is hereinafter referred to as such) on certain other issues related to Order No. 38/2013-14. As AERAAT then was not sufficiently constituted then, it declined to take the appeal for hearing, Accordingly, HIAL filed another writ petition in the High Court at Hyderabad on 06.08.2014.

1.7. HIAL filed a third writ petition in the High Court, seeking the restoration of its UDF. The High Court gave an interim direction permitting HIAL to collect UDF as were being collected prior to the Authority's Order No. 38/2013-14. Based on the High Court's direction, HIAL continues to collect UDF as restored on an interim basis till date.

MYTP Submissions for the 2nd Control Period

1.8. For the 2nd Control Period, HIAL submitted its Multi-Year Tariff Proposal (MYTP) on shared till basis. HIAL submitted an initial MYTP proposal on 25.03.2016 and requested a YPP of Rs. 924.47 per passenger. HIAL further submitted a revised MYTP proposal dated 5.12.2016 and subsequently updated its tariff financial model which was submitted on 28.01.2017 (which was updated with HIAL's audited financial results for FY 2015-16). This resulted in changes to HIAL's requested YPP to Rs. 924.01 and Rs. 912.11 respectively.

1.9. HIAL made another submission, dated 31.08.2017, to the Authority with revisions on the following accounts:

a) Revised implementation plan for capital expenditure

b) Treatment of foreign exchange variation

c) Correction in the rate of depreciation and

d) Computation of revenues from other than aeronautical service(s) for cross-subsidisation

Vide the abovementioned submission, HIAL revised its YPP requirement to Rs. 1212.42 per passenger and proposed to implement the same from 1.10.2017. These submissions have been discussed as part of the relevant chapters.

1.10. The Authority had reviewed various submissions made by HIAL for different building blocks and proposed its treatment for each building block for determination of tariffs for the 2nd Control Period as part of the Consultation Paper No. 30/2017-18 dated 19.12.2017 ("hereinafter called Consultation Paper No. 30/2017-18"). Following the release of this Consultation Paper, the Authority had invited a stakeholder consultation meeting on 22.01.2018. The minutes of the meeting have been uploaded on the Authority's website.

1.11. The Authority also invited formal comments from all stakeholders on the issues and proposals presented in the Consultation Paper No. 30/2017-18. The Authority has noted the responses that it has received from the various stakeholders and has considered their inputs while preparing this Order.

1.12. The following stakeholders commented on the Authority's Consultation Paper No. 30/2017-18 in the matter of tariff determination for HIAL for the 2nd Control Period:

1.12.1. Hyderabad International Airport Limited (HIAL) [Submission dated 29.01.2018]

1.12.2. Bangalore International Airport Limited (BIAL) [Submission dated 29.01.2018]

1.12.3. Association of Private Airport Operators (APAO) [Submission dated 29.01.2018]

1.12.4. Associated Chambers of Commerce and Industry of India (ASSOCHAM) [Submission dated 07.02.2018]

1.12.5. Business Aircraft Operators Association (BAOA) [Submission dated 29.01.2018]

1.12.6. Indian Oil Corporation Limited (IOCL) [Submission dated 29.12.2017]

1.12.7. Bharat Petroleum Corporation Limited (BPCL) [Submission dated 25.01.2018]

1.12.8. International Air Transport Association (IATA) [Submission dated 29.01.2018]

1.13. The following part of this Order gives the Authority's position on respective issues / building blocks presented in the Consultation Paper No. 30/2017-18. Each chapter is structured in the following manner, wherein discussion on each issue has been segregated into six sections:

1.13.1. Section A presents a summary of HIAL's submissions as part of MYTP on various issues impacting the tariff determination process.

1.13.2. Section B presents a summary of the Authority's discussion on the issue, as presented in the Consultation Paper No. 30/2017-18.

1.13.3. Section C presents the comments made by various stakeholders to the Authority's proposal on specific issue stated in the Consultation Paper No. 30/2017-18.

1.13.4. Section D presents the response provided by HIAL to the comments made by the Stakeholders on the issues stated in the Consultation Paper No. 30/2017-18.

1.13.5. Section E presents the comments made by HIAL itself on the issue stated in the Consultation Paper No. 30/2017-18, in addition to its responses to stakeholder comments.

1.13.6. Sixth and the final Section F presents the Authority's examination of stakeholders' comments, HIAL's responses and HIAL's own comments on the issue and decisions thereof.

1.13.7. Decisions taken by the Authority on various issues pertaining to determination of tariff for Rajiv Gandhi International Airport, Hyderabad for the 2nd Control Period are summarized at the end of each chapter.

1.14. Further, given the significant time gap between the issue of Consultation Paper No. 30/2017-18 and this Order, the Authority feels that it is important for the stakeholders to note the legal context, which delayed the issuance of this Order. Accordingly, a brief summary of the legal proceedings has been given below,

1.14.1. As highlighted in para 1.4, the Authority vide its Order No. 38/2013-14 determined the Aeronautical Tariff for the Rajiv Gandhi International Airport, Hyderabad ("RGIA") for the 1st Control Period. By the aforementioned Tariff Order, the Authority while determining aeronautical tariffs in relation to the RGIA, determined nil rate to be charged as User Development Fee (UDF) from the embarking passengers at RGIA.

1.14.2. Aggrieved by the Order No. 38/2013-14, as detailed in para 1.6, HIAL filed Appeal No. 2/2014 before the AERAAT. However, given that AERAAT declined to admit the Appeal for hearing owing to it being insufficiently constituted then, HIAL filed a Writ Petition No. 22474/2014 in the High Court at Hyderabad on 06.08.2014. HIAL claimed in the petition that due to application of Single Till while making adjustments from non-aeronautical revenue at RGIA, the UDF was projected at nil rate. HIAL inter-alia claimed that suitable application of regulatory till for cross-subsidization of non-aeronautical revenue, will leave open sufficient room for charging of UDF at RGIA.

1.14.3. During pendency of writ petition, Ministry of Civil Aviation ("MoCA") came up with a policy direction dated 10/11.06.2015 vide Letter No. AV 20036/778/2015-AD regarding determination of till policy by Union of India for RGI Airport, Hyderabad directing application of 30% Shared Till for cross-subsidization of non-aeronautical revenue. Based on the said policy direction, HIAL filed another Writ Petition No. 23790/2015 claiming implementation of the policy directive and in the meantime requesting permission to charge UDF at the previous ad-hoc rates of Rs. 430/- from domestic passengers and Rs. 1700/- from International passengers. The High Court granted an interim order dated 06.10.2015, permitting HIAL to charge UDF at the said ad-hoc rates. HIAL since then has been charging UDF at the said ad-hoc rates.

1.14.4. While the proceedings of the writ petitions remained pending due to delay in hearing and in view of 2nd Control Period having already started, the Authority issued a Consultation Paper No. 30/2017-18 on 19.12.2017; inviting stakeholders' participation in the matter of tariff determination for RGIA for the 2nd Control Period.

1.14.5. HIAL then filed another Writ Petition No. 3780/2018 claiming that during pendency of adjudication of its claim with respect to Tariff Order for the 1st Control Period, the Authority should not proceed towards finalization of the Tariff Order for the 2nd Control Period. In the said Writ Petition, an interim order dated 07.02.2018 was passed in terms of the following prayer made in IA No. 1/2018:

"In the circumstances stated in the affidavit filed in support of the petition, the High Court may be pleased to direct the Respondents not to finalize the determination of the Aeronautical Tariff in respect of the Petitioned airport for the 2nd Control Period (01.04.2016 to 31.03.2021), pending disposal of the WP 3780/2018, on the file of the High Court."

Accordingly, the interim order restrained the finalization of the Tariff Order for the 2nd Control Period for RGIA.

1.14.6. Subsequently, the Authority filed an application vide IA No. 2/2018 in the said Writ Petition, claiming vacation of the interim restraint order dated 07.02.2018. However the said IA No. 2/2018 did not come up for hearing.

1.14.7. The Writ Petition eventually came up for hearing from July 2019 onwards and thereafter a final Order dated 17.10.2019 was passed by the Hon'ble High Court, permitting HIAL to approach TDSAT in relation to its petitions for both the Control Periods. The High Court also directed the interim order in relation to 1st Control Period to be continued till disposal of appeal by TDSAT and the interim order in relation to 2nd Control Period to be continued for eight weeks enabling HIAL to file Appeal. After expiry of eight weeks, HIAL again filed a review petition in WP for 2nd Control Period claiming extension of interim restraint order.

1.14.8. Aggrieved by the extension of interim directions by the order of High Court, the Authority filed SLP No. 28786-87/2019 and SLP No. 28794/2019 before the Supreme Court, wherein order dated 17.12.2019 was passed directing the TDSAT to hear and dispose of the Appeals expeditiously.

1.14.9. Thereafter in review petition, HIAL persuaded the Hon'ble High Court to grant extension of interim restraint order dated 07.02.2018 in relation to 2nd Control Period for further three weeks, enabling HIAL to file an Appeal before the TDSAT.

1.14.10. Subsequent to the Hon'ble Supreme Court's order dated 17.12.2019, the review petition was dismissed vide order dated 19.12.19 in light of the Supreme Court order. As the petitioners prayed for reasonable time to avail alternate remedy, liberty was given to the petitioner to file appeal before the TDSAT within four weeks and the stay which was granted earlier was extended for four weeks. It was made clear by the Hon'ble High Court that no further time would be granted for filing appeal before the TDSAT.

1.14.11. HIAL then filed an Interim Application (IA 2/2020 in WP 3780/2018) before the Hon'ble High Court of Telangana seeking more time to file appeal before the TDSAT since the tribunal was not sitting on a regular basis. The Hon'ble High Court vide its Order dated 09.01.2020 granted one more week to HIAL to file its appeal before the TDSAT. Thereafter, instead of filing appeal before the TDSAT, petitioners filed a writ appeal WA No. 40/2020 before the Division Bench of Hon'ble High Court of Telangana against the order of the Hon'ble Single Judge dated 19-12-2019 dismissing the review petition (with respect to with WP 3780).

1.14.12. The writ appeal was heard by the Hon'ble Division Bench on 21.01.2020 and (Order dated 21.01.2020) the bench gave three weeks time to the respondents to file objections, and the respondent No. 1 & 2 (MoCA, and AERA respectively) were directed not to take any action on the basis of the Consultation Paper No. 30/2017-18 dated 19.12.2017. The application of the said Consultation Paper No. 30/2017-18 was thus stayed.

1.14.13. HIAL filed an Interim Application (IA) in WA 40/2020 before the division bench of Hon'ble High court of Hyderabad, praying permission to withdraw WP 3780/2014.

1.14.14. The case came up for hearing on 25.02.2020 and the Writ Petition 3780/2018 was dismissed as withdrawn. Accordingly, the Interim Order in WA 40/2020 staying the Consultation Paper No. 30/2018-19 and restraining the Authority from taking any action on the basis of the Consultation Paper was vacated.

1.14.15. When the matter came up for hearing in the Hon'ble TDSAT, the Authority requested disposal of the matter on the grounds that the 1st Control Period had culminated in 2016 and that its Order No. 38/2013-14 dated 24.2.2014 remained stayed during this period. The Authority also highlighted the stance taken by the Hon'ble TDSAT in the past, wherein it held that consideration of grievances of the airport operator by the Authority during true up as part of the tariff determination exercise in the subsequent period is the "only practical remedy".

1.14.16. On 04.03.2020 Hon'ble Appellate Tribunal disposed of Appeal No. 2/2014 filed by HIAL challenging the 1st Control Period Tariff Order No. 38/2013-14 dated 24.02.2014 for the period 01.04.2011 to 21.03.2016 and the Interim Order in WP 06.10.2015, where by the tariff regime prevailing prior to the order dated 24.02.2014 was allowed to be continued, was vacated. Further, Hon'ble TDSAT also allowed the Authority to issue interim / ad hoc directions for the purpose of regulating UDF as an interim measure till another Tariff Order is issued.

1.14.17. Given the above context, the Authority decided to proceed with the exercise of determining tariffs for the 2nd Control Period of HIAL as an interim measure for the remaining period of one year till the finalization of 3rd Control Period tariff effective from 01.04.2021.

Decision No. 1. Regarding the Brief Facts

1.a. Based on decisions given by Appellate Tribunal, the Authority decides to proceed with the exercise of determining tariffs for the 2nd Control Period of HIAL.

2. GUIDING PRINCIPLES FOR THE AUTHORITY

A) The Authority's note on Guiding Principles as presented in Consultation Paper No. 30/2017-18

Regulatory Till

2.1. In normal course the Authority would have proceeded to determine the aeronautical tariffs in accordance with the Airport Order and the Airport Guidelines issued by itself. The Airport Guidelines of the Authority in this regard prescribe a single-till mechanism which was used in the Authority's Order No. 38/2013-14 for the 1st Control Period of HIAL. However, in view of a directive given to the Authority by the Ministry of Civil Aviation ("MoCA") dated 10.06.2015 the Authority has examined the submissions of HIAL using shared till where 30% of non-aeronautical revenues cross-subsidize aeronautical operations. An extract of the directive dated 10.06.2015 has been reproduced below,

> *"... Pursuant to the above directions and after obtaining the legal advice of the M/o of Law & Justice, the Competent Authority has deeded to approve 30% Shared Till in respect of RGIA. Hyderabad. Accordingly, under Section 42(2) of AERA Act, 2008. AERA is directed to adopt 30% Shared Till Mechanism in respect of RGIA, Hyderabad... "*

2.2. HIAL vide its submission dated 31.08.2017 submitted that it had inadvertently applied 30% on the gross non-aeronautical revenues towards cross-subsidization instead of applying 30% on the profit before taxes; i.e. revenue net of costs. HIAL justified its interpretation as given below,

> *"... From the above, it is clear that in both the Single and Dual Till, both the revenue and cost in respect of non-aeronautical services have been considered or both revenues and costs have been ignored while treating the non-aeronautical revenue.*
>
> *Similarly in Shared (Hybrid) till both revenues and costs in relation to the non-aeronautical services needs to be taken in consideration before appropriating a certain percentage (in this case 30%) of revenues for the purpose of cross subsidizing the aeronautical charges... "*

2.3. However, the Authority's Order No. 14/2016-17 on the Adoption of Regulatory Till adequately clarifies the Authority's intent of computing cross-subsidy based on non-aero revenues only. It is also noted by the Authority that the Airport Operator gets to retain the balance 70% of non-aeronautical revenue to provide for expenses to be incurred in the non-aeronautical side, which are not intensive in nature due to most of it being incurred by concessionaire engaged for it. The Authority proposes to apply the decision of the abovementioned order in the case of HIAL. The relevant extract clarifying the Authority's interpretation of Hybrid Till with 30% cross subsidy has been given below,

> *"... 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... "*

HIAL as a Standalone Entity and Treatment of dividend and other income received by HIAL on investment made by it in Joint Ventures/Subsidiaries

2.4. The Authority has considered HIAL as a stand-alone entity based on the accounts of HIAL without any consolidation with its subsidiaries or taking into account the balance sheets and income statements of other subsidiaries.

Considerations specific to Building Blocks in HIAL's tariff determination

2.5. Apart from the above, Authority's approach regarding specific building blocks in HIAL's determination has been indicated in the relevant paragraphs.

B) Stakeholder comments on issues pertaining to guiding principles

2.6. As part of the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No. 30/2017-18 dated 19.12.2017. Stakeholders have also commented on the guiding principles for the Authority in respect of RGI Airport, Hyderabad. These comments are presented below:

Regulatory Till

2.7. On the issue of adoption of Hybrid Till, IATA stated that,

> *"We note that the main driver for the true up calculation is the non-aero revenue differentials generated from the shift from Single to a Hybrid till basis. This is yet another example of how a shift away from the single till increases costs for consumers. In this regard, it is a great disappointment that AERA has proceeded to adopt the hybrid till approach which will make aeronautical charges more expensive and goes against the fundamental requirements to boost air connectivity as envisaged by the National Civil Aviation Policy 2016 in a sustainable way"*

HIAL as a Standalone Entity and Treatment of dividend and other income received by HIAL on investment made by it in Joint Ventures/Subsidiaries

2.8. APAO observed that the Authority's treatment of considering dividend income received from HMACPL as aeronautical and dividend received from Duty Free subsidiary as non-aeronautical "is inconsistent with Authority's Order No. 38/2013-14 where interest and dividend income have been excluded from tariff calculations. In the said Order, the Authority had stated that it had only taken into account RAB in the books of accounts of HIAL and hence, assets of HMACPL have not been included in the RAB for tariff determination. Similarly, the Authority had also excluded dividend income received from HMACPL from the ARR calculations. In addition, the Authority took the view that HIAL's interest income was a "part of their internal cash flow management" and was thus excluded from cross-subsidization.

2.9. BIAL also contended that the cargo and duty free subsidiaries are standalone entities operating at arm's length and sharing revenues with HIAL, similar to other concessionaires. Accordingly, BIAL requested that the subsidiaries be treated similar to the other concessionaires. In addition, BIAL also pointed that since the RAB did not include the assets of the subsidiaries, the dividend and interest income received from them should not be included in the cross subsidization.

C) HIAL's response to Stakeholder Comments on issues pertaining to guiding principles

2.10. Subsequent to the receipt of comments from the Stakeholders on the Consultation Paper No. 30/2017-18 dated 19.12.2017, the Authority forwarded these comments to HIAL seeking its response to these comments. HIAL has provided responses to the Stakeholders' comments, which are presented below:

2.11. In response to IATA's comment on adoption of Hybrid Till, HIAL stated as under:

> *"The applicability of Hybrid Till for GHIAL is in line with the binding policy directive issued by MoCA to AERA. Further, the Hybrid Till adopted by AERA is in line with NCAP issued by the Government of India for all major Airports."*

HIAL as a Standalone Entity and Treatment of dividend and other income received by HIAL on investment made by it in Joint Ventures/Subsidiaries

2.12. HIAL concurs with the submissions made by APAO, ASSOCHAM and BIAL on treatment of dividend and other income received by the airport operator on its investments made in JVs/subsidiaries.

D) HIAL's own comments on issues pertaining to guiding principles

Application of Shared Till with cross subsidisation of 30% of Non-Aeronautical Profit Before Taxes

2.13. In response to chapter 2, para 2.4 and 2.5 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that the Authority in its Order No. 14/2016-17 on adoption of Hybrid Till has given the reference of ICAO guidelines on Shared Till Philosophy and mentioned that the airport operator should share a certain portion of surplus earned from non-aeronautical income with the users instead of retaining the entire surplus with itself.

2.14. HIAL also cited the ICAO guideline, which stated that, "reaching a common understanding on the contribution of non-aeronautical revenues to defray the cost base for charges is an acknowledgement of the partnership between airports and users". HIAL observed that ICAO guidelines clearly encouraged sharing of non-aeronautical revenues between the airport operator and the users based on an established understanding of the share percentage such that the airport operator does not retain the entire surplus. HIAL therefore noted that ICAO guidelines preferred a 'Hybrid till' in place of a 'Single Till'/ 'Dual Till'.

2.15. HIAL presented extracts from Order No. 13/2010-11 'In the matter of Regulatory Philosophy and Approach in Economic Regulation of Airport Operators', which stated that ICAO referred to the concept of cost relatedness in the context of aeronautical charges instead of the term cross subsidy. The extract referred to by HIAL has been reproduced below:

> *"5.18...ICAO speaks of cost relatedness in the context of charges for aeronautical or regulated services. This implies that according to ICAO guidelines, one regulated service should not be cross subsidized from other regulated service. It is important to bear in mind that ICAO does not use the term "cross subsidy" in the context of surpluses from non-aeronautical revenues to be used to moderate charges for aeronautical services. In fact as subsequently discussed, ICAO encourages contribution from non-aeronautical revenues towards aeronautical charges.*

5.19 Regarding cost relatedness, ICAO clearly states that non-aeronautical revenues are generated by passengers and hence they should benefit from the non-aeronautical surpluses."

2.16. The aforementioned Order also referred to para 30 of ICAO Doc 9082/8 (2009), which mentioned that the cost to be shared include the total cost of operating the airport and providing other ancillary services while offsetting all aeronautical revenues and contributions from non-aeronautical revenues generated from airport operations.

2.17. Accordingly, the Authority observed in the Order that the ICAO guidelines allow for consideration of non-aeronautical revenues for determination of aeronautical charges. It stated that,

"5.21 Authority thus notes that ICAO's guidelines speak of "contributions from non-aeronautical revenues accruing from the operation of the airport to its operators". Common reading of these words would indicate that whatever contributions from non-aeronautical revenues accrue to the Airport Operators should be taken into account for determination of aeronautical charges."

2.18. Additionally, HIAL also referred to the Authority's White Paper on Regulatory Objectives and Philosophy in Economic Regulation of Airports and Air Navigation Services issued in December 2009, wherein the Authority stated that single till considers profits from non-aeronautical services at an airport to offset aeronautical costs for determining airport charges. HIAL submitted that therefore, even the Authority's own Regulatory Philosophy prescribes consideration of only non-aeronautical revenue (post deduction of associated costs), for cross subsidization of aeronautical charges.

2.19. Finally in this regard, HIAL also mentioned that the provisions of the Concession Agreement and submitted that,

"Also, as per provisions of the CA, only the Regulatory Charges as mentioned in the Schedule 6 are to be determined by AERA consistent with ICAO policies but not on the cross subsidization."

HIAL as a Standalone Entity and Treatment of dividend and other income received by HIAL on investment made by it in Joint Ventures/Subsidiaries

2.20. HIAL submitted that since the investment in the subsidiaries made by HIAL is not considered to be part of regulatory asset base for the purpose of tariff determination, any return from such investment should also treated likewise. HIAL further explained that the Authority in its Tariff Order No. 38/2013-14 had considered these dividends to be outside the regulatory determination and deviating from its own decision would not be prudent and would unsettle the settled tariff principle determined in the previous order of the Authority.

E) Authority's examination of stakeholder comments on guiding principles

2.21. The Authority has carefully examined the comments made by stakeholders on the guiding principles and the Authority's examination has been presented below.

Regulatory till

2.22. The Authority notes comments made by IATA on Regulatory Till. The Authority has decided to maintain its stance of adopting 30% Shared Till for the 2nd Control Period in view of a directive given to the Authority by MoCA dated 10.06.2015. The Authority's detailed rationale has been provided in paras 2.1 to 2.3. Further, the Authority has itself issued Order

No. 14/2016-17 where it has aligned its regulatory approach with the provisions of NCAP 2016 and switched to 30% shared till where 30% non-aeronautical revenues will be used cross-subsidize aeronautical charges. An extract from the Authority's Order No. 14/2016-17 is as follows,

> *"... The Authority, in exercise of powers conferred by Section 13(1)(a) of the Airports Economic Regulatory Authority of India Act, 2008 and after careful consideration of the comments of the stakeholders on the subject issue, decides and orders that :*
>
> *(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. ..."*

2.23. Given the above rationale, the Authority does not find any compelling reason to change its position from 30% shared till.

HIAL as a Standalone Entity and Treatment of dividend and other income received by HIAL on investment made by it in Joint Ventures/Subsidiaries

2.24. The Authority has examined the comments from stakeholders including HIAL proposing the exclusion of dividend and interest income from the regulatory purview. The Authority would like to highlight that arguments put forth by APAO and HIAL, citing the Authority's Order No. 38/2013-14, wherein such incomes from subsidiaries had been kept outside the regulatory purview owing to treatment of HIAL as a standalone entity and non-consideration of assets of such subsidiaries in the RAB, have already been analysed by the Authority in chapter 9, para 9.81 and 9.82 of the Consultation Paper No. 30/2017-18 and merit no further examination. The Authority's position on this matter is that income from Joint Ventures/Subsidiaries have been treated based on the nature of activity conducted by the subsidiary.

2.25. In addition, on BIAL's contention that the subsidiaries operate at arm's length and only share revenues with HIAL just as is the case with other independent concessionaires, the Authority does not find any reason to deviate from its principle that income from joint ventures or subsidiaries need to be treated based on the nature of activity performed by the entity. The Authority's position and analysis of the matter has been further elaborated in chapter 9, para 9.57.

2.26. The Authority has observed BAOA's comment regarding determination of ground handling charges and throughput royalty. However, the Authority would like to highlight that the current process is being undertaken to determine tariffs for RGI, Airport, Hyderabad and not for its ground handling entity. Therefore, the Authority requests BAOA to call attention to these comments when the process for determining tariffs for a ground handling entity is being undertaken.

Application of Shared Till with cross subsidisation of 30% of Non-Aeronautical Profit Before Taxes

2.27. The Authority notes HIAL's suggestion to the Authority of cross-subsidizing 30% of non-aeronautical profit before taxes instead of 30% of non-aeronautical revenues. However, the Authority would like to highlight that its Order No. 14/2016-17 on Shared Till clearly states the principle of cross-subsidy where 30% of non-aeronautical revenues will be used to cross-subsidize aeronautical charges. Accordingly, the Authority believes that there is no ambiguity regarding the base which is to be considered for cross-subsidy.

2.28. Further, the Authority would like to highlight that HIAL itself in its MYTP submissions had considered cross-subsidy based on 30% of non-aeronautical revenues and not non-aeronautical profit before taxes. Hence, HIAL's contention at this stage is merely an afterthought.

Decision No. 2. Regarding Regulatory Principles

Based on the material before it and its analysis, the Authority decides:

2.a. To compute the ARR under the 30% Shared Till mechanism for the 2nd Control Period.

2.b. To regulate HIAL as a standalone entity without consolidating it with its subsidiaries and joint ventures.

2.c. To treat dividend and interest income received by HIAL from its Joint Ventures/Subsidiaries based on the nature of activity conducted by such entity. E.g. interest and dividend income from a cargo subsidiary would be considered as aeronautical and that from their duty-free subsidy would be treated as non-aeronautical revenues.

3. CONSIDERATION OF TRUE-UPS FOR PRE CONTROL PERIOD AND 1ST CONTROL PERIOD

A) HIAL Submission on True-up for the 1st Control Period

3.1. HIAL with respect to the true up for Pre Control Period and 1st Control Period submitted that it started its operations w.e.f. 23.03.2008; and accordingly, determination of aeronautical charges under shared till is required to be done effective from the commencement date. As per HIAL, the period from 23.03.2008 till 31.03.2011 has been defined as pre-control period.

3.2. HIAL further submitted that the aeronautical tariff presently charged at RGIA in 1st Control Period was notified through Authority vide its Order No. 38/2013-14 dated 24.02.2014. The Authority vide its aforementioned tariff order had given HIAL the provision for true up of various items. Accordingly, HIAL in the true-up section of the MYTP submission has listed the true-ups which it requests the Authority to include for tariff computation for the 2nd Control Period. An extract of the MYTP submission which summarizes the changes proposed by HIAL is replicated as under,

"*... The major changes compared to tariff approval from 1st control period are as under:*

Issue	*Past Treatment*	*New Treatment*
Till	*Single Till*	*Shared Till based on directions of MoCA*
Classification of Revenue	*Cargo Ground Handling and fuel as AERO*	*Cargo Ground handling and Fuel treated as Non Aero based on AG opinion enclosed.*
Cost of Equity	*16%*	*24% based on studies undertaken*
Cost of Debt	*Rupee: 12.5%* *ECB: 8%*	*Updated based on actual cost.*
Opex	*Allowed 100% under single till*	*Allocated between aero and non-aero based on 30% Shared till* *Considered Cargo GH and Fuel as Non Aero*
Non Aeronautical Revenue	*100% Cross subsidy* *Forecast for 3 years*	*30% cross subsidy* *Actual Non Aeronautical based on audited numbers.*
Tax	*Based on Single Till*	*Based on Shared till- only for aeronautical revenue.*

..."

True-up of Regulatory Till

3.3. HIAL has further submitted that all true-ups have been calculated in line with the directive from MoCA to the Authority regarding adoption of 30% Shared Till for HIAL, under Section 42(2) of the AERA Act (2008) vide letter F.No.AV.20036/778/2015-AD dated 11.06.2015.

True-up of Cost of Equity

3.4. Regarding true-up of HIAL's Cost of Equity, HIAL submitted (referring to the Authority's tariff Order No. 38/2013-14) that the Authority had decided to allow HIAL a post-tax return of 16% p.a. towards HIAL's Cost of Equity; for the purpose of calculation of FRoR. HIAL however, submitted that they have considered the post-tax Cost of Equity to be 24% p.a. in line with their previous filing and explanations given in the relevant chapter of the MYTP submission. Further HIAL has explained that the change in cost of equity is recovered through the FRoR which is allowed on the RAB.

True-up of Cost of Debt

3.5. HIAL (referring to the Authority's tariff Order No. 38/2013-14) submitted that the Authority had decided to true-up the cost of debt with actual values (determined as weighted average rate of interest for the individual tranches of loan drawn within the Control Period). HIAL added that the interest rate true-up was subject to a ceiling of 12.5% p.a. for RTL and 8% p.a. for ECB exposures. HIAL further submitted that the Authority had decided to review the abovementioned ceilings, provided reasonable evidence be presented to the Authority. HIAL also admitted to a retrospective change in spread for ECBs; from 1.75% to 2.75%, with effect from 01.07.2012 making the effective rate of interest on ECB 8.73% p.a.

True-up of Weighted Average Cost of Capital

3.6. With respect to the Weighted Average Cost of Capital, HIAL submitted (referring to the Authority's tariff Order No. 38/2013-14) that the Authority had determined FRoR of 10.01% for 1st Control Period. The Authority had further stated at that time that FRoR may be trued up for:

- Changes in Equity and Reserves and Surplus (accumulated profits / retained earnings), and
- Cost and level of debt as well as any other means of finance that HIAL may contract in this regard.

3.7. As per HIAL's submission the cost of equity had been taken as 24% by HIAL for FRoR calculations. Subsequently, HIAL requested the Authority to reconsider its stand on this matter.

True-up of Aero/Non-Aero Allocation

3.8. HIAL has explained that the asset allocation methodology followed for the tariff application is discussed in the 'Allocation Methodology' chapter of HIAL's MYTP submission. An extract of HIAL's submission regarding the true up with respect to the Aero/Non-Aero Allocation is replicated as under,

"...

- *Assets for Cargo, Ground Handling and Fuel Farm are allocated as Non-Aeronautical Assets.*
- *AS 11 assets arising from exchange rate fluctuations are included in RAB for true-up.*
- *The RAB with the updated allocation mix is provided as per concept document.*

..."

True-up of Regulatory Asset Base

3.9. As per HIAL's submission to the Authority, the RAB has been recalculated in line with the previous notes based on aero/non-aero allocation of the RAB and capitalization of future capex. HIAL further submitted that AS-11 assets accumulated due to forex fluctuations are included in the RAB submitted for tariff determination. The updated RAB proposed by HIAL as per its revised financial model date 28.01.2017 is as presented below,

"...

Amounts in Rs. crores	*FY2012*	*FY2013*	*FY2014*	*FY2015*	*FY2016*
As per Order No. 38	*2041.01*	*1944.41*	*1863.62*	*1821.83*	*1799.99*
As per Actuals (Aero RAB)	*1735.92*	*1688.96*	*1640.27*	*1552.88*	*1490.97*

..."

True-up of Depreciation

3.10. HIAL has submitted that the depreciation of individual assets has been calculated/adjusted based on date of commissioning/disposal and the true-up amount has been calculated accordingly. The Authority also notes that that effective depreciation rates have changed under the Companies Act 2013. Subsequently, HIAL has requested the Authority to true up based on the new rates. HIAL submitted (referring to the Authority's tariff Order No. 38/2013-14), that the Authority had decided to true-up costs in the nature of mandated costs incurred due to directions issued by Regulatory Agencies like DGCA, Costs on actuals related to electricity and water charges, operating expenses pertaining to the selected projects, proposed by HIAL to be undertaken under the Future Capital Expenditure based on evidential submissions may be HIAL and all statutory levies in the nature of fees, levies, taxes and other such charges directly imposed on and paid by HIAL.

3.11. Additionally, HIAL's request to true up certain additional operating expenses such as increased bank charges due to refinancing of the Rupee Term Loan, bad debts of Kingfisher Airline (KFA) to the extent of Rs. 12.33 crores which could not be recovered.

True-up due to Taxation

3.12. HIAL submitted (referring to the Authority's tariff Order No. 38/2013-14), that the Authority had decided to true-up costs in the nature of mandated costs incurred due to directions issued by Regulatory Agencies like DGCA, Costs on actuals related to electricity and water charges, operating expenses pertaining to the selected projects, proposed by HIAL to be undertaken under the Future Capital Expenditure based on evidential submissions may be HIAL and all statutory levies in the nature of fees, levies, taxes and other such charges directly imposed on and paid by HIAL. HIAL stated that under the Shared Till mechanism, tax liability is supposed to be estimated on the basis of Aeronautical P&L after considering 30% non-aeronautical revenue share.

True-up due to Cross-Subsidy from Non-Aeronautical Revenues

3.13. HIAL's submission regarding the adjustments made to NAR cross-subsidy true-up (as mentioned in tariff Order No. 38/2013-14) are as under,

- The Authority had erroneously considered Interest Income for cross-subsidization of ARR. This has been corrected and the resulting true-up is calculated.
- The Authority had considered revenues from subsidiaries like Hotel and SEZ and from Commercial Property Development as Non-Aeronautical Revenues. These revenues have been excluded from cross-subsidization.
- 30% of the audited Non-Aeronautical Revenues are considered in the tariff calculation for true-up considering CGF as non-aero revenue.

True-up due to Cargo, Ground Handling and Fuel Farm

3.14. As per HIAL's submission, revenues from Cargo, Ground Handling and Fuel Farm have been considered as Non-Aeronautical Revenue streams and 30% of these revenue streams are considered towards cross-subsidization.

True-up pertaining to Pre-Control Period

3.15. HIAL submitted that it has recalculated the pre-Control Period entitlement for the period starting from 23.03.2008 till the beginning of the 1st Control Period on the basis of the above contentions, and the revised true-up computations for the pre-control period; and the aggregate 1st Control Period submitted by HIAL in the tariff financial model submitted on 28.01.2017 has been provided below,

"...

Particulars	*Amounts (in Rs. crore)*
True up for pre-control period	*805.01*
True up for control period	*769.05*
Total True up	***1574.06***

..."

B) Authority's examination of HIAL's submission on True-up for the pre-Control Period and 1st Control Period

True-up of the Regulatory Till

3.16. The Authority had vide its Order No. 38/2013-14 decided to determine tariffs under a single till mechanism, however, the Authority proposed to true-up aeronautical tariffs under the 30% Shared Till mechanism; the rationale for which has been discussed in chapter 2, para 2.1.

3.17. The actual aeronautical entitlement of HIAL has been compared with the actual aeronautical revenue as per audited financials to arrive at the true-up value of over / under recovered ARR that are to be accounted for the tariff determination for the 2nd Control Period.

3.18. The Authority notes the true-ups which HIAL has requested for tariff computation for the 2nd Control Period. The Authority's examination of the HIAL's submission regarding the true-up is elaborated below.

True-up of Cost of Equity

3.19. Regarding true-up of HIAL's Cost of Equity, the Authority notes that HIAL has urged the Authority to calculate WACC based on Cost of Equity of 24%. However, the Authority proposes to maintain its stand and to consider the cost of equity at 16% for tariff determination. The rationale for keeping the Rate of Return at 16% has been fully documented in chapter 6, para 6.60.

True-up of Cost of Debt

3.20. The Authority proposes to true-up the cost of debt for the 1st Control Period with audited financial results (determined as weighted average rate of interest for the individual tranches of loan drawn within the Control Period).

3.21. With regards to the ECB foreign currency borrowings, the Authority proposes to stay with its current stand of not considering foreign exchange fluctuations towards cost of debt. However, the Authority proposes to partially consider foreign exchange losses as operating expenses and the position of the Authority on this matter has been presented in para 3.26.

3.22. The Authority vide chapter 6, para 6.29 to 6.30 vide Consultation Paper No. 30/2017-18 dated 19.12.2017 also noted a recent exercise of debt restructuring undertaken by HIAL, wherein HIAL has raised USD 350 million from Bond issue at a "coupon rate of 4.25% payable semi-annually with a tenor of 10 year bullet repayment falling due in Oct 2027" to refinance its existing Rupee Term Loan and External Commercial Borrowing, along with funding its expansion project.

True-up of Weighted Average Cost of Capital

3.23. As per its Decision No. 10 of the HIAL's Tariff Order No. 38/2013-14, the Authority had decided to true up the WACC on account of changes in equity, and reserves and surplus, adjustments to cost of debt (subject to the cap imposed on the cost of debt as per Decision No. 8 of the Order No. 38/2013-14) and additional means of finance that HIAL may contract. Thus, considering the audited financial results for the period FY 2008-09 to FY 2015-16 and cost of equity at 16%, the Authority has computed the WACC to be as under,

Table 2: Weighted Average Cost of Capital considered by the Authority for true up for the 1st Control Period

Particulars (in Rs. crores)	2012	2013	2014	2015	2016
Debt (Average Balance) (a)	1,756.0	1,668.0	1,565.8	1,480.4	1,474.7
Interest Free Loan (IFL) (b)	315.1	315.1	315.1	315.1	315.1
Equity (c)	378.0	378.0	378.0	378.0	378.0
Debt (including IFL) + Equity (d)=(a)+(b)+(c)	2,449.1	2,361.1	2,258.8	2,173.4	2,167.7
Cost of Debt (Kd1)	10.86%	10.82%	11.04%	10.51%	10.19%
Cost of IFL (Kd2)	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of Debt (Including IFL) (Kd3)	9.21%	9.10%	9.19%	8.67%	8.39%
Cost of Equity (Ke)	16.00%	16.00%	16.00%	16.00%	16.00%
Individual year Gearing (including debt as IFL) (e)={(a)+(b)}/(d)	84.57%	83.99%	83.27%	82.61%	82.56%
	FY 2011-12 to FY 2015-16				
Weighted Average Gearing (WG) (f) = computed using weights of (d)	83.44%				
Weighted Average Cost of Debt (including cost of IFL) (Rd)	8.93%				
Cost of Equity (Re)	16.00%				
Fair Rate of Return (f)*Rd + {1-(f)}*Re	**10.10%**				

True-up of Aero/Non-Aero Allocation

3.24. Under the Shared Till Mechanism, proper classification of assets becomes a necessity. The Authority has modified the classification proposed by HIAL based on the following principles.

3.24.1. The Authority proposes to consider cargo, ground handling and fuel farm services as aeronautical and accordingly, assets pertaining to these services have been included in the calculation of RAB, the rationale for which has been discussed in chapter 5, paras 5.40 to 5.44.

3.24.2. The Authority proposes to consider vehicle fuelling service as aeronautical for reasons discussed in chapter 5, 5.45.

3.24.3. The Authority proposes to treat CUTE, CUSS and BRS IT as aeronautical services as these are considered part of the overall ground handling activity, which itself has been treated as an aeronautical service by the Authority. A discussion on the above treatment can be referred to in chapter 5, para 5.46.

3.24.4. Further, the Authority proposes to treat Cargo Satellite Building (CSB), as an aeronautical asset in line with the treatment of cargo services; as discussed in chapter 5, para 5.47.

3.24.5. The Authority proposes to consider Fixed Electrical Ground Power (FEGP) service, which is a part of the overall ground handling activity, as an aeronautical service in line with the treatment for ground handling services, as discussed in chapter 5, para 5.48.

3.24.6. As regards the project site office, the Authority proposes to clearly demarcate the office area between non-aeronautical and common areas. Further, the common area has been allocated between aeronautical and non-aeronautical in the ratio of gross block of assets. The rationale for this treatment has been explained in chapter 5, para 5.49.

3.24.7. The Authority proposes to restore the previous allocation of the New Office Building (NOB) between non-aeronautical and common in the ratio of 60:40 from FY 2008-09 to FY 2014-15. Subsequently, the Authority proposes to revise this ratio to 40:60 for FY 2015-16 based on increased usage of the office space by HIAL's staff (as discussed in chapter 5, para 5.50 to para 5.51).

3.24.8. Further the Authority proposes to allocate the common portion of the NOB, which is being used by HIAL's staff engaged in both aeronautical and non-aeronautical services, across all the years, in the ratio of gross block of aeronautical and non-aeronautical assets.

3.25. The Authority proposes that the Advance Development Fund Grant (ADFG) of Rs. 107 crore be treated as a grant, and deducted from the aeronautical assets and aeronautical depreciation to calculate the RAB; since any inflow which is of the nature of a grant, should be used to finance aeronautical assets only.

3.26. Further, as per Order No. 38/2013-14, the Authority had observed that "sourcing of funds is a conscious business decision of the airport operator" and accordingly decided to disallow the capitalization of adjusting for forex losses as per AS 11 and exclude it from the calculation of RAB. The Authority proposes to continue with its existing stand while truing up the RAB, as discussed in chapter 5, para 5.56. However, based on its rationale described in chapter 7, para 7.74 and para 7.75 , the Authority has allowed for the recovery of forex losses as an operating expense to the extent that the effective cost of borrowing in foreign currency (net of forex gains / losses) is not higher than the cost of RTLs. Computation of foreign exchange losses allowable to HIAL is as given below,

Table 3: Foreign exchange losses considered as Operating Expenses by the Authority

Recovery of Foreign Exchange Losses through Operating Expenses (in Rs. Crores)	2009	2010	2011	2012	2013	2014	2015	2016	Aggregate for 1st CP
Principal Repayment of ECB Loan (a)	0.00	0.00	28.54	30.39	34.28	39.21	55.32	58.71	217.90
Principal Repayment without Forex Loss / Gain (b)	0.00	0.00	25.35	25.35	25.35	25.35	36.30	36.30	148.65
Foreign Exchange Losses on account of principal repayment (c) = (a) – (b)	0.00	0.00	3.19	5.04	8.93	13.86	19.02	22.41	69.25
Interest Payment of ECB Loan (d)	46.08	45.90	43.62	48.64	42.75	62.77	53.07	51.24	258.47
Interest Payment Without forex adjustment (e)	39.36	39.47	38.71	36.87	34.77	40.88	34.70	31.59	178.81
Foreign Exchange Losses on account of interest payment (f) = (d) – (e)	6.72	6.43	4.91	11.77	7.98	21.89	18.37	19.65	79.66
Foreign Exchange Gain (g)	0.93	0.00	0.03	0.05	0.27	0.31	0.23	0.20	0.00
Foreign Exchange Loss (Net of Gains) (h) = (c) + (f) – (g)	5.79	6.43	8.07	16.76	16.64	35.44	37.16	41.86	147.85
Cost of RTLs (Excluding IFL) (i)	10.53%	11.54%	10.99%	12.00%	11.94%	11.57%	11.11%	10.56%	
Cost of ECB (Excluding Forex Loss) (j)	7.68%	7.68%	7.73%	7.73%	7.73%	9.57%	8.84%	9.00%	
Difference in Costs (k) = (i) – (j)	2.85%	3.86%	3.26%	4.27%	4.20%	2.00%	2.27%	1.56%	
Average ECB Loans (l)	507.04	507.04	494.37	469.02	443.66	418.31	387.48	351.18	
Maximum Allowable forex Losses (m) = (l) * (k)	14.44	19.56	16.11	20.03	18.64	8.38	8.80	5.48	
Total Forex Losses (n) = (h)	5.79	6.43	8.07	16.76	16.64	35.44	37.16	41.86	
Recovery Allowed to HIAL Minimum of (m) & (n)	5.79	6.43	8.07	16.76	16.64	8.38	8.80	5.48	56.05

True up of the RAB

3.27. With respect to the true up of the additional capital expenditure for FY 2015-16, the Authority undertook an examination of the actual amount capitalised in FY 2015-16 against the amounts approved in the Order No. 38/2013-14 for the 1st Control Period. The Authority's examination is presented as below,

a. 5MW Solar Power Plant: As discussed in chapter 5, para 5.60, out of the Rs. 40 crore approved by the Authority, HIAL had capitalised Rs. 31.59 crore and the same is proposed to be approved by the Authority for true up.

b. **Flood control and rainwater harvesting:** As discussed in chapter 5, para 5.61, the Authority proposes to allow true up the entire amount of Rs. 20 crore which was approved in the 1st Control Period and has been capitalized in FY 2015-16. The Authority has also allowed to include the same for determination of RAB for FY 2015-16.

c. **Fuel Farm:** The Authority proposes to true up the capex of Rs. 12 crore for FY 2014-15 as allowed in Order No. 38/2013-14 to be included in the aeronautical RAB, as per the rationale discussed in chapter 5, para 5.62.

d. **General Capex:** The Authority proposes to true up the general capital expenditure worth Rs. 18.84 crore incurred by HIAL out of the Rs. 59.70 crore capex amount approved in the Order No. 38/2013-14 for the 1st Control Period, as discussed in chapter 5, para 5.63. Further, the Authority proposes to treat this as a common capital expenditure, which has been allocated between aeronautical and non-aeronautical RAB while truing up the RAB.

e. **Employee Township:** The Authority has noted from HIAL's submission dated 05.12.2016 that an employee township worth Rs. 82.32 crore was to be capitalized in FY 2015-16. As discussed in chapter 5, paras 5.64 and 5.65, the Authority proposes to approve the capex as part of the RAB for the time being for true up but reserves the right to alter the treatment in the final tariff order for the 2nd Control Period based on the response received from HIAL in the future.

3.28. The Authority had vide its Order No. 38/2013-14 for the 1st Control Period decided to work out the difference between the values of Return on RAB calculated based on actual date of commissioning/disposal of assets and that calculated considering such asset has been commissioned/disposed half way through the tariff year. The Authority had further decided to adjust this difference at the end of the 1st Control Period while determining tariffs for the 2nd Control Period while considering the future value of these differences for each year of the 1st Control Period. Accordingly, the Authority proposes to compute RAB using the additions and deletions based on the actual financial results of HIAL, as certified by its auditor for such purpose.

True up of Depreciation

3.29. The Authority notes that HIAL's depreciation based on depreciation rates as per the new Companies Act 2013.

3.30. The Authority is in receipt of the audited financials of HIAL for FY 2013-14, FY 2014-15 and FY 2015-16. The Authority proposes to approve HIAL's depreciation based on its audited financial statements, subject to adjustments on account of asset allocation and the principles of computing the Regulatory Asset Base, which have been presented below,

3.30.1. As discussed in chapter 5, 5.91, the Authority proposes to disallow the depreciation owing to forex losses as per AS 11 in the total depreciation to be allowed for true-up by the Authority.

3.30.2. Due to HIAL's inability to provide a building-wise break-up of depreciation, the Authority has reallocated the depreciation for the project site office on a proportionate basis, considering their gross blocks and the gross block of aggregate assets.

3.30.3. In addition, similar to the project site office, the depreciation for the new office building has been reallocated on a proportionate basis, considering their gross blocks and the gross block of aggregate assets.

3.31. The updated RAB calculated in line with the proposed aero/non-aero allocation, capitalization of capex and depreciation is presented below:

Table 4: RAB considered by the Authority for true-up for 1st Control Period

Particulars (in Rs crores)	2012	2013	2014	2015	2016
Opening RAB (a)	1877.02	1771.63	1696.21	1601.99	1470.96
Add: Additions to RAB (b)	15.21	31.59	15.34	15.64	117.83
Less: Deletions to RAB (c)	16.19	0.25	3.00	20.63	1.70
Less: Depreciation (including ADFG adjustment (d)	105.88	106.12	106.73	139.19	153.38
Closing RAB (e)=(a)+(b)-(c)-(d)	1771.63	1696.21	1601.99	1470.96	1445.12
RAB for Tariff Determination {(a)+(e)}/2	1824.33	1733.92	1649.10	1536.48	1458.04
Note: The Closing RAB is computed after reallocation of the common gross block based on the asset allocation ratio for the current year.					

True up of Operating Expenses

3.32. Authority proposes to true-up the following elements of Operating Expenses in line with Decision No. 12 of the Order No. 38/2013-14,

- Mandated costs incurred due to directions issued by Regulatory Agencies like DGCA.
- Costs on actuals related to electricity and water charges.
- Operating expenses pertaining to the selected projects, proposed by HIAL to be undertaken under the Future Capital Expenditure based on evidential submissions made by HIAL.
- All statutory levies in the nature of fees, levies, taxes and other such charges by Central or State Government or local bodies, local taxes/levies, directly imposed on and paid by HIAL.

3.33. The Authority notes HIAL's submission on bad debts worth Rs. 12.33 crore. The Authority notes HIAL's submission on bad debts worth Rs. 12.33 crore. Thus, in addition to two airline customers, Kingfisher Airlines and Paramount Airways, HIAL was unable to recover dues worth Rs. 10 lakh from one of its own group companies, TVS GMR Aviation Logistics Limited. While the Authority proposes to allow the recovery of bad debts on account of default by HIAL's airline customers worth Rs. 12.23 crore, it proposes to disallow the bad debt arising from default by its group company, as while airport operators may genuinely not be able to recover all their dues from their group companies, it would be unfair to pass on such a burden to passengers since such a practice may lead to misuse by airport operators in the future.

3.34. Based on these inclusions, Operating Expenses being considered for true up for the 1st Control Period is presented below,

Table 5: Operational expenses considered by the Authority for true up for the 1st Control Period

Operational expenses (in Rs. Crores)	2012	2013	2014	2015	2016	Aggregate 1st CP
Aero Eligibility (Items without True-Up)	177.04	166.28	180.19	179.20	197.71	900.42
Aero Utilities (1)	15.890	23.48	23.48	23.48	20.48	106.81
Aero Rates & Taxes (2)	6.25	13.14	13.14	13.14	13.14	58.81
Aero Bank Charges (3)	2.98	1.81	1.81	1.81	1.81	10.22
Non-Aero Eligibility (Items without True-Up) (4)	29.03	32.97	34.42	37.75	42.25	176.42
Non-Aero Utilities (5)	0.00	0.00	0.00	0.00	0.00	0.00
Non-Aero Rates & Taxes (6)	0.74	1.85	1.85	1.85	1.85	8.14
Non-Aero Bank Charges (7)	0.37	0.26	0.26	0.26	0.26	1.41
CGF Expenses (8)	11.46	11.14	12.15	13.25	14.46	62.46
As per Order No. 38 under Single Till (9) = sum of (1) to (8)	**243.76**	**250.93**	**267.30**	**270.74**	**291.96**	1324.69
Aero Eligibility (Items without True-Up including forex adj.) (a)	204.66	193.66	199.74	201.03	219.62	1018.72
Utilities (b)	15.89	23.48	20.68	19.23	22.42	101.69
Rates & Taxes (c)	6.35	13.59	8.86	7.94	5.15	41.89
Bank Charges (d)	3.04	1.88	2.91	9.50	4.89	22.22
Bad Debts Written-Off (e)	0.00	0.00	12.23	0.00	0.00	12.23
Total (f)=(a)+(b)+(c)+(d)+(e)	**229.93**	**232.61**	**244.42**	**237.70**	**252.08**	**1196.75**

True-up due to Taxation

3.35. The Authority's proposed treatment on taxation has been explained in chapter 8, para 8.5. The Authority proposes to allocate HIAL's taxes (as per the aggregate profit & loss account) between aeronautical and non-aeronautical components based on the ratio of taxes as per both aeronautical and non-aeronautical profit & loss accounts. Based on the above allocation method, HIAL's taxes for true-up are as given below,

Table 6: Computation of Corporate Tax considered by the Authority for true-up of the 1st Control Period

Computation of Tax for 1st Control Period for true-up (in Rs. crores)	2012	2013	2014	2015	2016	Aggregate 1st CP
Aeronautical PBT	-0.47	98.24	94.29	-221.35	-60.08	-89.37
Aeronautical tax (a)	0.00	20.59	19.76	0.00	0.00	40.35
Non-Aeronautical PBT	73.36	94.27	115.93	128.12	159.16	570.84
Non-Aeronautical Tax (b)	15.77	29.38	37.28	47.18	57.51	187.12
PBT for HIAL as a standalone entity	29.44	143.69	82.41	-191.37	20.09	84.26
Tax for HIAL as a standalone entity (c)	8.96	30.99	36.04	0.00	0.00	75.99
Ratio for allocation of taxes to be incurred by HIAL as a standalone entity (d)={(a)/ (a)+(b)}	0%	41%	35%	0%	0%	
Aeronautical portion of the total tax to be considered for tariff determination (e)=(d)*(c)	0.00	12.77	12.49	0.00	0.00	

True-up of non-aeronautical revenue

3.36. The Authority proposes to true-up the non-aeronautical revenue for HIAL for the 1st Control Period in line with Decision No. 14 of the Order No. 38/2013-14. Since, the Authority proposes to apply 30% shared till for determination of tariffs, 30% of non-aeronautical revenues shall be used to cross-subsidize aeronautical operations. The Authority's principles for true-up of non-aeronautical revenues are presented below,

3.36.1. As discussed in para 3.24.1, CGF revenues have been considered as aeronautical and hence been excluded while computing cross subsidy on account of non-aeronautical revenue. Rationale for the same has been elaborated in chapter 5, paras 5.40 to 5.44.

3.36.2. The Authority proposes to treat revenues from commercial property development as non-aeronautical revenues as discussed in chapter 9, paras 9.66 to 9.68.

3.36.3. The Authority proposed not to consider interest (other than those from its subsidiaries) and other income for determining aeronautical tariffs for the second control period for RGI airport, this has been further discussed in detail in chapter 9, para 9.58.

3.37. Accordingly, the non-aeronautical revenue considered by the Authority for true up is as under,

Table 7: Non-Aeronautical Revenues considered by the Authority under true-up for the 1st Control Period

Non-Aeronautical Revenues (in Rs. crores)	FY2012	FY2013	FY2014	FY2015	FY2016	Aggregate 1st CP
Non-Aero Revenue (a)	129.39	151.75	160.93	180.86	202.97	825.90
Interest Income (b)	24.58	29.70	0.00	0.00	0.00	54.28
Revenue from Non-airport Land (c)	2.68	4.78	3.44	3.62	3.80	18.32
As per Order No. 38 @ 100% (d) = (a) + (b) + (c)	156.65	186.23	164.37	184.48	206.77	898.50
Actual Non-aeronautical Revenue (e)	127.74	153.21	169.88	195.18	222.82	868.83
Actual Non-aeronautical revenue net of Concession fee (f)	122.63	147.09	163.08	187.37	213.91	834.08
As per actuals (g) = 30% * (f)	36.79	44.13	48.93	56.21	64.17	250.22
True-Up (d-g)	119.86	142.10	115.44	128.27	142.60	648.28

3.38. The Authority has compared the target aeronautical revenue for HIAL against aeronautical revenues realised by HIAL as per its audited financial results of the 1st Control Period. The difference in the net present value of the target revenue (entitlement) and actual aeronautical revenue (realisation) is to be considered by the Authority as the amount eligible for true-up. Accordingly, the true-up computed is as below,

Table 8: Total aeronautical revenue considered by the Authority under true-up for the 1st Control Period

Revenue from Aeronautical Charges (in Rs. crore)	2012	2013	2014	2015	2016	Aggregate 1st CP
Passenger Service Fee (Facilitation Component) (a)	28.01	32.60	32.38	-0.03	15.60	**108.56**
Landing Charges (b)	56.79	72.98	70.83	77.16	85.78	**363.54**
Parking Charges (c)	1.21	1.58	1.58	1.72	1.74	**7.83**
User Development Fee (d)	263.39	314.75	316.48	-0.09	142.76	**1037.29**
Common Infrastructure Charges (e)	25.97	31.02	30.30	37.50	40.81	**165.60**
Revenue from Cargo Satellite Building (f)	2.23	2.46	2.70	3.11	3.49	**13.99**
Dividend Income from Cargo subsidiary (g)	1.04	5.98	4.17	5.20	6.40	**22.79**
Interest Income from Cargo subsidiary (h)	0.00	0.00	0.00	0.01	0.02	**0.03**
Revenue from PSO (i)	0.00	0.00	0.00	0.00	0.00	**0.00**
Revenue from NOB (j)	0.00	0.00	0.00	0.00	0.00	**0.00**
Service Tax Adjustment (k)	0.00	0.00	0.00	0.00	0.00	**0.00**
Rentals from ATC facilities (l)	2.41	2.36	2.36	2.60	2.12	**11.85**
Revenue from Cargo (m)	16.50	16.48	17.78	17.87	21.29	**89.92**
Revenue from Ground handling (n)	6.10	7.41	8.69	9.67	10.08	**41.95**
Revenue from CUTE/CUSS/BRS IT services (o)	0.00	0.00	0.00	0.00	0.00	**0.00**
Revenue from Fuel Farm (p)	69.09	67.77	71.69	71.94	69.63	**350.12**
Revenue from Vehicle Fuelling Services (q)	0.42	0.41	0.42	0.45	0.47	**2.16**
Employee Township (r)	0.00	0.00	0.00	0.00	0.63	**0.63**
Income from SFI Scrips (s)	1.30	3.19	0.00	0.00	0.00	**4.49**
Total Aeronautical Revenue (t)= (a)+ (b)+ (c)+ (d)+ (e)+ (f)+ (g)+ (h)+ (i)+ (j)+ (k)+ (l)+ (m)+ (n)+ (o)+ (p)+ (q)+ (r)+(s)	**474.46**	**558.99**	**559.37**	**227.11**	**400.82**	**2220.76**

Table 9: Total true-up of aeronautical revenue considered by the Authority for the 1st Control Period

Amounts (in Rs. crore)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Aggregate 1st CP
As per Order No. 38 under Single Till (a)=(b)+(c)	**467.06**	544.59	564.54	**181.92**	**198.53**	**1956.64**
Aeronautical Revenue (b)	376.25	454.31	473.70	84.79	95.85	**1484.90**
Cargo, Ground handling and Fuel Farm (c)	90.81	90.28	90.84	97.13	102.68	**471.74**
As per Actuals (d)=(e)+(f)	**474.46**	**558.99**	**559.37**	**227.11**	**400.82**	**2220.76**
Aeronautical Revenue (e)	379.50	458.89	454.35	119.31	289.91	**1701.96**
Cargo, Ground handling, Fuel Farm and cargo satellite building (f)	94.96	100.10	105.03	107.80	110.92	**518.81**
True Up (g)=(a)-(d)	**-7.40**	**-14.40**	**5.17**	**-45.19**	**-202.29**	**-264.12**

True up of Pre-Control Period

3.39. The Authority had thoroughly examined HIAL's submissions for consideration of the pre-Control Period losses under the current MYTP for the 2nd Control Period and its analysis is presented in the following section.

3.40. Noting HIAL's submission for considering a pre-Control Period entitlement for the period starting from the day of commencement of its operations till the beginning of the 1st Control Period, the Authority pointed that the airport operator had proposed the same duration for calculating the pre-Control Period entitlement during the tariff determination for the 1st Control Period.

3.41. The Authority stated that while it had initially proposed to consider the Pre-Control Period Loss for the period since commencement of airport operations i.e. 23.04.2008 to 31.03.2011 (inclusive of carrying costs) as per Proposal No. 1.a under section 4 of the Consultation Paper 09/2013-14, it finally decided to revise the pre-Control Period duration to nineteen months starting from September 2009 i.e. after the Authority came into existence as per Decision 2.a under Section 5 of Order No. 38/2013-14. The change in Authority's stance was based on concerns raised by stakeholders, who submitted that the Authority had no legal jurisdiction over the period prior to its establishment. The Authority justified the change in its proposed treatment in para 5.38 of Order No. 38/2013-14 stating that the financial status and concerns of HIAL was already taken care by the then independent regulatory body i.e. the Government of India, in the absence of the Authority. The relevant extracts stating the Authority's position in section 5.38 of Order No. 38/2013-14 for the 1st Control Period is reproduced below,

"Upon reading the responses of various stakeholders including that of AAI mentioned above, it appears to the Authority that some of the stakeholders have viewed the Authority's approach regarding consideration of Pre-Control Period losses as extending the Authority's CP. No. 30/2017-18 HIAL-MYTP Page 40 of 218 ambit to the period "prior to its establishment"....the powers and functions of the Authority were notified from 01.09.2009. The Authority feels that the financial position of the airport operator before 01.09.2009 were addressed by the then Regulator, namely Government and that the Authority should focus on

the period after 01.09.2009 till 31.03.2011 to examine if the airport operator has incurred any deficit (loss) for this period."

3.42. With HIAL issuing no fresh arguments for consideration of the Authority in its MYTP for the 2nd Control Period, the Authority proposed to maintain its position regarding computation of Pre-control period losses from 01.09.2009 until 31.03.2011, i.e. after it came into existence. The Authority's computation is given in the table below,

Table 10: Pre-Control Period deficit (losses) in respect of HIAL as considered by the Authority for the 2nd Control Period

Pre-Control Period Losses (in Rs. Crore)	FY 2009-10	FY 2010-11	Aggregate Pre-CP
As per Order No. 38 under Single Till (a)	39.6	-3.09	36.51
As per Actuals			
Return on Capital Employed (b)	197.66	192.38	390.03
Total Expenses (incl. Concession Fee) (c)	169.35	196.81	366.16
Depreciation (d)	102.67	105.00	207.67
Tax (e)	0.00	0.00	0.00
NAR Cross-Subsidization (f)	-27.52	-30.99	-58.51
Average Revenue Requirement (g)= (b)+ (c)+ (d)+ (e)+ (f)	442.15	463.19	905.34
Less: Actual Aero Revenue (h)	-329.89	-412.02	-741.91
Annual Deficit (Pre-Control Period Entitlement) (i)=(g)+(h)	112.26	51.17	163.43
True-Up (Considering 7 months in FY 2009-10 and FY 2010-11) = {(i)-(a)}*7/12	42.39	54.26	96.65
Discounting Period	-8.3	-7.3	
PV of True-Up	93.70	109.02	**202.72**
Total True-Up as on 01-01-2018		**202.72**	

Table 11: True-up for the 1st Control Period to be considered by the Authority for Tariff Determination of the 2nd Control Period

True-Up for 1st Control Period excluding Pre-CP losses (in Rs. crore)	**2012**	**2013**	**2014**	**2015**	**2016**	**Aggregate for 1st CP**
Absolute Values						
RAB & FRoR (a)	-20.07	-19.53	-20.01	-27.20	-32.94	**-119.75**
Depreciation (b)	-4.74	-7.12	-7.22	42.08	60.65	**83.64**
Eligible Opex (c)	-13.83	-18.32	-22.88	-33.04	-39.88	**-127.94**
Taxation (d)	-8.96	-18.22	-21.47	0.00	0.00	**-48.65**
Non-Aeronautical Revenue (e)	119.86	142.10	115.44	128.27	142.60	**648.28**
Aeronautical Revenue (f)	-7.40	-14.40	5.17	-45.19	-202.29	**-264.12**
Total of Absolute Value (g)=(a)+(b)+ (c)+ (d)+ (e)+ (f)	64.86	64.51	49.03	64.92	-71.86	**171.45**
Total True-Up Adjusted for Time Value (h)=(g)*(1+10.02%)^no. of years	118.24	106.97	73.84	88.81	-89.23	**298.64**
Total value as on 01.01.2018	**298.64**					

Particulars	**Amount (in Rs. crore)**
True-up for Pre-Control Period (a)	202.72
True-up for 1st Control Period (Computed in the table above) (b)	298.64
Total True-up (c)=(a)+(b)	501.37

The Authority thus proposed a true-up of Rs. 501.37 crore as on 01.01.2018 towards determination of aeronautical tariff for the 2nd Control Period.

C) Stakeholder comments on consideration of true-up for Pre-control Period and 1st Control Period

3.43. As part of the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No. 30/2017-18 dated 19.12.2017. Stakeholders have also commented on issues pertaining to true up for the pre-Control Period and 1st Control Period in respect of RGI Airport, Hyderabad. These comments are presented below.

True-up of Cost of Debt

3.44. In the context of treatment of foreign exchange losses, APAO stated that while it appreciated the Authority's proposal to consider such losses incurred by HIAL, as against its decision in Order No. 38/2013-14, it did not agree with the mechanism of capping the recovery based on the year on year Rupee borrowing cost. APAO stated that such a treatment had only led to partial recovery of foreign exchange losses and given the policy lacuna on the matter, the same should be considered without any particular limit. APAO further submitted,

> *"ECB was availed by the Company in order to optimize the funding cost of infrastructure with a long term view of the exchange movement and not on year on year variation which is more event driven. The company could have off-set a significant part of exchange fluctuation had the regulator approved tariff in US Dollars for tickets booked in US Dollars. The regulator has deprived the company, the benefit of natural hedge and hence should consider the entire exchange loss suffered."*

3.45. In addition, APAO requested the Authority to frame policy guidelines on the treatment of forex loss to be brought into effect on a prospective basis so as to ensure clarity on the matter. APAO argued that till such policy guidelines are in place, forex losses reinstated as per AS 11 in the assets portion of the Balance Sheet should be allowed as part of RAB. However, if this is not accepted by the Authority then charge off of such losses as operating cost should be allowed without any ceiling limit. Finally, APAO stated,

> *"Further, we understand that the company has refinanced the whole of its debt with offshore bonds with significantly lower borrowing cost. This initiative will have a wider impact and will reduce the FROR, the benefits of which will get passed on the passengers in the form of reduced tariffs. Hence, we suggest that authority should take a considerate view and allow the capitalization of adjusting for forex losses as per AS 11 and include it in the calculation of RAB instead of capping it with year on year Rupee Term Loan Cost."*

True up of Pre-Control Period

3.46. Referring to the Concession Agreement, both ASSOCHAM and BIAL submitted that the Authority's stand of not allowing true up of Pre-control Period losses goes against the concession granted to the airport operator. BIAL pointed that based on Clause 10.2 of the Concession Agreement, until the establishment of an Independent Regulatory Authority, HIAL would have to seek approval from MoCA on the Regulated Charges. Both BIAL and APAO submitted that prior to the Authority's existence, MoCA had determined UDF on an ad-hoc basis in the absence of any regulatory guidelines for tariff determination. In this regard, APAO opined that,

> *"In fact there was no real determination of eligibility/entitlement and was determined on adhoc basis in the absence of final guidelines for tariff determination during that time. In that process, company could not get the actual eligible tariff resulting in shortfall in revenues."*

3.47. Further, citing the Authority's stance in Consultation Paper No.09/2013-14 for the 1st Control Period, APAO pointed that true up for the Pre-control Period losses had been initially considered and quantified by the Authority under both the single and dual till regulatory mechanisms. It highlighted the Authority's rationale by producing the following extract from the aforementioned Consultation Paper,

"As has been indicated by the Authority in the ad-hoc UDF Order No.06/2010-11 dated 26.10.2010, it had presumed that the Government had expected that HIAL would be able to receive a fair rate of return on its investments (including return on equity). If the rate at which the Government had determined UDF proved to be inadequate for this purpose, it required to be revised (upwards). The Authority had taken the accounts of the Company as a whole (equivalent to single till) for the purposes of calculation of past losses..."

3.48. BIAL also pointed that once the Authority was established, it should consult with MoCA on its tariff determination methodology prior to the Authority's existence and accordingly ensure recovery of Pre-control Period losses by HIAL. In this regard, BIAL's response has been produced below,

"The powers and functions of AERA were notified from 1st September 2009 and tariff determination for 1st Control period was thereon undertaken by AERA wherein it has not considered the pre-control period losses suffered by HIAL prior to its coming into force. AERA should seek directions from MoCA in this matter as it has undertaken tariff determination before AERA's existence. AERA should seek inputs and information from MoCA on the calculation/ working considered by MoCA for tariff. AERA is requested to review its proposal of not considering the prior period losses for the period before 1st September 2009."

3.49. In addition, BIAL also cited Section 13(1)(a) of the AERA Act which mandates the Authority to ensure economic viability. It submitted that the airport operator must not be made to suffer losses as ensuring the airport's financial and operational viability is *"an enshrined objective of AERA"*.

3.50. Further, APAO submitted that given the regulatory approach of considering true up of building blocks based on the submission of audited accounts by the airport operator, HIAL is eligible for recovering the revenue requirement even for the period prior to the Authority's existence as it is a right granted under the Concession Agreement, which cannot be overlooked. According to APAO, *"As an established principle that any shortfall or excess recovery of the eligible tariff should get adjusted in the subsequent period in the form of true up. Hence the authority should consider the pre AERA period eligibility while fixing the tariff for the second control period."*

3.51. Finally, claiming that Authority's proposed treatment *"may send negative signals to the prospective investor in the Indian airport sector"*, ASSOCHAM also requested the Authority to allow true up of losses incurred by HIAL during the Pre-control Period.

D) HIAL's response to Stakeholder Comments on issues pertaining to consideration of true-ups for Pre-control Period and 1st Control Period

3.52. Subsequent to the receipt of comments from the Stakeholders on the Consultation Paper No. 30/2017-18, the Authority forwarded these comments to HIAL seeking its response to these comments. HIAL has provided responses to the Stakeholders' comments, which are presented below:

3.53. HIAL submitted that it concurred with the comments made by BIAL, APAO and ASSOCHAM.

E) HIAL's own comments on issues pertaining to consideration of true-ups for Pre-control Period and 1st Control Period

True-up of Cost of Equity

3.54. With respect to the Authority's proposed treatment of calculating true up of cost of equity at 16% given in chapter 3, para 3.31 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL reiterated its submission of considering cost of equity at 24.2% based on the Jacobs Consulting report stating that the report had been prepared taking into account parameters suitable to HIAL's context. HIAL further contended that the NIPFP report, based on which the Authority had made its decision, could not be relied upon. In this regard, HIAL submitted that,

> *"In this regard, we submit the reliance on NIPFP Report is misplaced as NIPFP has no previous credentials for determination of Return of Equity and further, NIPFP has not been appointed as an expert as required under the provisions of the Act. Also, the parameters adopted by NIPFP in its report are flawed and not specific to Indian airport sector."*

3.55. Finally, referring to the recommendations made in the study by SBI Capital Markets, HIAL urged the Authority to consider the cost of equity as mentioned in the study for determination of FRoR. HIAL reasoned that the said study, commissioned by MoCA, adopted evaluation parameters that are more relevant to the Indian airport sector. As per HIAL's submission,

> *"Without prejudice to our claim of 24% for Cost of Equity, we place reliance on the reports of SBI Capital Markets Limited, who was appointed by MoCA (as the policy making authority) for the purpose of determination of ideal cost of equity for airport sector/operators and whereby SBI Cap recommended CoE of airports in the range of 18.5% to 20.5%.It is also relevant to note that, unlike NIPFP Report, the SBI Cap Report has adopted the parameters specific to the Indian airport sector and therefore is more relevant as expert evidence..."*

True-up of Cost of Debt

3.56. On the treatment of foreign exchange losses as operating expenses as proposed by the Authority in chapter 3, para 3.32 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL asserted that its submission of treating forex losses as per AS 11 was well established and "universally accepted". HIAL submitted that during the stakeholder consultation held on 22.01.2018, it was made to understand that the forex loss would be treated as a charge off similar to the treatment meted out in the case of DIAL. Referring to the Authority's Order No. 40/2015-16 in the case of DIAL, HIAL quoted the following extract,

> *"8.25. .... The Authority is of the view that in case it were to consider foreign exchange rate fluctuations by expensing out actual losses on this account, it would also true up the WACC (including actual interest rates on domestic term loan). The Authority had communicated to DIAL to consider foreign exchange losses along with true-up of WACC. However, DIAL did not exercise any option....."*

3.57. Further, HIAL claimed that by availing ECB, it passed on benefits of lower borrowing cost in the form of lower FRoR to the airport users even in the absence of regulatory guidelines. Accordingly, HIAL urged the Authority to allow it to recover the total forex losses without any limitation till the Authority frames any guidelines in the future on a prospective basis. Accordingly, HIAL submitted that, *"The Authority while considering the revenues has mopped up the benefits on account of USD receivables from PSF / Duty free by truing it up on actual, however, not allowing the loss suffered on External Commercial Borrowings due to Rupee depreciation.*

In case Authority is proposing any structure for allowance of forex losses, that should be on prospective basis so that the airport operators can internally do the complete due diligence before availing any ECB loan and take necessary hedging for the associated risk in advance. Any retrospective limitation of the losses is not feasible at this juncture and will lead to significant losses for the company."

3.58. HIAL pointed that given that WACC is eligible for true-up, the Authority should have allowed recovery of the exchange loss actually incurred by the airport operator in line with the treatment proposed in the case of DIAL. However, applying a ceiling on forex loss recovery based on year-on-year Rupee borrowing cost has led to only partial recovery and is inconsistent with the Authority's past stance. Accordingly, HIAL requested the Authority to either treat forex losses as given under AS11 or using the charge off methodology considered by the Authority without applying YoY cap with Rupee borrowing cost.

3.59. Additionally, HIAL argued that while the Authority provided an approach on the treatment of forex variations on the cost side, there is no clarity on the treatment on the revenue side and accordingly urged the Authority to clarify the same. Finally, HIAL submitted that the exchange rate used for converting USD revenue should be at par with the rate assumed for costs including interests and repayments.

True-up of Weighted Average Cost of Capital

3.60. Responding to the Authority's proposed treatment on the WACC given in chapter 3, para 3.33 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL pointed that the Authority had not included the positive reserves and surplus of the company and requested to include the same in the calculation. In addition, it further stated that the ECB interest that had been considered by the Authority for the calculation of WACC did not correspond with the auditor certificate that had been submitted to the Authority via email dated 05.04.2017. Accordingly, HIAL requested the Authority to rectify the calculation errors to determine the WACC for the 1st Control Period.

True-up of Aero/Non-Aero Allocation

3.61. On the true up of allocating cargo, ground handling and fuel supply services as aeronautical services presented by the Authority in chapter 3, para 3.34.1 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL urged the Authority to refer to its comments made in chapter 5, paras 5.120 to 5.130 and asserted that concessions granted to it should be taken into consideration including recognition of CGF services as non-aeronautical services for tariff determination.

3.62. Regarding the Authority's proposal to consider vehicle fuelling service as aeronautical for the purpose of true up mentioned in chapter 3, para 3.34.2 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that these services are provided by a third party operator, BPCL, to supply fuel to the vehicles on the airside and are not considered as a core function of the airport. Accordingly, it requested the Authority to consider the same as a non-aeronautical service.

3.63. In the context of the Authority's allocation of CUTE, CUSS and BRS IT services in chapter 3, para 3.34.3 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL referring to its rationale explained in chapter 5, para 5.132 submitted that the services are part of the ground handling activity as admitted by the Authority, and should accordingly be recognised as non-aeronautical as provided by the Concession Agreement.

3.64. On the Authority's proposal to recognise CSB as aeronautical for true up purposes given in chapter 3, para 3.34.4 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that CSB, which was built to be leased out as office space for freight consolidators/forwarders or cargo agents, falls within the list of non-airport activities as provided in its Concession Agreement. Further, referring to Clause 10.3 of the Concession Agreement, HIAL submitted that it was free to determine charges of services and facilities such as the CSB for which Regulated Charges are not levied.

3.65. With respect to the Authority considering FEGP as an aeronautical service for purposes of true up calculation proposed in chapter 3, para 3.34.5 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL said that,

> *"FEGP services form part of ground handling activity as admitted by the Authority and hence request the Authority to treat this service as non aeronautical in line with our concession provision, the detailed rationale of which is elucidated in the "Guiding Principles of the Authority" segment."*

3.66. Responding to the Authority's treatment of allocating NOB between non-aeronautical and common assets proposed in chapter 3, para 3.34.7 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that NOB was the corporate office for all its key staff. HIAL added that the NOB was developed to cater to the increasing office space requirements of HIAL with the growth in airport operations. HIAL submitted that it is currently occupying three floors and had "opportunistically leased out" the remaining two floor, which would get occupied by HIAL with the growth in airport operations. HIAL accordingly, urged the Authority to "treat NOB in line with Terminal building and then allocate based on aero: non aero asset ratio. Further, HIAL claimed that the Authority's allocation of NOB assets as 40% non-aeronautical and 60% as common asset from FY 16 was incorrect as the company had leased out the two floors only for the time being and to ensure "opportunistic utilization" of resources. HIAL finally contended that,

> *"...usage of NOB by GHIAL will increase significantly post the deployment of additional manpower in FY19 and FY 20 on account of expansion and will be utilised 100% for company's operations.*
>
> *Also, change in allocation YOY based on the actual utilisation will complicate the whole allocation process and will make the reconciliation of total RAB and depreciation very difficult."*

3.67. In the context of deducting the ADFG amount from the aeronautical assets and aeronautical depreciation to calculate the RAB proposed in chapter 3, para 3.35 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL responded that the Authority's treatment was divergent with its earlier approach in Order No. 38/2013-14, wherein it was stated that the ADFG granted by GoAP was not allocated specifically for any particular class of assets and hence, could not be reduced from RAB.

3.68. HIAL further submitted that for a holistic passenger service, it was impossible to separate out non-aeronautical assets from airport operations and accordingly, ADFG should be reduced from the overall assets block. Finally, HIAL observed that the concession was awarded to it owing to its minimum quote on required government support for overall airport infrastructure development. Accordingly, removal of grant only from the aeronautical asset block would not align with the purpose for which it was given.

3.69. With respect to the Authority's proposal in chapter 3, para 3.36 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, to disallow the capitalization of adjusting for forex losses as per AS 11 and capping its recovery as an operating expense, HIAL submitted that it would be unfair to cap recovery of forex losses to the tune of the upper limit of the YOY Rupee borrowing cost citing the following reasons:

"

a. *Foreign exchange borrowing was resorted to with the sole intention to bring down the overall cost of borrowing over the period of loan rather than looking at cost for a shorter period or year on year variation.*

b. *Decision of going in for Rupee or foreign currency borrowing is taken at a given point in time with the available information and long term view of currency at that time when such decision was made.*

c. *There has not been any guidelines making it either mandatory to hedge the foreign currency borrowing or limiting the cost of foreign exchange variation to an overall Rupee cost. Any such decision can at best be prospective and not retrospective so that the Company can take necessary mitigating steps pronto. A retrospective application of such arbitrary benchmarking with Rupee cost will put the company into significant disadvantages as the exchange fluctuation is beyond the control of the company.*

d. *Hence any subsequent artificial restriction of overall cost capping at Rupee borrowing cost is arbitrary and unfair"*

3.70. HIAL further claimed that while the Authority had realised the benefits of USD receivables, it was not allowing HIAL to recover its corresponding loss arising out of Rupee depreciation on ECB. It submitted that it had passed on the benefits of availing ECB to airport users in the form of lower WACC even in the absence of regulatory guidelines, and accordingly, the losses incurred by it should be allowed to be recovered in total given the lack of any clarity on regulatory guidelines on this issue.

"Hence, in the absence of any clear guidelines on treatment of exchange movement any such loss incurred should be allowed in toto without any restriction by following the principle that when the benefit of lower cost is passed on, the loss on the same should also be allowed as pass through."

3.71. Finally, HIAL submitted that any structure proposed by the Authority for considering forex losses should come into effect on a prospective basis so that the airport operators may undertake detailed assessment before availing any ECB loan and take necessary hedging for the associated risk in advance. *"Any retrospective limitation of the losses is not feasible at this juncture and will lead to significant losses for the company."*

True up of Depreciation

3.72. On the Authority's proposed treatment of true up of depreciation by excluding the depreciation owing to forex losses as per AS 11 given in chapter 3, para 3.39 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL reiterated its stand that depreciation on account of exchange losses are submitted as per AS 11 treatment and requested the Authority to allow the same. Further, HIAL opined that it would be willing to remove depreciation on forex loss if the Authority allowed these losses to be treated as a pass through without applying any ceiling with respect to RTL.

True up of Operating Expenses

3.73. With respect to the true up of operating expenses provided in chapter 3, para 3.41 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that there was a shortfall of Rs 8.33 crore in the Authority's calculation and accordingly submitted the following reconciliation table for the Authority to revise the calculation,

"Operating Expense

Particulars	*2012*	*2013*	*2014*	*2015*	*2016*
Aero Expense – CPI Order – (Excl Fuel, Concession Fee) Truable items as per Order	*186.39*	*184.55*	*197.81*	*212.28*	*227.31*
Utilities	*15.89*	*23.48*	*23.48*	*23.48*	*20.48*
Rates and Taxes	*6.25*	*13.14*	*13.14*	*13.14*	*13.14*
Bank Charges	*2.98*	*1.81*	*1.81*	*1.81*	*1.81*
Sub-Total	*25.12*	*38.43*	*38.43*	*38.43*	*35.43*
Revised Aero Eligibility	*161.27*	*146.12*	*159.38*	*173.85*	*191.88*
Concession Fee	*18.68*	*21.78*	*22.59*	*13.54*	*15.02*
Fuel	*8.55*	*9.52*	*10.39*	*11.33*	*12.36*
Aero Expense excluding forex	*188.50*	*177.43*	*192.36*	*198.72*	*219.26*
Expense allowed by AERA in CP	*204.66*	*193.66*	*199.74*	*201.03*	*219.62*
Balance to be allocated forex	*16.16*	*16.23*	*7.38*	*2.31*	*0.36*
Actual allowable forex in line with AERA proposal	*15.18*	*15.07*	*7.61*	*7.96*	*4.95*
Excess/(Shortfall) towards forex	*0.98*	*1.16*	*(0.23)*	*(5.65)*	*(4.59)*

..."

3.74. Regarding the proposed treatment of the Authority to disallow true up of bad debts from group companies mentioned in chapter 3, para 3.44 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL responded that the JV formed with TVS GMR Aviation Logistics Limited was shut down on account of limited business opportunity. HIAL clarified that it could not exercise any influence on the JV to recover its dues as it was conducting business with the same at an arm's length distance. Accordingly, HIAL requested that the Authority also consider dues owed by TVS GMR Aviation Logistics Limited as part of bad debts.

True-up of non-aeronautical revenue

3.75. On exclusion of revenues from cargo, ground handling and fuel farm for true up of non-aeronautical revenues described in chapter 3, para 3.48 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL stated that the said services cannot be considered as aeronautical services based on the concession granted to it. HIAL submitted that,

> *"We would like to reiterate that as per concession provision CGF services aren't part of regulated charges and hence would request the Authority to refrain itself from treating CGF services as aeronautical. Similarly, CSB being non-airport, should also be outside the regulatory purview."*

3.76. On the consideration of revenues from real estate development as non-aeronautical revenues for the purpose of true up in chapter 3, para 3.49 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL citing its Concession Agreement submitted that real estate development was listed as a non-airport activity and should therefore, be considered outside the regulatory purview.

True up of Pre-Control Period

3.77. In the context of the Authority disallowing true up of Pre-control Period losses as given in chapter 3, para 3.56 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL referred to the Authority's stance in its Consultation Paper No.09/2013-14 for the 1st Control Period and stated that the Authority allowed true up of Pre-control period losses incurred between 23.04.2008 and 31.03.2011 at Rs. 260.68 crore under Single till and Rs. 447.14 crores under dual till. The Authority's justification for considering the same was produced by HIAL as follows:

> *"As has been indicated by the Authority in the ad-hoc UDF Order No.06/2010-11 dated 26.10.2010, it had presumed that the Government had expected that HIAL would be able to receive a fair rate of return on its investments (including return on equity). If the rate at which the Government had determined UDF proved to be inadequate for this purpose, it required to be revised (upwards). The Authority had taken the accounts of the Company as a whole (equivalent to single till) for the purposes of calculation of past losses... "*

3.78. HIAL further noted that the Authority had then reversed its stance subsequently in its Order No. 38/2013-14 for the 1st Control Period based on the objection made by AAI, which had opined that "The consideration of loss effective 2008 on ARR method implies shifting of control period effective 2008". However, HIAL also pointed that the Authority had responded to AAI's objection by clarifying that it had initially calculated Pre-Control Period losses based on the premise that the UDF w.e.f. 23.04.2008 would have possibly been higher if MoCA, which played the regulator's role during that period, had adopted the Authority's tariff determination methodology effective from 01.04.2011. The Authority had opined that by considering Pre-control Period initially, it had not shifted the 1st Control Period back to 2008.

3.79. In addition, HIAL submitted that prior to the passing of the Order No. 38/2013-14, a detailed tariff determination exercise had not been undertaken for HIAL. It observed that the earlier exercises of UDF determination, initially by MoCA dated 28.02.2008 and subsequently revised by the Authority through Order dated 26.10.2010, were done only on an ad-hoc basis. In this regard, HIAL submitted that, *"Thus, prior to the passing of Order No. 38, there has been no determination of tariff with regard to the Airport, which takes into account all the financial parameters concerning the operation of the Airport from 23.03.2008 and upto 31.03.2011 and hence the losses suffered by GHIAL right from the commencement of commercial operations ought to have been taken into account by the Authority while determining the tariff."*

3.80. Further responding to the Authority's justification of not determining tariff for the period prior to its regulatory powers being notified, HIAL stated that the HIAL's entitlement of levying and recovering aeronautical charges as provided by its Concession Agreement was not dependent on the Authority's constitution. Citing Clause 10.2.2 of the Concession Agreement, HIAL submitted that it had the right to recover its investments by way of tariff from the 'Airport Opening' i.e. 23.03.2008.

3.81. HIAL submitted that when it commenced airport operations, MoCA approved airport charges on an ad-hoc basis and upon establishment of the Authority on 01.09.2009, MoCA's regulatory powers were transferred to the Authority. HIAL submitted that,

"Though the Authority has come into being from 01.09.2009, it assumed the duties, powers and responsibilities of erstwhile MoCA for determination of tariff. Hence, in our view, it is only transfer of power for determination of tariff from MoCA to AERA and hence the date of constitution of Authority has no relevance and it has the jurisdiction to consider tariff for the period from 23.03.2008 till 31.08.2009 and as principle PCPE shall be trued up while determining the tariff for aeronautical services in subsequent period."

3.82. Arguing that the Authority had determined tariff for period prior to its existence in the case of MIAL in its Order no 32/2012-13 where the tariff was considered for the period starting 1.04.2009, HIAL requested the Authority to adopt a similar regulatory approach and allow HIAL to recover its Pre-control period entitlement.

3.83. In addition, HIAL also cited the Authority's order dated 26.10.2010, wherein while revising ad-hoc UDF determined by MoCA, the Authority had stated that the UDF rates determined may need to be revised further upon a more detailed examination at a later stage. The relevant extract from the Authority's Order as quoted by HIAL is provided below,

"...After reconciliation the UDF rate has been worked out as Rs-430/- per domestic passenger and Rs.1700/-per international passenger, exclusive of service tax, on an ad-hoc basis w.e.f, 01.11.2010 (details at Annexure III). Authority is conscious that on a detailed assessment, including bottoms up analysis of all revenues and expenditures, the UDF rates presently determined may need to be altered. This exercise will be undertaken at the final determination stage."

3.84. HIAL therefore, argued that by reducing the period for considering Pre-control period losses only from 01.09.2009 to 31.03.2011, the Authority was contradicting its own Order dated 26.10.2010, wherein it had held that it would undertake a detailed assessment of all revenues and expenditures at the final stage of tariff determination. HIAL however, pointed that no final tariff determination exercise had been undertaken in its case and HIAL's request for a hike in UDF was "transferred" to the Authority for its consideration including treatment of losses/shortfall suffered by the airport operator since commencement of operation. HIAL also stated that the Authority's Order dated 26.10.2010 in fact was essentially a continuation of the charges approved by MoCA in 18.08.2008.

3.85. HIAL said that the Authority had further added in its Order dated 26.10.2010 that since the economic regulatory approach had not been finalized by the Authority, tariff determination for HIAL would take more time and till then the enhancement in revenue through the revised UDF could be considered on an ad-hoc basis. The Authority further held that if the revised UDF was not considered, then the target revenue could be higher during tariff determination. Given this context, HIAL submitted that since its tariff determination at the time had to be delayed due to lack of regulatory guidelines and could only be undertaken post completion of the Pre-control Period, the Authority is "duty bound" to also consider the losses from this period and it cannot "artificially reduce" the period on the ground that it was not in existence from 23.03.2008 to 01.09.2009"

3.86. HIAL further submitted that the Authority did not provide any "cogent reasons" for change in its stance from the Consultation Paper of the 1st Control Period to its final treatment in the Order for the 1st Control Period and subsequently the Consultation Paper for the 2nd Control Period. HIAL stated that, the Authority's decision "is clearly an afterthought and the said decision is prejudicial to the financial position of the GHIAL."

3.87. HIAL also submitted that, "neither the AERA Act nor any of the tariff determination proposals/papers/guidelines issued by the Authority from time to time circumscribe its powers in the manner it itself seeks to do i.e. consider the pre control period losses only from the date of its own creation specially when after the creation of the Authority it left open the issue of consideration of all revenues and expenditure by way of its order dated 26.10.2010"

F) Authority's examination of stakeholder comments on consideration of true-ups for Pre-control Period and 1st Control Period

3.88. The Authority has carefully examined the comments made by the stakeholders as well as HIAL on the issue of consideration of true up for Pre-control Period and the 1st Control Period in the tariff determination for the current Control Period.

True-up of Cost of Equity

3.89. It is observed that HIAL has resubmitted its request to calculate true up of WACC based on Cost of Equity of 24% based on the study undertaken by Jacobs Consulting or to at least consider it in the range of 18.5% - 20.5%, without providing any fresh arguments. Accordingly, the Authority has decided to maintain cost of equity at 16% for tariff determination based on its justification provided in chapter 6, para 6.60.

True-up of Cost of Debt

3.90. The Authority has observed HIAL's comment on capping of forex losses arising on account of ECB. The Authority acknowledges that interest rate for ECB is expected to be lower than that of domestic borrowing and the benefits of this lower cost of borrowings would have been spilled over to the passengers and airlines. However, these borrowings are subjected to foreign exchange fluctuations which until now have been borne by the airport operator. This rationale has been further elucidated in chapter 7, paras 7.74 to 7.75. Accordingly, the Authority has decided to maintain its stance on comparing the cost of borrowing through ECBs (foreign currency borrowings) with that of the RTLs (domestic borrowings) and allowing HIAL to recover forex losses to the extent that the effective cost of borrowing in foreign currency (net of forex gains / losses) is not higher than the cost of RTLs.

True-up of Weighted Average Cost of Capital

3.91. The Authority has noted HIAL's submission stating that Authority while calculating the WACC has not recognized the positive reserves and surplus of HIAL. The Authority notes that as per latest financial model submitted by HIAL, HIAL had positive reserves in only one year during the first control period of Rs. 18.61 crore in FY 2013-14. However, as a result of the decisions taken by the Authority (e.g. partially allowing of foreign exchange losses as part of regulatory operating expenses), this positive reserve in FY 2013-14 was wiped-off in the regulatory financial model and hence has not been considered.

True-up of Aero/Non-Aero Allocation

3.92. The Authority notes HIAL's request to allocate CGF services as non-aeronautical services for true up purposes. However, given the recognition of cargo, ground handling and fuel farm services as part of aeronautical services in the AERA Act, 2008 and MoCA's recommendation on treating these services as aeronautical in response to Consultation Paper No. 14/2013-14 pertaining to tariff determination of BIAL for the 1st Control Period, as detailed in chapter 5, paras 5.40 to 5.44, the Authority has decided to continue with its existing treatment of recognising the said services as aeronautical.

3.93. The Authority has examined the comments made by HIAL seeking recognition of vehicle fuelling service as non-aeronautical on the grounds that services are not a core function of the airport and are in fact, being provided by a third party operator. The issue has been analysed by the Authority in detail vide chapter 5, para 5.45 wherein, the Authority had held that these services are incidental to aircraft operations. In the absence of any new arguments issued by HIAL to support its request, the Authority has decided to continue with its treatment of considering vehicle fuelling services as aeronautical services.

3.94. The Authority duly notes HIAL's comment regarding treatment of CUTE, CUSS and BRS IT services as non-aeronautical on account of them being integral to the ground handling function. By virtue of the said services being categorised as part of ground handling services, which have themselves been recognised by the Authority as an aeronautical service for the purpose of true up as given in chapter 5, paras 5.40 to 5.44, the Authority has decided to keep its stance unchanged and treat CUTE, CUSS and BRS IT services as aeronautical as mentioned in chapter 5, para 5.46.

3.95. The Authority observes that HIAL has resubmitted its claim for treating CSB as part of non-airport services as the building was being used as an office space by freight forwarders and also as a transit warehouse. It is pertinent to mention that these arguments have already been examined by the Authority in chapter 5, para 5.47, wherein the Authority argued that since the building was being used to undertake cargo related operations, it should be treated as an aeronautical asset in line with the treatment of true up of cargo services, as decided by the Authority in chapter 5, paras 5.40 to 5.44. With no additional arguments being provided by HIAL, the issue does not merit any reconsideration by the Authority and accordingly, CSB will continue to be treated as aeronautical services.

3.96. The Authority duly notes HIAL's comment regarding treatment of FEGP service as non-aeronautical given their alignment with the ground handling function. With the Authority retaining its stance of treating ground handling as an aeronautical service, the Authority believes that FEGP service should also be considered as aeronautical. The Authority's position has been documented in chapter 5, para 5.48. Accordingly, FEGP, which is related to ground handling, shall also be treated as an aeronautical service.

3.97. On the treatment of NOB, the Authority has analysed HIAL's submission that it had "opportunistically leased out" two floors for the time being and that these would get occupied by HIAL with expansion of the airport. The Authority believes that it would be inappropriate to consider the portion of NOB leased out as anything other than non-aeronautical, at least during the period when the asset is leased out. The Authority may consider revising its position for the period when HIAL starts utilizing the asset for its own use in future. The Authority notes that in the absence of any compelling reasons provided by the airport operator, it has decided to continue with this extant stance mentioned in chapter 5, paras 5.50 and 5.51.

3.98. It was observed by the Authority that HIAL, citing its Order No. 38/2013-14, urged the Authority to consider removal of grant proportionately from the overall RAB instead of deducting it entirely from the aeronautical asset block. Based on its examination of the rationale submitted by HIAL, the Authority notes that no fresh arguments have been submitted by HIAL and accordingly, it has decided to retain its treatment of ADFG as given in para 3.25, that any inflow which is of the nature of a grant should be used to finance aeronautical assets only.

True up of Operating Expenses

3.99. Also, the Authority notes HIAL's submission that as per HIAL's calculations, there is a shortfall of ~Rs. 8.33 crores in the true-up for operating expenses. The Authority notes that the difference is on account of the aeronautical concession fee which is allowed towards true-up. The Authority notes HIAL's suggestion that the aforementioned differential could be addressed through a reconciliation exercise along with HIAL. The authority proposes to conduct this reconciliation at the time of tariff determination for the 3rd Control Period.

3.100. The Authority examined the rationale submitted by HIAL for allowing true up pertaining to bad debts owed by its JV partner TVS GMR Aviation Logistics Limited citing its inability to exercise any influence after winding up of the JV. The Authority would like to point that while airport operators may genuinely not be able to recover all their dues from their group companies, it would be unfair to pass on such a burden to passengers since such a practice may lead to misuse by airport operators in the future. Accordingly, the Authority has decided to continue with its existing stance of disallowing true up of bad debts owed by TVS GMR Aviation Logistics Limited as provided in para 3.33.

True-up of non-aeronautical revenue

3.101. On HIAL's comment to include CGF for true up of non-aeronautical revenues based on the concession granted to it, the Authority notes that in the absence of any fresh comments being submitted by HIAL, the Authority has decided to continue with its existing treatment of excluding these revenues and treating them as aeronautical as per the rationale presented in chapter 5, paras 5.40 to 5.44.

3.102. Further, the Authority notes HIAL's response regarding consideration of revenues from real estate development as non-airport to be considered outside the regulatory purview. Based on its rationale provided in chapter 9, paras 9.66 to 9.68, the Authority has decided to maintain its stand to consider these revenues as part of non-aeronautical revenues for the purposes of true up.

True up of Pre-Control Period

3.103. The Authority has noted the comments made by ASSOCHAM, BIAL, APAO and HIAL on truing up of pre-control period losses for the entire period starting from the commencement of airport operations. However, the Authority observes that no new arguments were made by the stakeholders. Therefore, based on its justification given in paras 3.40 to 3.42, wherein it observed that it can not determine tariffs for the period prior to its existence as it had no legal jurisdiction, the Authority has decided to keep its stance unchanged and allow true up of Pre-control Period losses incurred only during the period between 01.09.2009 and 31.3.2011.

3.104. Further, the Authority noted that HIAL's financial model while truing up non-aeronautical revenue revenues had considered these revenues net of Concession Fee. Accordingly, the Authority made an adjustment to HIAL's true-up entitlements by considering gross non-aeronautical revenues. Accordingly, HIAL's revised true-up entitlements are as follows.

Table 12: Pre-Control Period deficit (losses) in respect of HIAL as considered by the Authority for the 2nd Control Period in the tariff order

Pre-Control Period Losses (in Rs. Crore)	**FY 2009-10**	**FY 2010-11**	**Aggregate Pre-CP**
As per Order No. 38 under Single Till (a)	39.6	-3.09	36.51
As per Actuals			
Return on Capital Employed (b)	197.66	192.38	390.03
Total Expenses (incl. Concession Fee) (c)	169.35	196.81	366.16
Depreciation (d)	102.67	105.00	207.67
Tax (e)	0.00	0.00	0.00
NAR Cross-Subsidization (f)	-28.67	-32.28	-60.95
Average Revenue Requirement (g)= (b)+ (c)+ (d)+ (e)+ (f)	441.00	461.90	902.90
Less: Actual Aero Revenue (h)	-329.89	-412.02	-741.91
Annual Deficit (Pre-Control Period Entitlement) (i)=(g)+(h)	111.12	49.88	161.00
True-Up (Considering 7 months in FY 2009-10 and FY 2010-11)	41.72	52.97	94.69
Discounting Period	-8.3	-7.3	
PV of True-Up	92.23	106.43	198.65
Total True-Up as on 01-01-2018		198.65	

Table 13: True-up for the 1st Control Period to be considered by the Authority for Tariff Determination of the 2nd Control Period in the tariff order

True-Up for 1st Control Period excluding Pre-CP losses (in Rs. crore)	2012	2013	2014	2015	2016	Aggregate for 1st CP
Absolute Values						
RAB & FRoR (a)	-20.07	-19.53	-20.01	-27.20	-32.94	-119.75
Depreciation (b)	-4.74	-7.12	-7.22	42.08	60.65	83.64
Eligible Opex (c)	-13.83	-18.32	-22.88	-33.04	-39.88	-127.94
Taxation (d)	-8.96	-18.22	-21.47	0.00	0.00	-48.65
Non-Aeronautical Revenue (e)	118.33	140.27	113.41	125.93	139.92	637.85
Aeronautical Revenue (f)	-7.40	-14.40	5.17	-45.19	-202.29	-264.12
Total of Absolute Value (g)=(a)+(b)+ (c)+ (d)+ (e)+ (f)	63.33	62.67	46.99	62.57	-74.53	161.02
Total True-Up Adjusted for Time Value (h)=(g)*(1+10.10%)^no. of years	**115.45**	**103.93**	**70.77**	**85.61**	**-92.55**	283.20
Total value as on 01.01.2018	283.20					

Particulars	**Amount (in Rs. crore)**
True-up for Pre-Control Period (a)	198.65
True-up for 1st Control Period (Computed in the table above) (b)	283.20
Total True-up (c)=(a)+(b)	481.85

Decision No. 3. Regarding true-up of ARR for the 1st Control Period

Based on the material before it and its analysis, the Authority decides:

3.a. To consider the amount given in Table 13 as the adjustment for true-up in respect of RGI Airport, Hyderabad for the 1st Control Period.

4. CONTROL PERIOD

A) HIAL Submission on Control Period

4.1. As per its initial MYTP submission dated 25.03.2016, HIAL submitted that it has considered the 2nd Control Period of 5 years from 01.04.2016 up to 31.03.2021. In its revised MYTP submission made on 05.12.2016, HIAL re-iterated its position as stated above.

B) Authority's Examination of HIAL Submissions on Regulatory Period

4.2. The Authority proposes to follow the 2nd Control Period in respect of RGI Airport, Hyderabad from 01.04.2016 to 31.03.2021 in line with the Airport Guidelines and as per the submission made by HIAL.

C) Stakeholder comments on setting of Regulatory Period

4.3. As part of the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No. 30/2017-18 dated 19.12.2017. Stakeholders have also commented on regulatory period to be considered in respect of RGI Airport, Hyderabad. These comments are presented below:

4.4. On the proposal of setting the regulatory period, IATA stated that,

> *"We support the proposal to set the regulatory period between 01.04.2016 and 31.03.2021"*

D) HIAL's response to Stakeholder Comments on issues pertaining to Control Period

4.5. HIAL has not issued any responses to comments submitted by stakeholders.

E) HIAL's own comments on issues pertaining to Control Period

4.6. HIAL has not submitted any comments in the context of the Control Period proposed by the Authority in chapter 4, para 4.3 of Consultation Paper No. 30/2017-18 dated 19.12.2017, whereby it proposed to consider the period from 01.04.2016 to 31.03.2021 for tariff determination of HIAL for the 2nd Control Period.

F) Authority's examination of stakeholder comments on consideration of Control Period

4.7. The Authority has carefully examined the comments made by the stakeholders on the issue of regulatory period and in the absence of any objections, the Authority has decided to consider 2nd Control Period in respect of RGI Airport, Hyderabad from 01.04.2016 to 31.03.2021.

Decision No. 4. Regarding Control Period

Based on the decision before it and its analysis, the Authority decides:

4.a. To consider the 2nd Control Period in respect of determination of tariffs for aeronautical services in respect of RGI Airport, Hyderabad to be from 01.04.2016 up to 31.03.2021.

5. REGULATORY ASSET BASE

A) HIAL submission on Regulatory Asset Base (RAB)

Principles for determination of Regulatory Asset Base

5.1. According to its submissions dated 25.03.2016 and 05.12.2016, HIAL has mentioned that it has calculated RAB (representing aeronautical assets) using the principles given below,

"…

RAB at the start of a year/period (Opening RAB)

+

Projected/Actual Capital Investment (based on capitalization date)

-

Projected/Actual Disposals

-

Projected/Actual Depreciation

=

RAB at the end of a year/period (Closing RAB)

…"

"…

RAB for Tariff Determination = (Opening RAB + Closing RAB) / 2

…"

5.2. HIAL has computed RAB for each year under the 30% Shared Till mechanism, which includes only aeronautical assets citing compliance with the directions issued by MOCA u/s 42(2) of the AERA Act.

Allocation of assets

5.3. HIAL in its MYTP submissions has segregated the RAB for aeronautical and non-aeronautical assets. In this regard, HIAL submitted a Concept Note as part of its MYTP submission (Annexure 3), which highlights the allocation methodology adopted by HIAL for asset classification into aeronautical, non-aeronautical and common assets. As per the note, HIAL has relied on the concept of "Regulated Charges" as mentioned in clause 10.2 and Schedule 6 of the Concession Agreement executed between the Government of India, Ministry of Civil Aviation and HIAL on 20.12.2004. As part of the concept note, HIAL has listed down the activities, assets pertaining to which it has identified as aeronautical and non-aeronautical. HIAL subsequently stated that all those assets that are not identifiable/categorized into either aeronautical or non-aeronautical categories have been classified by common assets.

5.4. HIAL also submitted allocation methodology adopted for the common assets which have been summarized in the table below.

S. No.	Description of the Asset	Basis of Apportionment
1.	Passenger Terminal Building (PTB)	Area of Terminal Building used for aeronautical and non-aeronautical services (84.6%:15.4%)
2.	Heating Ventilation and Air Conditioning system for Passenger Terminal Building.	Area of Terminal Building used for aeronautical and non-aeronautical services (84.6%:15.4%)
3.	Site Office Building (including Furniture & Fixtures) and associated works.	Aero : Non-aero assets ratio
4.	New Office Building (Including Furniture & Fixtures) and associated works	Aero : Non-aero assets ratio
5.	Quarters for outside Security Personnel	Aero : Non-aero assets ratio
6.	Common Hardware, software and Communication System	Aero : Non-aero assets ratio
7.	Central Stores Building	Aero : Non-aero assets ratio

5.5. In addition, HIAL submitted that it has revised the classification of certain categories of assets compared to their allocation in the 1st Control Period. A summary of changes from HIAL's submission dated 14.10.2015 has been presented below,

Particulars	Previous allocation	Revised allocation
Common Infrastructure Assets (CIA)	Considered as Aero	CIA includes Aero Bridge, VDGS, BHS, CUTE, CUSS and BRS. CUTE, CUSS and BRS are considered as Non-Aero.
CUTE, CUSS, BRS and other technology enabled solutions	Considered as Aero as it was forming part of composite services as above	Considered as Non Aero (prospectively w.e.f 1st April 2016) post separate out of CUTE, CUSS and BRS assets.
Cargo Satellite Building (CSB)	Considered as Non Aero	Considered as Non Airport Activity and not used for allocation into aero and non-aero.
Fixed Electrical Ground Power (FEGP)	Considered as Aero	Considered as Non Aero
New Office Building (NOB)	Considered as Non-aero and Common in the ratio of 60:40	Considered as Common asset
Project Site Office	Considered as Non-aero	Considered as Common
PTB	PTB Area (Sq. Mts) as on 2011 Considered in the ratio of 85.5:14.5 as Aero and non-aero	PTB Area (Sq. Mts) as on 2015 Considered in the ratio of 84.6:15.4 as Aero and non-aero
Landscaping	Common	Aero

Adjustments to Regulatory Asset Base

5.6. Further, HIAL has stated that no returns or depreciation has been claimed on the assets funded by the Advance Development Fund Grant (ADFG).

5.7. In addition, HIAL submitted that they have treated foreign exchange losses as per the provisions of Accounting Standard 11 issued by the Institute of Chartered Accountants of India. Accordingly, HIAL submitted that it has considered additions to assets on account of forex losses owing to rupee depreciation till the 1st Control Period ending on FY 2015-16.

Additions to Regulatory Asset Base: Future Capital Expenditure

5.8. As per its initial submission dated 25.03.2016 and revised submission dated 05.12.2016 for the 2nd Control Period, HIAL has proposed to incur future capital expenditure under two main heads: (i) Capital Expenditure for FY 2015-16 and (ii) Capital Expenditure for the 2nd Control Period.

Capital Expenditure for FY 2015-16

5.9. Regarding the capital expenditure to be incurred for FY 2015-16, HIAL has further classified this under two categories, namely – future capex including general capital expenditure approved by the Authority in Order No.38/2013-14, and the future capex approved in the Airports User Consultative Committee (AUCC) meeting. Out of the amount of Rs. 135.20 crore approved by the Authority in the Order No. 38/2013-14 for the 1st Control Period, HIAL in its submission dated 05.12.2016 proposed to capitalize Rs. 75.10 crore in FY 2015-16. General capital expenditure for FY 2015-16: HIAL submitted that these expenses needed to be incurred on account of rehabilitation works at the airport and did not require user consultations owing to them being small to medium sized items costing lower than the threshold prescribed under the Authority's (AUCC) guidelines.

5.10. Further, HIAL submitted that on account of liquidity issues faced by HIAL due to the Authority's Order No.38/2013-14 (wherein the UDF was reduced to zero), some of the capital expenditures planned for the 1st Control Period had to be deferred in order to save cash. HIAL, however, planned to undertake these deferred capital expenditures in FY 2015-16 and FY 2016-17.

Employee Township

5.11. With respect to the additional capital expenditure over and above the capex approved in Order No. 38/2013-14 for the 1st Control Period, HIAL submitted that it had acquired an employee township, worth Rs. 82.32 crore, located in close proximity to the airport for housing the staff needed for handling critical airport operations, airport fire safety services, security services, etc. HIAL further submitted that it presented the capital expenditure on the employee township in the Airports User Consultative Committee meeting, which was held on 16.09.2015.

5.12. Finally, HIAL submitted a total capital expenditure worth Rs. 165.30 crore for FY 2015-16, which included those approved by the Authority (including general capex) and the additional capex which HIAL had presented in its AUCC Meeting, were funded through additional loans taken from banks and internal accruals. Further HIAL highlighted that there could be some deviations in the projected amounts due to the nature of general capex, and requested the Authority for complete true-up of approved projects and general capex incurred by HIAL in the 1st Control Period.

5.13. Finally, in its response to queries dated 14.02.2017, HIAL submitted that it had revised the tariff financial model with the actual capex for FY 2015-16 and any *"residual CP1 capex moved to FY 17"*. Further, vide its submissions dated 28.1.2017, HIAL furnished auditor's certificate dated 15.11.2016, which contained HIAL's actual capitalization in the financial year FY 2015-16. Subsequently, vide their responses dated 05.04.2017, HIAL submitted the breakup of amounts capitalized between FY 2013-14 to FY 2015-16; excluding foreign exchange losses. An extract of HIAL's submission in this regard has been reproduced below.

"...

Particulars	*FY 2013-14*	*FY 2014-15*	*FY 2015-16*
a) Sustainability through Renewable Energy (5 MW)	-	-	*29.98*
b) Employee Township	-	-	*82.32*
c) Flood Control & Rainwater Harvesting	-	-	*16.57*
d) Capitalization of Fixed Assets other than above (d)=(e) -(a+b+c)	*16.33*	*18.54**	*10.48*
Grand Total (e)#	*16.33*	*18.54*	*139.35*

..."

Capital Expenditure for the 2nd Control Period

5.14. Capex for the 2nd Control Period: As per HIAL's initial MYTP submission dated 25.03.2016 and its revised submission dated 05.12.2016, the capital expenditures planned by HIAL for the 2nd Control Period include items like terminal expansion, airside improvement, additional solar power generation capacity and general maintenance. The details of each capex item proposed by HIAL have been provided below.

Expansion Capex - Approved in AUCC

5.15. HIAL submitted that it has already begun experiencing capacity bottlenecks at different touchpoints proposed capacity expansion during the 2nd Control Period to solve the problem in the long run. In this regard, an extract from HIAL's submission is reproduced below,

"...

	Projects Identified	*Capex (Rs. crores)*	*Basis of Allocation*
1	*Additional Four-Lane Forecourt Ramp*	*108.50*	*Aero*
2	*Terminal Expansion including Weather Proofing of Airport Forecourt and Main Terminal Building Expansion*	*1008.05*	*Common*
3	*Pier Expansion*	*742.65*	*Common*
4	*Apron Development*	*129.84*	*Aero*
	Sub -total	*1989.04*	
5	*Financing Allowance*	*235.24*	
	Total	*2224.28*	

..."

5.16. Hence, HIAL has requested the Authority to true-up the actual capital expenditures incurred during the 2nd Control Period since the actual costs awarded through a competitive bidding process and might change.

Other Assets - Runways & Taxiways

5.17. HIAL further submitted that all its runways and taxiways including apron service roads, have undergone operational wear and tear and would require re-carpeting in the 2nd Control Period which is estimated at Rs. 103.59 crore.

5.18. HIAL has submitted a planned phasing of the capital expenditure to be incurred for capacity expansion, which has been provided below,

"...

Projects (Amounts in Rs. crores)	*FY17*	*FY18*	*FY19*	*FY20*	*FY21*	*Total*
Terminal Expansion						
Additional Four-lane Ramp	*43.40*	*65.10*	-	-	-	*108.50*
Terminal + Forecourt Expansion	*105.94*	*370.64*	*495.48*	*35.99*	-	*1008.05*
Pier Expansion	*36.22*	*287.45*	*390.46*	*28.51*	-	*742.65*
Airside Improvements						
Apron Development	-	*54.10*	*75.74*	-	-	*129.84*
Runway Re-Carpeting	*19.77*	*33.26*	*25.28*	*25.28*	-	*103.59*
Hard Cost	*205.33*	*810.55*	*986.96*	*89.79*	-	*2092.63*
Financing Allowance	*6.74*	*52.07*	*110.63*	*65.81*	-	*235.24*
Total Capital Expenditure	*212.07*	*862.62*	*1097.59*	*155.60*	-	*2327.87*
Capitalization Schedule	*84.93*	*154.59*	*764.61*	*1323.73*	-	*2327.87*

..."

5.19. Further, HIAL has proposed to fund the expansion projects, except runway re-carpeting and general capex, through debt and internal accruals in the ratio of 60:40. Meanwhile, runway re-carpeting and general capex are proposed to be funded through internal accruals to the extent available with HIAL. HIAL submitted the funding composition for the 2nd Control Period as below:

"...

Funding (in Rs. crores)	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*	*Total*
Debt	*115.38*	*612.99*	*1256.38*	*1334.57*	*1334.57*	*1334.57*
Internal Accruals	*96.69*	*461.69*	*915.89*	*993.30*	*993.30*	*993.30*
Total	*212.07*	*1074.68*	*2172.27*	*2327.87*	*2327.87*	*2327.87*

..."

5.20. Lastly, HIAL submitted that it had followed the user consultation process specified by the Authority and since there were no objections raised to the proposed plans up to six months after the AUCC meeting, the requirement of seeking approval from the AUCC for investments in the 2nd Control Period was fulfilled.

CISF Township

5.21. In addition, HIAL submitted that it had constructed a residential township for the Central Industrial Security Force (CISF) personnel deployed at the airport; the total cost of which amounted to Rs. 69.92. HIAL further submitted that after completion of the project, MoCA issued Order No. AV 13024/03/2011-AS (Pt. 1) dated 18.02.2014 directing airport operators to reverse all the expenses incurred towards procurement and maintenance of security systems/equipment, and on creation of fixed assets using funds from the PSF (SC) escrow account.

5.22. As per HIAL's submission, it moved court challenging MoCA's abovementioned Order; following which the High Court at Hyderabad has stayed the Order for the time being. With the matter still pending in the High Court, HIAL has submitted that it has not included the capital and maintenance costs associated with the township for tariff determination for the 2nd Control Period with the caveat that in case of an adverse order from the High Court, it would amend the tariff application.

General Maintenance Capex

5.23. Further, HIAL has submitted that a general capital expenditure to the tune of Rs 269.79 crore will have to be incurred during the 2nd Control Period on account of general maintenance of the airport, in addition to undertaking the capital expenditures deferred to conserve cash due to Order No.38/2013-14 for the 1st Control Period in FY 2016-17. Additionally, HIAL submitted that since general capex consists of several items, segregating them into aero, non-aero and common assets becomes cumbersome. As a result, a historical asset ratio has been applied by HIAL for segregating the assets into aero and non-aero.

5.24. HIAL submitted that these expenses will be funded through internal accruals to the extent available with HIAL and in case of a shortage, debt may be raised by HIAL to fund the remaining expenditures.

Additional 8MW solar plant

5.25. As per HIAL's submission, the airport plans to add capacity for the generation of solar power in phases to be used at the airport as part of its green initiative. Following the operationalisation of a 5MW captive power plant since October 2015 to meet the current minimum load at the airport, HIAL has proposed the addition of an 8MW captive generation capacity to the existing solar power generation capacity in FY 2016-17 at a cost of Rs. 44 crore as part of the second phase of the project.

5.26. Furthermore, the capitalization schedule was categorized by HIAL into aeronautical and non-aeronautical. A summary of the same is as given below.

Table 14: Capital Expenditure Schedule for the 2nd Control Period classified between aeronautical and non-aeronautical

Capitalization (in Rs. crores)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Aggregate 2nd CP
Aeronautical (a)	224.41	205.48	701.57	1145.05	18.75	2295.26
Non-Aeronautical (b)	31.11	10.17	97.18	204.21	3.74	346.41
Total (c)=(a)+(b)	255.52	215.65	798.74	1349.26	22.49	2641.66

Depreciation

5.27. As per its initial MYTP submission dated 25.03.2016 and its revised submission dated 05.12.2016, HIAL stated that it has considered depreciation rates as per provisions of Part-C of Schedule-II of the Companies Act, 2013 after it came into effect on 1.04.2014. In line with the provision, HIAL submitted that the book value of its fixed assets as on 01.04.2014 was depreciated on a prospective basis over the remaining useful life, wherever applicable. It further submitted that as per a notification issued by the Ministry of Corporate Affairs dated 29.08.2014, it opted to charge off the carrying amount of certain fixed assets amounting to Rs. 23.31 crores as on 01.04.2014, whose remaining useful life was nil as on that date, as depreciation and amortization expenses in its financial statements.

5.28. The effective rates for projecting depreciation of assets in the 2nd Control Period submitted by HIAL in its response dated 28.01.2017 for inclusion in the RAB are provided below,

"...

Asset Classification	*Companies Act, 2013*			
	New Assets		*Existing Assets (FY2016)*	
	Useful Life (Years)	*Effective Depreciation Rate*	*Average Remaining Useful Life (Years)*	*Effective Depreciation Rate*
Buildings	*23*	*4.35%*	*30*	*3.44%*
Electrical Installations	*10*	*10.00%*	*6*	*16.59%*
Furniture and Fixtures	*10*	*10.00%*	*7*	*12.68%*
Improvements to Leasehold Land	*23*	*4.35%*	*30*	*3.75%*
IT Systems	*6*	*33.34%*	*3*	*2.70%*
Office Equipment	*5*	*20.00%*	*3*	*1.61%*
Other Roads	*10*	*10.00%*	*4*	*22.08%*
Plant & Machinery	*15*	*6.67%*	*13*	*9.62%*
Runways	*23*	*4.35%*	*30*	*3.35%*
Software	*6*	*16.67%*	*6*	*2.04%*
Vehicles	*8*	*12.50%*	*5*	*10.00%*

..."

5.29. Additionally, HIAL submitted that depreciation was only considered on aeronautical assets which it has identified based on the Concept Note of the Allocation Methodology; submitted as Annexure 3 of its MYTP proposal dated 25.03.2016.

5.30. As per the submission, HIAL has capitalized the forex loss adjustments as per Accounting Standard 11 and as a result, depreciation has been considered on this capitalized amount.

5.31. Finally, as per HIAL's submission, depreciation has not been claimed on assets funded by the ADFG for the purpose of tariff determination. HIAL stated that,

"Accordingly, the value of depreciation used in the regulatory building blocks is reduced by the appropriate amount."

5.32. HIAL's estimation of RAB in its final submission dated 28.01.2017, which was updated with the actual results for FY 2015-16, computed for the period FY 2016-17 to FY 2020-21 by taking an average of the opening and closing RAB for each financial year is as provided below,

"...

Particulars (in Rs. crores)	*FY17*	*FY18*	*FY19*	*FY20*	*FY21*
Opening RAB	*1493.84*	*1568.98*	*1591.97*	*2115.35*	*3039.17*
Additions to RAB	*244.72*	*205.55*	*701.60*	*1145.07*	*18.77*
Less: Depreciation (incl ADFG adjustment)	*-169.58*	*-182.56*	*-178.22*	*-221.26*	*-261.52*
Closing RAB	*1568.98*	*1591.97*	*2115.35*	*3039.17*	*2796.42*
RAB for Tariff Determination	*1531.41*	*1580.48*	*1853.66*	*2577.26*	*2917.79*

..."

B) Authority's Examination of HIAL Submissions on Regulatory Asset Base (RAB)

5.33. The Authority has carefully examined the calculation of RAB and HIAL submissions in this regard. The Authority's examination of HIAL submissions is as follows:

5.34. The Authority, in its Airport Order No. 38/2013-14 for the 1st Control Period of HIAL had outlined the principles for inclusion / exclusion of assets from the aeronautical RAB to be considered for tariff determination. The principles for exclusion of assets from RAB Boundary as per the abovementioned tariff order are presented below:

5.34.1. The assets that substantially provide amenities/ facilities/ services that are not related to, or not normally provided as part of airport services, may be excluded from the scope of RAB;

5.34.2. The assets that in the opinion of the Authority do not derive any material commercial advantage from the airport (for example from being located close to the airport) may be excluded from the scope of RAB;

5.34.3. The Authority will not include working capital in the RAB.

5.34.4. Work in Progress (WIP) assets would not be included in the RAB until they have been commissioned and are in use.

5.34.5. The investment made from pre-funding levy (DF) would not be included in the RAB.

5.35. In the current scenario where the tariffs are being determined based on 30% shared till, the RAB would have to exclude the portion of assets attributed to the provision of non-aeronautical services. Despite this a cross-subsidy from non-aeronautical revenues shall be considered for the purpose of tariff determination as explained in chapter 2, para 2.3.

5.36. The Authority approves the adoption of the 30% Shared Till mechanism for the 2[nd] Control Period as per the direction issued by the Ministry, which is also in line with the provisions of the National Civil Aviation Policy, 2016.

5.37. The Authority, in its Airport Guidelines, has provided for a mechanism for calculation of Regulatory Asset Base, wherein the initial RAB takes into consideration original value of fixed assets, accumulated depreciation, accumulated capital grants, subsidies or user contribution, and adjustment for value of land excluded from the scope of RAB. The same has been considered by HIAL in its MYTP submissions while computing RAB.

5.38. The Authority acknowledged that HIAL had correctly applied shared till methodology by computing RAB based on aeronautical assets and accordingly, depreciation too comprising only aeronautical depreciation.

Authority's Examination of HIAL Submissions on Allocation of Assets

5.39. With respect to the classification of assets and their inclusion and exclusion in the RAB, the Authority has outlined the principles of RAB boundary. It has been the stated position of the Authority that the assets, which are integral to the Airport or the activities pertaining to it or are integral for the functioning of the airport should form part of the RAB. Consequently, the assets pertaining to those activities, which are not integral or non-related to the airport, should be excluded from the RAB.

Recognition of cargo, ground handling and fuel throughput services

5.40. The concept note on asset allocation submitted by HIAL revealed that assets pertaining to cargo, ground handling and fuel farm services were classified as non-aeronautical and thereby not included in the estimation of the aeronautical RAB. However, as per Decision 15a. of the Authority's Order No. 38/2013-14 for the 1[st] Control Period; cargo, ground handling and fuel farm services were considered as aeronautical and subsequently, the assets pertaining to these services were treated as aeronautical. As per the abovementioned Order, the Authority had observed that HIAL's Concession Agreement defines 'airport activities' to mean provision at or in relation to the airport, of the activities set out at Schedule-3, Part-1, as amended from time to time. The provision of ground handling, cargo and aircraft fuelling services have been included in the list of 'airside facilities' provided in Schedule-3, Part-1 of the Concession Agreement. Hence, even going by the Concession Agreement, the Authority is to regulate "any aspect" of "airport activities" thus, including cargo, ground handling and fuel farm. Accordingly, the Authority in Order No. 38/2013-14 for the 1[st] Control Period had ruled that,

> *"The remit of the Authority would thus be what the legislature has given to it and this has already been embodied and expressly provided for in the Concession Agreement. After the promulgation of AERA Act, there can be no doubt that it needs to determine tariff for cargo, ground handling and fuel services."*

5.41. The Authority had further observed that the Government of India had suo moto included services pertaining to cargo, ground handling and supply of fuel to aircraft in the list of aeronautical services under Section 2 (a) (iv), (v) and (vi) in the AERA Act, 2008. Therefore, classifying cargo, ground handling and fuel farm services as aeronautical services was a conscious decision of the Government during the formulation of the AERA Act, which was taken post the award of concessions of all four airports i.e. HIAL, MIAL, DIAL and BIAL.

5.42. Further, the Authority was guided by the letter issued by the Ministry of Civil Aviation to the Authority in respect of Determination of Multi-year Tariff for Bangalore International Airport Limited (BIAL) - Consultation Paper No. 14/2013-14, wherein the Ministry had recommended the recognition of cargo, ground handling and fuel farm as aeronautical services. The Ministry's view reproduced in Para 2.13 of the Consultation Paper No. 30/2017-18 has also been provided below,

> *"……… 4. Furthermore, in view of the various provision of AERA Act, 2008 with respect to the Aeronautical Services, the Fuel Throughput Charge that is levied by Airport Operator may be considered as Aeronautical revenue in the hands of the Airport Operator. The revenues from cargo, ground handling services and fuel supply which are defined as Aeronautical Services in the AERA Act, 2008 may be reckoned as Aeronautical Revenues and considered accordingly irrespective of the providers of such Aeronautical Services. This issues with the approval of the Minister of Civil Aviation."*

5.43. The Authority observed that given the similarity in concession agreements of both Bangalore and Hyderabad airports, MoCA's recommendation in the case of the former would also apply to the latter and therefore, proposed to treat the three services as aeronautical in the case of HIAL.

5.44. Based on the above mentioned reasons, the Authority sought from HIAL the segregated amounts of asset additions, deletions, gross block and depreciation for assets relating to the three services and reallocated them to be included within the aeronautical RAB.

Allocation of other assets

5.45. Regarding fuelling of vehicles, it was observed by the Authority that the service is incidental to aircraft operations since these vehicles are necessary to support the operation of aircraft services, cargo and passenger services, emergency services, and maintenance of the airport and hence, qualify as an aeronautical service. Hence, while the Authority proposed to include vehicle fuelling service as aeronautical it noted that there will be no change in the RAB in the absence of any assets pertaining to the same.

5.46. The Authority disagreed with HIAL's proposal of treating CUTE, CUSS and BRS IT as non-aeronautical from the 2nd Control Period onwards as these are considered as part of the overall ground handling activity, which itself has been treated as an aeronautical service by the Authority. Accordingly, the Authority proposed to continue treating CUTE, CUSS and BRS IT services as aeronautical even for the 2nd Control Period.

5.47. The Authority observed that the Cargo Satellite Building ("CSB") was being used as an administrative office for the staff of freight forwarders and some portion of the building was also being used as a storage/warehouse for cargo parcels. Since the building was being used to undertake cargo related operations, it was proposed to be treated as an aeronautical asset in line with the treatment of cargo services as decided by the Authority in paras 5.40 to 5.44. Accordingly, the Authority proposed to add the cost of CSB to aeronautical RAB.

5.48. Another reallocation observed by the Authority pertained to fixed electrical ground power ("FEGP"), which according to HIAL's initial submission dated 25.03.2016 and revised submission dated 05.12.2016 was originally considered as aeronautical and was now being considered as non-aeronautical. HIAL submitted in its response dated 14.02.2017 that assets pertaining to FEGP have already been considered within ground handling assets. Based on the submissions made by HIAL regarding the FEGP service being considered as a part of the overall ground handling activity, which itself has been categorised by the Authority as an aeronautical service, the Authority proposed to include FEGP also within the aeronautical category and this has accordingly been included in the RAB.

5.49. Regarding the Project Site Office, HIAL submitted that a portion of the area was leased out and the remaining land was being used by HIAL for maintaining a "record room, an inward desk, a facility management store, meeting rooms, a call centre desk, technical maintenance office, auditorium, IT Training centre, exhibition hall, library, BSNL exchange room, Tata Teleservices office, GCM office, a doctor's clinic, a crèche, day care, accommodation centre, staff canteen and store/stationery room." Further, the Authority noted that as per the auditor certificate submitted by HIAL on 05.04.2017, the area leased out in FY 2015-16 was 3,325.61 sq. m. Accordingly the Authority proposes to consider the leased out area (being used for non-aeronautical purposes) of 3,325.61 sq. m., as certified by the auditor, as non-aeronautical and subsequently excludes the same from RAB. Further, the Authority has observed that the remaining portion of 25,316.39 sq. m. is being used for both aeronautical and non-aeronautical purposes and hence, this area is treated as a common asset, which it proposes to allocate based on the ratio of gross block of aeronautical and non-aeronautical assets.

5.50. Similarly, the Authority observed that a new office building (NOB) had been constructed by HIAL. Out of the five floors of the NOB, only three were being used by its employees while the remaining two floors were not. As per HIAL's Concept Note, the asset had been allocated as a common asset. Also, HIAL in its concept note on Allocation Methodology submitted as Annexure 3 of the MYTP submission dated 25.03.2016 stated that *"Any incidental income recovered as rent from the available space at the NOB, pending its utilization for common airport activities, has been netted off against total operating expenses."*

5.51. In order to be able to arrive at a reasonable basis for allocating the new office building, the Authority sought a clarification dated 16.01.2017 from HIAL regarding the entities renting out space at the NOB. Based on the information received, the Authority is of the view that the reallocation of the NOB to a completely common asset would be incorrect since two floors of the building were being used by other entities for non-aeronautical purposes. In such a scenario, the Authority has decided to allocate between non-aeronautical and common in the ratio of 60:40 from FY 2008-09 to FY 2014-15 and revise this ratio to 40:60 for FY 2015-16 based on increased usage of the office by HIAL's staff. Also the Authority has decided to consider the FY 2015-16 ratio of 40:60 for 2nd Control Period projections. In addition, the common portion of the NOB, which is being used by staff engaged in both aeronautical and non-aeronautical services, across all the years has been further allocated in the ratio of gross block of aeronautical and non-aeronautical assets.

5.52. Further, since the auditor certificates provided by HIAL did not make a distinction between the building types, the Authority vide its query dated 16.01.2017 requested HIAL to provide the asset additions, deletions and depreciation for all buildings for the period from FY 2008-09 to FY 2015-16 in order to undertake its analysis. Based on the response received from HIAL on 02.03.2017 in the form of auditor certificates of building-wise asset additions and deletions, the reallocation of project site office and NOB was undertaken by the Authority. Further, since HIAL stated its inability to provide a building-wise break-up of depreciation. Consequently, the Authority has reallocated the depreciation for both the project site office and new office buildings on a proportionate basis; considering their individual gross blocks and the gross block of aggregate assets.

5.53. In addition, the Authority notes that as per Decision No. 15a under Section 19 of the Order No. 38/2013-14 for the 1st Control Period, the Authority had proposed to commission an independent study to assess the reasonableness of the asset allocation and to accordingly use the findings from the study at the time of determination of tariffs for aeronautical services in the 2nd Control Period as may be relevant. The Authority is of the view that it would continue with its assessment of HIAL submission under the 2nd Control Period and will commission a study, as needed based on this assessment.

5.54. The Authority further noted that HIAL had received an Advance Development Fund Grant of Rs. 107 crore from the Government of Andhra Pradesh and, in the tariff financial model, HIAL has proportionately excluded the assets funded out of the Advanced Development Fund Grant from aero and non-aero RAB along with the corresponding depreciation.

5.55. The Authority notes from the State Support Agreement that this amount of Rs. 107 crore is neither to be repaid nor shall attract any interest. The Authority thus considers this to be treated as a Grant in the calculations of RAB. Accordingly, under 30% shared till the Authority proposes to deduct this amount from aeronautical RAB only as opposed to a proportionate deduction from aeronautical and non-aeronautical RAB.

5.56. Further, the Authority observed that HIAL has included "Forex Loss Adjustment as per AS 11" as part of its aeronautical and non-aeronautical RAB for the 1st Control Period. As per the Authority's Order No. 38/2013-14, the Authority had observed that "sourcing of funds is a conscious business decision of the airport operator" and accordingly had proposed to disallow the capitalization of adjusting for forex losses and excluded it from the calculation of RAB. For the current Control Period, the Authority has decided to continue with its extant stance of disallowing the inclusion of forex loss adjustment in the calculation of RAB. However, such losses are proposed to be allowed partially as part of one-time adjustment to operating expenses subject to a certain cap, as per the mechanism which has been discussed in chapter 7, paras 7.74 to 7.75.

5.57. The Authority proposes to accept HIAL's classification and to allocate the common assets based on the gross block of aeronautical and non-aeronautical assets as classified in paras 5.40 to 5.56.

Authority's Examination of HIAL Submissions on Future Capital Expenditure

5.58. The Authority has carefully examined HIAL submissions on future capital expenditure noting that they pertain to two categories namely, (a) Additional Capital Expenditure for FY 2015-16 and (b) Capital Expenditure for the 2nd Control Period. The Authority has noted that the expenditure under both the categories have been segregated into various heads corresponding to respective assets. These are given below:

Capital Expenditure for FY 2015-16

5.59. Capital Expenditure planned by HIAL for FY 2015-16: The Authority understands from HIAL's submission that based on the amounts approved in the Order No. 38/2013-14 of the 1st Control Period, the airport operator capitalised the following expenditures in FY 2015-16:

5MW Solar Power Plant

5.60. As per Section 9.26 of the Authority's Order No. 38/2013-14 for the 1st Control Period, the Authority had supported HIAL's green initiative pertaining to installation of a 5MW solar power plant to meet the current minimum load of the airport and approved the capitalisation of Rs. 40 crore for the project in FY 2014-15. Based on the auditor certificate submitted by HIAL on 05.04.2017, it was observed that out of the Rs. 40 crore approved by the Authority, HIAL had completed the project and capitalised Rs. 29.98 crore against the same in FY 2015-16. Therefore, Rs. 29.98 crore is proposed to be approved by the Authority as an aeronautical asset, and considered towards RAB in FY 2015-16.

Flood control and Rainwater harvesting

5.61. According to section 9.25 of Order No. 38/2013-14 for the 1st Control Period, the Authority had taken note of HIAL's proposal for developing three ponds in the area of 45 acres for flood control and rainwater harvesting. Approving the development work as part of the overall master plan, the Authority allowed capitalization of this expenditure to the extent of Rs. 10 crore for FY 2014-15 and another Rs. 10 crore in FY 2015-16 to be included in the RAB. Based on the auditor certificate submitted by HIAL on 05.04.2017, it was observed that out of Rs. 20 crore to be capitalised over two years as approved by the Authority in the abovementioned Order, HIAL had capitalised only Rs. 16.57 crore in FY 2015-16 and the same is proposed to be allowed as an aeronautical asset for determination of RAB for FY 2015-16.

Fuel Farm

5.62. Under section 9.28 of the Authority's Order No. 38/2013-14, the Authority had recognised and supported the need for HIAL to incur expenses on fuel farm assets like procurement of dispensers, etc. As a result, the Authority had approved the proposed capital expenditure of Rs. 15.15 crore towards the same, whereby Rs. 12 crore was to be capitalized till FY 2014-15 and the remaining Rs. 3.15 crore was to be capitalized in FY 2015-16. Further, the Authority notes that as per the response dated 28.01.2017, wherein the tariff financial model was updated with the financial results of FY 2015-16, HIAL has not been able to capitalize the approved amount of Rs. 3.15 crore in FY 2015-16 and instead proposed to defer this capex along with an additional amount of Rs. 1.52 crore, thereby totalling Rs. 4.67 crore for fuel farm, to FY 2016-17. The Authority proposes to allow this deferment to FY 2016-17 but only to the extent of Rs. 3.15 crore, which had been approved by the Authority in the Order No. 38/2013-14 for the 1st Control Period. Further, the Authority observed that HIAL had categorised this capex as non-aeronautical and consequently, this was not included in the RAB. However, as has been held by the Authority in paras 5.40 to 5.44, fuel farm is proposed to be treated as an aeronautical service and therefore the capital expenditure on the same would be included in the aeronautical RAB.

General Capex

5.63. The Authority observed that HIAL had proposed to capitalise general capital expenditure worth Rs. 18.84 crore out of the remaining Rs. 59.70 crore approved in the its Order No. 38/2013-14 for the 1st Control Period and thereby included in the RAB. HIAL also submitted that of the total approved amount of Rs. 102.45 crore in Order No. 38/2013-14, Rs. 42.75 crore had already been capitalized till the ~~third quarter~~ of FY 2015-16. Further, the Authority noted that the expenditure was treated as a common type capital expenditure and allocated between aeronautical and non-aeronautical RAB. In principle, the Authority approves such a treatment and proposes to allow the same as submitted by HIAL.

5.64. The Authority recognises that with the airport being located far away from the city, it would be inconvenient and risky to have airport staff, employed for handling critical airport operations, airport fire safety services, security services and the like, residing far away from the airport. While the Authority, in principle, is in agreement with including the proportionate cost of Employee Township occupied by critical staff within the RAB, it was not clear from the MYTP submission if all the employees living in the township are engaged in airport critical operations and exactly how HIAL defines 'critical operations' at an airport. HIAL vide its response dated 22.05.2017 provided a breakup of rentals recovered from the township as given below but was silent on the list of activities which it classifies as critical,

"...

Year	*Total no. of flats allotted to meet*		*Total no. of vacant flats*	*Total no. of flats in the township*
	Critical requirement	*Non-critical requirement*		
FY 2011-12	*96*	*12*	*20*	*128*
FY 2012-13	*100*	*14*	*14*	*128*
FY 2013-14	*94*	*15*	*19*	*128*
FY 2014-15	*89*	*14*	*25*	*128*
FY 2015-16	*96*	*10*	*22*	*128*

..."

5.65. Based on the above submission by HIAL, the Authority notes that the percentage of critical staff by total staff (Critical Requirement / Total Headcount) of HIAL is ~20%, which is reasonable. The Authority proposes to allow the proportionate amount of capex incurred on employee township in proportion to the number of critical employees residing in the township, as submitted by HIAL, as part of the aeronautical RAB in FY 2015-16.

5.66. Further, the Authority notes HIAL's auditor certificate on capital expenditure incurred in FY 2015-16 and its categorization between aeronautical and non-aeronautical. As per the certificate HIAL has incurred aeronautical capital expenditure of Rs. 165.7 crores which includes Rs. 27.3 crores that has been capitalized on account of Forex Loss Adjustment. The Authority proposes to treat forex losses as per AS 11 in the manner explained in para 5.56 and approve the balance amount of Rs. 138.4 crores.

5.67. The Authority also acknowledges HIAL's submission dated 05.04.2017 linking its capitalizations in FY 2015-16 to individual assets. Based on the same, the Authority notes that Rs. 10.48 crores have been capitalized by HIAL on fixed assets other than identified project, i.e. a) Sustainability through Renewable Energy (5 MW), b) Employee Township and c) Flood Control & Rainwater Harvesting. Therefore, Authority proposes to allow this amount as general capex in Order No. 38/2013-14.

5.68. Based on the analysis above, the Authority proposes to allow the capital expenditure mentioned in paras 5.59 to 5.67 incurred by HIAL in the 1st Control Period.

Future Capital Expenditure planned by HIAL for the 2nd Control Period

5.69. Expansion capex: The Authority has taken note of HIAL's submission proposing to increase the terminal capacity in the 2nd Control Period from the current passenger capacity of 12 MMPA to 20 MMPA by FY 2020-21. The Authority recognizes the need for such a terminal expansion in order to remove bottlenecks and improve the passenger experience at the airport. HIAL has submitted an estimated cost of Rs. 2,224.28 crore including a financing allowance of Rs. 235.24 crore. Based on the proposal made by HIAL in its MYTP submission dated 25.03.2016, its revised submission dated 05.12.2016 and discussions during the airport visit conducted by the Authority on 06.02.2017, the Authority in principle agrees with the need for expanding the terminal so as to cater to the increasing traffic volume at the airport and maintaining service quality. However, the Authority has observed that the assessment of such an expansion plan and its phasing is a technical matter and requires the analysis to be undertaken by an expert. The Authority appointed RITES Limited ("RITES") to examine the expansion project cost submitted by HIAL including the terminal expansion including ramp and forecourt and airside improvements. The capital expenditure components proposed by HIAL which were to be examined by RITES are as per the table given below:

Table 15: Project Cost Components Examined by RITES Ltd.

	Projects Identified	Capex Proposed by HIAL (Rs. crores)
1	Additional Four-Lane Forecourt Ramp (a)	108.50
2	Terminal Expansion including Weather Proofing of Airport Forecourt and Main Terminal Building Expansion (b)	1008.05
3	Pier Expansion (c)	742.65
4	Apron Development (d)	129.84
	Sub -total (e)=(a)+(b)+(c)+(d)	1989.04

5.70. A summary of findings of the report submitted by RITES has been reproduced below:

"...

SN	*Item*	*Capital Cost as proposed by GHIAL (in Rs. Crore)*	*Revision in Capital Cost recommended (in Rs. Cr.)*
1	*Expansion of the Terminal Building*	*1449.83*	*1239.05*
2	*Expansion of the Kerb & Approach ramp*	*108.50*	*98.83*
3	*Expansion of Apron*	*129.38*	*111.00*
	Sub-Total	*1687.71*	*1448.88*
4	*Preliminaries @ 2%*	*34.00*	*28.98*
5	*Insurance and Permits*	*20.00*	*20.00*
6	*Design Development & PMC*	*142.20*	*72.44*
7	*Contingencies*	*105.10*	*43.47*
		1989.01	*1613.77*

5.71. Based on the observations and findings in the RITES report, the Authority proposes to allow HIAL Rs. 1,613.77 crores towards expansion for the terminal, apron and kerb areas for the purposes of determination of RAB instead of Rs. 1,989.01 crores requested by HIAL. Further, the Authority had proposed that the true-up of expansion project in the subsequent Control Period shall be capped at this value determined by the independent consultant.

5.72. Further, HIAL submitted vide its letter dated 08.08.2017 that the implementation of the expansion was put on hold post the Authority's Order on Normative Capital Cost pending the vetting of HIAL's capital cost by an independent consultant. Accordingly, HIAL submitted a revised capital expenditure schedule starting from FY 2017-18. An extract of HIAL's submission is reproduced below,

"...

Projects (Amounts in Rs. Crores)	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*	*Total*
Terminal Expansion						
Additional Four-lane Ramp	*0.00*	*54.25*	*54.25*	*0.00*	*0.00*	*108.50*
Terminal+Forecourt Expansion	*0.00*	*158.97*	*613.99*	*235.10*	*0.00*	*1008.05*
Pier Expansion	*0.00*	*36.22*	*330.22*	*361.95*	*14.26*	*742.65*
Airside Improvements						
Apron Development	*0.00*	*64.92*	*64.92*	*0.00*	*0.00*	*129.84*
Runway Re-Carpeting	*0.00*	*53.03*	*25.28*	*25.28*	*0.00*	*103.59*
Hard Cost	*0.00*	*367.39*	*1088.66*	*622.32*	*14.26*	*2092.63*
Financing	*0.00*	*17.98*	*81.98*	*79.16*	*14.52*	*193.64*
Total Capital Expenditure	*0.00*	*385.37*	*1170.64*	*701.48*	*28.78*	*2286.27*
Capitalization Schedule	*0.00*	*53.03*	*350.77*	*1600.87*	*281.61*	*2286.27*

..."

5.73. HIAL also revised its project capitalization schedule based on the above expenditure schedule. An extract of HIAL's projected capitalizations are as given below,

"...

Projects (Amounts in Rs. Crores)	*2017*	*2018*	*2019*	*2020*	*2021*	*Aggregate*[1]
Runway Re-carpeting		*53.03*	*25.28*	*25.28*	*0.00*	*103.59*
Apron Development			*129.84*			*129.84*
4-lane Ramp			*108.50*			*108.5*
Forecourt Expansion			*58.27*			*58.27*
Terminal East Mod				*949.78*		*949.78*
Pier Expansion				*486.03*	*256.63*	*742.66*
Capitalization of Hard Cost		*53.03*	*321.89*	*1461.09*	*256.63*	*2092.64*
Financing Allowance		*0.00*	*28.88*	*139.78*	*24.98*	*193.64*
Total Capitalization		*53.03*	*350.77*	*1600.87*	*281.61*	*2286.28*

..."

5.74. Based on the recommendation of RITES (of reduction in project cost) and the revised implementation schedule proposed by HIAL, the Authority proposes to allow the capital expenditure as given below,

Table 16: Capital expenditure proposed to be allowed by the Authority for the expansion project and the relayering of runways and taxiways

Capital Expenditure Schedule (in Rs. Crore)	**2017**	**2018**	**2019**	**2020**	**2021**	**Aggregate 2nd CP**
Additional 4-lane Ramp (a)	0	55.04	55.04	0	0	**110.08**
Forecourt Expansion (b)	0	40.19	5.74	0	0	**45.93**
Terminal Expansion - East Module 1 (c)	0	0	137.78	100.2	0	**237.98**
Pier Expansion - East Module 1 (d)	0	28.55	114.21	38.07	0	**180.83**
Terminal Expansion - West Modules (e)	0	85.12	340.48	85.12	0	**510.72**
Pier Expansion - East Module 2 (f)	0	0	89.91	112.4	0	**202.3**
Pier Expansion - West Module (g)	0	0	56.19	134.9	11.24	**202.29**
Apron Development (h)	0	61.82	61.82	0	0	**123.64**
Relayering of Taxiways and Runway (i)	0	53.03	25.28	25.28	0	**103.59**
Total Capital Expenditure (Excluding Interest During Construction) (j)=(a)+(b)+(c)+(d)+(e)+(f)+(g)+(h)+(i)	**0**	**323.8**	**886.45**	**495.9**	**11.24**	**1717.39**

[1] Aggregated by the Authority for ease of comparison with Table 15

5.75. Also, the Authority noted HIAL's submission to fund the expansion projects through debt and internal accruals in the ratio of 60:40. However, based on the Authority's Guidelines, the financing allowance has been computed for the entire project cost. The financing allowance proposed to be allowed to HIAL for the 2nd Control Period is as given below,

Table 17: Financing Allowance proposed to be allowed for the expansion project in the 2nd Control Period

Particulars (in Rs. Crore)	2017	2018	2019	2020	2021	Aggregate 2nd CP
Financing Allowance	0.00	13.34	55.56	51.52	9.30	129.72

5.76. Accordingly, the capitalization of expansion capex and relayering of taxiways (along with financing allowance) proposed to be allowed by the Authority is Rs. 1847.08. A capitalization schedule of the same is given below,

Table 18: Capitalization Schedule proposed to be allowed by the Authority for the expansion project and relayering of taxiways for the 2nd Control Period

Particulars (in Rs. Crore)	2017	2018	2019	2020	2021	Aggregate 2nd CP
Aero		53.03	319.76	1059.78	184.90	1617.47
Non-Aero		0.00	7.64	188.31	33.66	229.61
Common		0.00	0.00	0.00	0.00	0.00

5.77. Other assets – runways and taxiways: Recognizing the need for long term maintenance of the runways and taxiways due to heavy use and ageing of the asset, the Authority proposes to approve the capital expenditure of Rs. 103.59 crore proposed for re-carpeting of the runways and taxiways. In addition, the Authority proposes to allow HIAL's submission of funding the re-carpeting of runways and taxiways through internal accruals to the extent available with HIAL. HIAL had revised the schedule this re-carpeting project and the Authority proposes to consider the revised schedule for this expenditure as mentioned in Table 16.

5.78. CISF Township: HIAL submitted that once the project, worth Rs. 69.92 crore, was completed and capitalized in the books of the PSF (SC) Fund under intimation to MoCA, there was an order issued by MoCA on 18.02.2014 directing airport operators to reverse all the expenses incurred towards procurement and maintenance of security systems/equipment, and on creation of fixed assets using funds from the PSF (SC) escrow account. The Authority also noted HIAL's submission that HIAL moved the court against the MoCA Order and that the court had stayed the order for the time being. With the matter still pending in the Hyderabad High Court, the Authority observed that HIAL did not include the capital and maintenance costs associated with the township for tariff determination for the 2nd Control Period. Also, the Authority has taken note of HIAL's submission to include the same in case of an adverse judgment from the High Court. The Authority has proposed to accept HIAL's submission in this regard.

5.79. General maintenance capex: The Authority is of the view that for the maintenance of the airport infrastructure, it is important for major airports like RGIA, Hyderabad to annually incur operating and maintenance capex. The Authority proposes to allow general capital expenditure of Rs. 269.79 crores. The Authority acknowledges that the actual general capital expenditure incurred by HIAL may vary from this proposed figure of Rs 269.79 crore and thus, the Authority proposes to true-up the difference between the General Capital Expenditure considered now and that actually incurred based on evidential submissions along with auditor certificates thereof. This true-up would however, be subject to deliberation by the Authority and after the Authority is convinced that the amount has been spent reasonably. Furthermore, the Authority proposes to allow the funding of this through internal accruals, as submitted by HIAL in its MYTP submissions.

5.80. Additional 8MW solar power plant: The Authority recognizes the need for using sustainable and renewable energy to meet the demands of the airport and hence, proposes to allow the capitalization of Rs. 44 crore to be incurred in FY 2016-17 and accordingly included in the RAB.

5.81. The Authority notes that HIAL has allocated the capex to be incurred in the 2nd Control Period into aeronautical and non-aeronautical components based on classification of individual elements. HIAL's classification as present in the financial model is as given below,

Asset	Classification
Additional 4-lane Ramp	Aeronautical
Forecourt Expansion	Common
Terminal Expansion - East Module 1	Common
Pier Expansion - East Module 1	Common
Terminal Expansion - West Modules	Common
Pier Expansion - East Module 2	Common
Pier Expansion - West Module	Common
Apron Development	Aeronautical

5.82. The Authority notes the above allocation and proposes to accept the same for the computation of RAB for the 2nd Control Period.

Authority's Examination of HIAL submissions on Depreciation

5.83. The Authority has carefully analysed the submissions of HIAL in respect of the depreciation of the regulatory building blocks. The Authority's examination of the issue is as follows:

5.84. The Authority noted HIAL's submission that it has considered depreciation rates as per provisions of Part-C of Schedule-II of the Companies Act, 2013 after it came into effect on 1.04.2014. HIAL has also submitted that it has charged off certain assets worth Rs. 23.31 crores whose useful life on 01.04.2014 was nil. The Authority proposes to allow such a treatment as the same is in line with the Companies Act, 2013.

5.85. The Authority also notes HIAL's submission that in the absence of any specific mention of useful lives of runways, taxiways and apron in Schedule-II to the Companies Act, 2013, HIAL has continued to depreciate these assets at their effective depreciation rate of 3.34% as was being followed in FY 2013-14. The Authority proposes to accept such a treatment since it is in line with the present approach of the Authority.

5.86. Further, HIAL submitted that it had depreciated the book value of its fixed assets as on 01.04.2014 on a prospective basis over the remaining useful life, which has been defined by HIAL as the minimum of the remaining term of the concession agreement and useful life for the asset class as defined under Companies Act, 2013. The Authority pointed that given that HIAL's concession period is extendable for another 30 years at its discretion, the end of the first concession period should not mark HIAL's tenure of operating the airport. An extract of the Concession Agreement in this regard has been reproduced below,

"... HIAL may at any time prior to the twenty-seventh (27th) anniversary of the Airport Opening Date, exercise the aforesaid option of extending the term of this Concession Agreement by another thirty (30) years..."

5.87. Therefore, the Authority is of the view that there is no reason for HIAL to charge depreciation at an accelerated rate depending on the current concession period. Accordingly, the Authority proposes to consider depreciation of the new assets as per Schedule-II of the Companies Act, 2013 without taking into account HIAL's consideration of a 30-year concession period. The rates considered by the Authority are:

Asset Classification	Depreciation rates used for existing assets as per actuals of FY 2015-16
Buildings	3.34%
Electrical Installations	10.00%
Furniture and Fixtures	10.00%
Freehold Land	0.00%
Improvements to Leasehold Land	3.34%
IT Systems	33.34%
Office Equipment	20.00%
Other Roads	10.00%
Plant & Machinery	6.67%
Runways	3.34%
Software	16.67%
Vehicles	12.50%

5.88. The Authority also mentioned that it was in the process of framing separate guidelines for the computation of depreciation for regulatory purposes. Such guidelines after notification would be applicable on HIAL.

5.89. Additionally, the Authority notes HIAL's submission of considering depreciation for only those assets that it has categorised as aeronautical in its Concept Note on Allocation Methodology submitted as Annexure 3 of the MYTP proposal dated 25.03.2016. However, based on the reallocation of assets covered in paras 5.40 to 5.57 , the Authority has recalculated the depreciation of the Regulatory Asset Base.

5.90. The Authority observed that in the tariff financial model submitted by HIAL, the airport operator has separately determined the depreciation for the gross block of aeronautical, non-aeronautical and non-airport assets. Then from this depreciation on gross block, HIAL has reduced the depreciation on ADFG funded assets for each year to compute the depreciation to be considered for the purpose of determination of ARR.

5.91. Further, as HIAL has capitalized the forex losses adjustments as per AS 11, depreciation on this capitalized amount had been included in HIAL's depreciation for regulatory purposes. As explained in para 5.56, the Authority proposes to disallow such capitalization and to ensure consistency remove depreciation corresponding to the capitalization from the depreciation allowed for regulatory purposes.

5.92. Regarding assets funded by ADFG, as the tariff determination is being conducted under 30% shared till, the Authority proposes to reduce depreciation corresponding to assets funded through an ADFG from aeronautical depreciation rather than proportionately between aeronautical and non-aeronautical depreciation.

5.93. Further to the above, the value of RAB under 30% shared till as proposed by the Authority is presented below:

Table 19: Computation of Regulatory Asset Base for the 2nd Control Period

Particulars (in Rs. crores)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Opening RAB (a)	1445.12	1469.52	1409.09	1610.17	2515.96
Additions to RAB (b)	183.88	108.40	350.72	1082.93	205.30
Less: Deletions to RAB (c)	0.00	0.00	0.00	0.00	0.00
Less: Depreciation (including ADFG adjustment (d)	159.48	168.84	149.64	177.14	220.34
Closing RAB (e)=(a)+(b)-(c)-(d)	1469.52	1409.09	1610.17	2515.96	2500.92
RAB for Tariff Determination {(a)+(e)}/2	1457.32	1439.30	1509.63	2063.06	2508.44

C) Stakeholder comments on issues pertaining to RAB

As part of the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No. 30/2017-18 dated 19.12.2017. Stakeholders have also commented on issues pertaining to RAB in respect of RGI Airport, Hyderabad. These comments are presented below:

Allocation of Assets

Recognition of cargo, ground handling and fuel throughput services

5.94. On the issue pertaining to allocation of cargo, ground handling and fuel throughput in respect of RGI Airport, Hyderabad, stakeholder comments are presented in paragraphs below.

5.95. Industry associations including Association of Private Airport Operators (APAO) and Associated Chambers of Commerce and Industry of India (ASSOCHAM) opposed the treatment of CGF charges as aeronautical as proposed by the Authority. The associations cited Section 13 of the AERA Act, 2008, which mandates the Authority to take into account the concessions offered to airport operators along with other related agreements, which form an "integral and inalienable" part of the concessions while determining Regulated Charges. APAO submitted that,

> *"A perusal of Section 13 of the AERA Act makes it clear that while determining tariff for aeronautical services, AERA is statutorily obligated to consider the concession offered to the Airport Operators by the Central Government and the other agreements which form an integral and inalienable part of such concession.*

So even though the AERA Act empowers AERA to regulate tariff for Aeronautical Services as defined in Section 2(a) of the AERA Act, in case any concession has already been granted by the Central Government, AERA is required to consider the terms of such concession. This is an exception to the mandate of the Act which is recognized and allowed by the Act itself."

5.96. Further, highlighting the relevant provisions of HIAL's Concession Agreement, BIAL and APAO submitted that only the Regulated Charges including Landing, Parking and Housing charges came under the Authority's purview. On the other hand, with respect to any other charges for facilities or services not covered in the Regulated Charges, BIAL and APAO commented that HIAL was free to determine these charges. According to APAO,

"Upon perusal of Clause 10.2 of the Concession Agreement, we understand that only Airport Charges defined as the 'Regulated Charges' are to be regulated by the IRA Schedule 6 ("Regulated Charges") of the Concession Agreement defines the Regulated Charges under three categories:

(i) Landing, Housing and Parking charges (domestic and international):

(ii) Passenger Service Fee (domestic and international):

(iii) User Development Fee (UDF) (domestic and international):

Further, perusal of clause 10.3 of the Concession Agreement states that HIAL/Service provider are free to determine charges for the services other than the facilities and services in respect of which Regulated Charges are levied....

It is evident from conjoint reading of Articles 10.2 and 10.3 that the Concession Agreement has clearly mad a distinction of charges which would be regulated and free from regulation. The Authority's view conflicts with the Concession Agreement which clearly bifurcates the regulated and other charges. Bringing the other charges under the ambit of regulation by imposing the Hybrid Till is without basis. This is a serious deviation from contractual agreements. Cargo, ground handling and fuel throughput revenues should be treated as non-aeronautical and AERA's approach needs to be reviewed."

5.97. In addition, BIAL pointed that the Authority had not considered revenues pertaining to cargo and ground handling services for cross subsidizing airport charges of DIAL and MIAL. Accordingly, BIAL requested the Authority to adopt a similar approach in HIAL's context so as to safeguard HIAL's rights granted in the Concession Agreement.

5.98. ASSOCHAM observed that the decision to invest for undertaking airport development was made by shareholders at a very nascent stage after having taken into consideration various factors including provisions of regulated charges, opportunity of real estate development around airport land and minimum guaranteed return on equity. In light of safeguarding the interests of the investor community, ASSOCHAM stated that,

"Any change in interpretation of the concession agreement post facto will send wrong signal to investor community and will impede the Indian aviation growth."

5.99. On the subject of recognition of ground handling charges, BAOA (Business Aircraft Operators Association) stated that

"....The CP 30/2017-18 has not determined GH charges at HIAL as part of aeronautical tariff as per para 2 of AERA Act. Govt. of India has recently issued GH Policy wherein, GH services; such as ramp handling operations (marshalling, starting, toilet services, water service, load control etc) that are essential for aircraft and passenger movements; have now been well defined. It is requested that AERA determines the different essential and aircraft specific GH services as aeronautical ones and fix tariff for them, without allowing any 'royalty' for commercial public air transport operations. Please also refer to pleas made in this regard by BAOA during the stakeholder meeting on 22 Jan 2018. BAOA shall submit a 'Concept Paper' by 28 February 2018 to AERA on determination of GH charges as aeronautical services in the light of Notification issued by GOI on 15 December 2017."

5.100. With respect to throughput / GH services royalty, BAOA stated that,

"....The Throughput royalty, and any other royalty, is required to be aligned with the recently issue GH Policy of the GOI on 15 December 2017, which is 'compensation, consideration or fee paid for providing ground handling services at an airport payable in the airport operator in addition to applicable land or space rentals.' Therefore, this amount is to be considered as 'compensation, consideration or fee' and applied as per govt. tax rate for public transportation services or FROR (14%)"

Future capital expenditure

5.101. In the context of future capital expenditure, industry association ASSOCHAM stated that airports are "gateway to a city" and are reflective of the pace of economic development of the city and overall country. Accordingly, ASSOCHAM opined that to ensure a high quality experience for passengers, it was important to focus on various aspects such as level of technological advancement, aesthetics of the airport, offerings pertaining to food, retail and leisure among others.

5.102. Referring to HIAL's Concession Agreement, BIAL pointed that HIAL is obligated to provide quality service for which it is critical to undertake capital expansion. BIAL stated that, "An Airport Operator cannot compromise on meeting its performance standards and enhancing infrastructure to the benefit of airlines and passengers." BIAL urged the Authority to consider the inputs and cost estimates submitted by HIAL so that it would not have to compromise on maintaining globally benchmarked performance standards.

5.103. In addition, BIAL claimed that typically, airport terminal expansion are complex projects, which are carried out over a long duration. According to BIAL, such projects are *"subject to various challenges and risks like technical issues during project execution, change in design, unidentified costs, change in BOQ, challenges in getting required material and labor resources."* BIAL said that these factors would have a bearing on the final cost of the project and therefore, capping the true-up of such costs would not be in the interest of either the airport operator or the overall airport community. BIAL contended that such a treatment by the Authority could affect airport expansion projects in the future given the complexities involved, various stakeholder requirements pertaining to security, customs, among others and the dynamic business environment.

5.104. In fact, even APAO while appreciating the Authority's treatment of engaging an independent consultant to review the project expansion and associated costs highlighted that the final costs would depend on a variety of external factors outside the control of HIAL. It submitted that it was impossible to forecast a final cost estimate by accounting for all contingencies at this stage.

5.105. In addition, both APAO and ASSOCHAM claimed that given that capital cost for airport development and expansion was already lower in India as compared to countries like Mexico, Brazil, Middle East, Russia, Singapore and Hong Kong, further optimizing costs could affect the quality of service and potentially compromise on safety standards given the specialised nature of requirements for airport infrastructure. According to ASSOCHAM's submission,

> *"A delicate balance is required so that the airport operator can provide best in class amenities to its customers. Inappropriate capping of capital cost may lead to potential compromise on quality and safety standards as building of airport infrastructure is a specialized work."*

5.106. Based on the rationale provided, APAO, ASSOCHAM and BIAL requested the Authority to allow true up based on actual costs incurred given that projects would be awarded by HIAL through competitive bidding, which would lead to transparency and efficiency in price discovery.

5.107. On the other hand, IATA stated that it supports AERA's application of Normative Cost benchmarks combined with an Independent consultant's review of HIAL's capital investment plan proposal for the 2nd Control Period that has resulted in an overall reduction in costs to Rs. 1,717.39 crores vis-à-vis Rs. 2,286.28 crores proposed by HIAL.

5.108. Further, with respect to capping of costs for true up in the subsequent Control Period, IATA stated that,

> *"We also support AERA capping the cost of this capital expenditure avoiding future true-ups relating to second control period costs."*

5.109. On the subject of capital plans, IATA stated that it acknowledges that HIAL has shared its capital plans for the 2nd Control Period and made the effort to form an AUCC as a portal to review its proposals for the 2nd Control Period, however, it believes that this does not constitute consultation or meet the obligations mandated in AERA's Consultation Protocol of the 2011 Act.

5.110. In addition, IATA believes that HIAL has neither followed AERA's defined process nor provided sufficient details for airlines to make informed decisions regarding investments. According to IATA,

> *"Meaningful consultation requires User's involvement from an early stage in the development process, and a structured, regular consultation with Subject Matter Experts so there is an opportunity to capture their requirements and review the basis for investment including the overall impact on User charges. Unfortunately HIAL have neither followed AERA's defined process or provided sufficient details for airlines to make informed decisions regarding investments."*

5.111. On the subject of projects and investment plans, IATA stated,

> *"Specifically, AERA's Consultation Protocol (with the 2011 AERA ACT) requires projects to be consulted upon in detail within individual "Project Investment Files" however this information has not being made available to Users. Ultimately projects and the overall investment plan should only proceed*

where a Business Case and return on investment exists in Users and consumers interests, given they are funding investments."

5.112. On the subject of returns on investment, IATA stated that it requires the airport to demonstrate a positive return on investment and seek consensus across the airline community through a project development and Business Case process, as any business in competition does.

5.113. On the subject of capital projects, IATA stated,

"We therefore encourage AERA to support the implementation of its Consultation Protocol to apply a similar level of scrutiny and assurance regarding the requirement for capital projects, and the basis for investment via a Business Case in addition to scrutiny on the capital efficiency of projects within the plan. IATA and our airline members have the ability to conduct this work and would be pleased to engage in it moving forwards."

D) HIAL's response to Stakeholder Comments on issues pertaining to RAB

5.114. Subsequent to the receipt of comments from the Stakeholders on the Consultation Paper No. 30/2017-18 dated 19.12.2017, the Authority forwarded these comments to HIAL seeking its response to these comments. HIAL has provided responses to the Stakeholders' comments, which are presented below:

Allocation of Assets

Recognition of cargo, ground handling and fuel throughput services

5.115. HIAL concurs with the submissions made by APAO, ASSOCHAM and BIAL on consideration of cargo, ground handling and fuel farm as non-aeronautical services.

5.116. In response to BAOA's comment on determination of ground handling charges as aeronautical services HIAL submitted,

"We would like to state that the tariffs for ground handling services as per our concession provision should not be regulated by the Authority."

5.117. In response to BAOA's comment on throughput / GH services royalty, HIAL submitted,

"BAOA comments on throughput royalty is out of context and not relevant to Consultation Paper 30 as the royalty payable to airport operator by ground handling agencies are discovered through a competitive process."

Future capital expenditure

5.118. In response to IATA's comment on the issue of normative approach and capping of costs, HIAL stated as under:

"GHIAL had proposed the capital expenditure on the broad estimates based on assumptions which formed the basis of approval by AERA after due verification from an external consultant appointed by AERA. The actual cost can only be validated by price discovery through competitive bidding and hence this aspect of cost variability during the award process has to be recognized by the Authority.

Airport infrastructure being complex in nature and premium in offerings, the Authority should allow true up of cost upon award by GHIAL.

Hence, the cap proposed by the Authority is required to be revisited and capex incurred shall be trued up in 3rd Control period upon cost verification by the Authority.

Also, the issue of normative approach to capital costs is sub-judice before the appellate tribunal."

5.119. In response to IATA's comment on not following the Authority's defined process for user consultation, requirement for capital projects and basis for investment HIAL stated as under:

"We do not agree with IATA's contention that GHIAL has not followed AERA's defined process for user consultation.

We would like to submit that we have diligently carried out the consultation process with stakeholders (including representative from AERA) on our expansion plans and complied with the necessary process as specified under the guidelines for conducting the AUCC with regard to any significant capex being undertaken by the airport operators.

During the AUCC meeting held on September 16, 2015 most of the queries of the stakeholders were addressed (refer Minutes of the Meeting shared to all the stakeholders by the company). In fact lot of stakeholders appreciated our efforts to expand the terminal in view of the growth in passenger traffic. All the comments from IATA were responded and taken on record. Further, GHIAL as an Airport Operator has to take a holistic view while deciding on capex plan vis a vis individual outlook of stakeholders.

To summarize, we would like to state that the present process of stakeholder consultation also adequately covers the involvement of all the stakeholders and response exchange timelines."

E) HIAL's own comments on issues pertaining to RAB

Allocation of Assets

Recognition of cargo, ground handling and fuel throughput services

5.120. Referring to its Concession Agreement, HIAL stated that the airport activities mentioned in Schedule 3, part 1, is a master list of services, facilities and equipment to be provided by the airport operator and is not the list of regulated services as considered by the Authority. HIAL submitted that for purposes of tariff determination, Schedule 6 needs to be read with Article 10 of the Concession Agreement, which deals with Airport Charges. HIAL argued that one of the concessions provided to it by the Government of India is to treat cargo, ground handling and fuel farm services as part of the "other charges" outside regulatory purview. In this regard, HIAL submitted that,

"Schedule 6 of the Concession Agreement, maintains a clear distinction between regulated charges [Schedule 6 read with Article 10.2.] and other charges [Article 10.3.] A reading of the Concession Agreement, more particularly Articles 10.2 read with Schedule 6 and 10.3 will reveal that the cargo, ground handling and fuel supply (collectively referred to as "CGF") are covered under "other charges" and hence not liable to be regulated, as opposed to "regulated charges..."

5.121. HIAL further stated that it was clear from the provisions of the Concession Agreement that the Independent Regulatory Authority would only determine Regulated Charges as mentioned in Schedule 6 and any charges outside the same would go beyond its regulatory purview.

5.122. Further, HIAL contended that although its Concession Agreement was signed prior to the notification of the AERA Act, 2008, the Act ensures protection of the concessions granted to the airport operators. The Act mandates the Authority to take into cognizance the concessions provided by the government while determining the tariffs. Further, HIAL pointed that Schedule 6 of the Concession Agreement defines "regulated charges" under the following three categories:

"...

(i) Landing, Housing and Parking charges (domestic and international):

(ii) Passenger Service Fee (domestic and international):

(iii) User Development Fee (UDF) (domestic and international):

..."

5.123. HIAL also stated that clause 10.3 of the Concession Agreement grants HIAL the right to determine charges for the services other than those for which regulatory charges are levied. HIAL further highlighted that cargo, ground handling and fuel farm services found no mention in Schedule 6 of the Concession Agreement. Accordingly, HIAL stated that the Authority's comments and proposal are in conflict with the AERA Act and Concession Agreement. HIAL submitted that,

"...schedule referred to by the Authority from the concession agreement i.e. Part 1 of Schedule 3 is in relation to Airport Activities which does not relate to Regulated Charges under Schedule 6 or clause 10.2. by any stretch of imagination.... Therefore, the Authority has the power to determine only 'Regulated Charges' as mentioned in Schedule 6 in terms of section 13(1)(a)(vi) of the Act and not 'Airport Activities' mentioned in Schedule 3."

5.124. In this regard, HIAL also resubmitted the response of the Attorney General (AG) to the query raised by MoCA based on directions of the Hon'ble High Court of Andhra Pradesh in WP. No. 6487/2014. HIAL cited the AG's opinion that "cargo and ground handling services are not found in Schedule 6" and accordingly do not constitute regulated charges. The AG observed that "HIAL has a right to determine charges for those facilities which are not covered in 'Regulated Charges'". The AG finally held that HIAL could charge for these services without any regulation and that these services would be deemed to be non-regulated services under the Concession Agreement and have to be included under non-aeronautical services.

5.125. In addition, HIAL also cited the opinion rendered by Hon'ble Justice R.C. Lahoti, Former Chief Justice of India as an expert opinion in this context. Justice Lahoti opined that the Authority would be justified in regulating the "Regulated Charges" and leaving "Other Charges" outside its regulatory purview. The extract from Justice Lahoti's opinion cited by HIAL has been reproduced below,

"While construing section 13(1)(a)(vi) of the AERA Act and acting thereunder, Article 10.2 and 10.3 of the Concession Agreement and other provisions thereof

have to be kept in view. The AERA would be justified, and that would be a fair and just exercise of power, if the AERA may regulate the Regulated Charges as defined in the Concession Agreement and may not regulate any Other Charges in respect of the facilities and services provided at the Airport."

5.126. With respect to the Authority's stance of extending the same treatment to HIAL as was done in the case of BIAL during the 1st Control Period based on MoCA's view, HIAL submitted that given its contextual difference, the aforesaid letter cannot be relied upon. HIAL submitted that "….letter of MoCA cannot be relied upon as it has a different contextual dimension and is not in line with our Concession Agreement and the same is also challenged by BIAL." HIAL also called the Authority's approach as being "selective" as it has "conveniently ignored" MoCA's directive issued in the case of DIAL and MIAL. Based on the opinion of the Ministry of Law and Justice, which held that "AERA being an instrumentality of the State cannot unilaterally ignore the said binding agreements on the ground that they have been formally signed by the AAI", MoCA had directed AERA to consider all concession documents.

5.127. Pointing at the variation in regulatory approach adopted by the Authority in case of DIAL and MIAL by taking into consideration the concessions granted to these airports, HIAL requested the Authority to adopt a similar approach to recognise cargo, ground handling and fuel farm services as non-aeronautical even in its case. In this regard, HIAL submitted that,

"...in case of MIAL and DIAL, the Authority has taken due cognizance of respective concession agreements and treated cargo and ground handling services as non-aeronautical. We request the Authority to take similar approach and decide based on our concession provisions which is also enshrined in Section 13(1)(vi) of AERA Act which provides that the Authority shall determine the tariff for the aeronautical services taking into consideration specified at sub clauses (i) to (vii) which include the concession offered by the central government in any agreement or memorandum of understanding or otherwise."

5.128. Accordingly, HIAL stated that while in normal course the Authority should take into consideration provisions of the AERA Act, in case of any diversions specific concessions granted to an airport operator by the Concession Agreement should take prominence. An extract from HIAL's submission in this regard is provided below,

"Accordingly, the Authority should consider the categorization of services as provided under the definition of the Act. However, when a specific categorization has been provided by way of a concession granted by the Central Government, due regard has to be placed on such a special circumstance and the Concession Agreement ought to prevail over the categorization provided in the Act by virtue of specific provision in the Act i.e. 13(1)(a)(vi)."

5.129. Additionally, referring to India ranking 164th on the Ease of Doing Business Index of the World Bank, HIAL highlighted the need to abide by the terms and conditions of the contracts of GoI in order to improve investor sentiment and attract more investments.

5.130. Based on the aforementioned reasons, HIAL requested the Authority to consider services pertaining to cargo, ground handling and fuel farm as non-aeronautical services.

Allocation of other assets

5.131. On the Authority's allocation of Vehicle Fuelling Services in chapter 5, para 5.65 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL referred to the Authority's principles of RAB boundary given in chapter 5, para 5.61 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, which stated that only those assets that are integral for the functioning of the Airport and related activities should form part of the RAB. HIAL submitted that since the said service is "non-core" to airport operations and is being provided by a third party operator, it should accordingly be treated as a non-aeronautical service. According to HIAL's submission,

> *"The Authority has stated that services, which are integral to the Airport or the activities pertaining to it or are integral for the functioning of the airport should form part of the RAB. Consequently, the assets pertaining to those activities, which are not integral or non-related to the airport, should be excluded from the RAB.*
>
> *The Vehicle fuelling services are primarily provided to vehicles that ply in the airside to facilitate passenger movements. In other airports, the Authority has considered "In the Plane" (ITP) services as non-aeronautical and vehicle fuelling services being further non-core which is concessioned out to BPCL should be treated as non-aeronautical service."*

5.132. On the allocation of CUTE, CUSS and BRS IT assets as aeronautical assets as given in chapter 5, para 5.66 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL stated that with the Authority considering these as part of ground handling services, they should be treated as non-aeronautical services similar to ground handling services, in line with the concession granted to the airport operator.

5.133. Responding to the Authority's proposal of allocating cargo satellite building as an aeronautical asset as given in chapter 5, para 5.67 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL responded that the CSB was not core to cargo operations. HIAL submitted that the CSB is used as an office space for cargo agents and freight forwarders. HIAL further pointed that Schedule 3 Part 2 of its Concession Agreement enlisted offices for freight consolidators/forwarders or agents at cargo complex, offices for airlines among others as part of non-airport services, and accordingly requested the Authority to treat CSB as a non-airport asset outside its regulatory purview. Further, HIAL added that CSB is also being used as a non-bonded transit warehouse, which is not critical to cargo operations and hence, CSB should be excluded for tariff determination purposes.

5.134. Even on the allocation of FEGP assets, HIAL requested the Authority to consider the same as non-aeronautical similar to CGF assets in line with their Concession Agreement.

5.135. In the context of allocation of the NOB between non-aeronautical and common in the ratio proposed by the Authority in chapter 5, para 5.70 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that the NOB was the corporate office for all its critical and non-critical staff. HIAL added that the NOB was developed to cater to the increasing office space requirements of HIAL with the growth in airport operations. Given the phased growth of the airport, HIAL submitted that it had *"opportunistically leased out"* some portions of the NOB to generate revenue and reduce burden on passengers. HIAL's submission has been provided below, *"NOB is the corporate head office of the company and it was built to take care of the operational requirements of RGIA. All the critical and non-critical staffs of GHIAL operate from NOB. The objective to build NOB was to take care of the staffing requirement go forward as the airport is expanding its operations. Since the growth is phased out over the period, the NOB is also getting occupied incrementally every year pending which we have opportunistically leased out the space to generate revenue to reduce the burden on passengers. Hence we have treated the assets in line with treatment of PTB."*

5.136. Accordingly, HIAL requested the Authority to allocate NOB as a common asset and use the rental income generated by the building to offset its maintenance costs.

5.137. In response to the Authority's proposal of considering landscaping as an operating expense as given in chapter 5, para 5.74 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL contended that,

"The overall customer experience depends a lot on ambience at the airport premises and accordingly we have treated landscaping as aeronautical expenses. The landscaping is required irrespective non-aero activities. Also, Authority in the past considered landscaping as aero expenses for other airports Hence, we request the Authority to be consistent and consider landscaping as aero expenses."

5.138. With respect to the deduction of ADFG from aeronautical assets and aeronautical depreciation while determining RAB as given in chapter 5, para 5.78 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL stated that ADFG was critical to fund the airport capital cost involving setting up of both aeronautical and non-aeronautical infrastructure. Referring to Order No. 38/2013-14 in which the Authority had noted that the ADFG granted by the GoAP had not been earmarked for specific assets and thus, had decided against making any deductions in RAB. HIAL further submitted that it would not be possible to develop an airport without accounting for non-aeronautical infrastructure. HIAL submitted that,

"Hence setting aside of ADFG towards aero assets is devoid of logic and our submission of proportionate reduction from aero and non aero assets are equitable. We request the Authority to consider the reduction based on assets ratio."

5.139. Regarding the Authority's proposal to disallow capitalization of forex losses in the calculation of RAB as stated in chapter 5, para 5.79 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that,

"Forex fluctuation as per AS11 is a standard approach as this is real reflective of the treatment of assets and liabilities in the books of account and we are inclined to have similar treatment under regulatory framework in the absence of any clear cut guidelines on treatment of forex loss. Had the guidelines been made available, the necessary precautionary steps would have been taken by the company since incurred of ECB."

5.140. On the Authority's proposal for allocating Employee Township given in chapter 5, para 5.87 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL responded that ensuring that airport employees reside close to the airport helps improve the response time in case an emergency situation comes up. HIAL submitted that, *"Employees are provided accommodation in township to have quicker responses management in case of emergency or to continue to operate the airport in case of a disruption in the city."*

5.141. Further referring to its submission on the function-wise details of critical and non-critical staff residing at the township, HIAL justified that even the non-critical functions were important for ensuring smooth operations of the airport.

"For your reference, the department-wise breakup of GHIAL's critical and non-critical staff residing at the Township in March 2016 is as below:

Department	*Critical*	*Non-critical*	*Total*
Airport Operations Control Centre	*15*		*15*
Airside Operations	*12*		*12*
ARFF	*32*		*32*
Business Development		*3*	*3*
CFF	*1*		*1*
COO Office	*1*		*1*
Corporate Communications		*1*	*1*
Corporate Relations		*2*	*2*
Ethics & Intelligence		*1*	*1*
Finance & Accounts	*2*		*2*
Human Resources	*3*		*3*
Protocol	*2*		*2*
Safety & Environment	*3*		*3*
Security & Control	*15*		*15*
SPG	*1*		*1*
Terminal Operations	*2*		*2*
Transportation	*1*		*1*
Project Management, IT, Technical Services	*6*	*3*	*9*
Grand Total	*96*	*10*	*106*

..."

5.142. Accordingly, HIAL submitted that,

"We have built the township keeping in mind the long term usage and hence the occupancy of township is gradual and increase with elevated level of activity. Hence allocation based on occupancy is not a right benchmark and the Authority should consider township as aero assets based on its intended purpose or at best be allocated on common asset ratio."

Future capital expenditure

5.143. With respect to the proposal on project expansion cost and true up allowed by the Authority in chapter 5, para 5.94 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL contended that the AERA Act does not give the Authority any regulatory powers for capping the amount of capital expenditure to be undertaken by an airport operator for determination of aeronautical tariffs.

"In this regard, as per Section 13(1)(a)(i) of the AERA Act, the only mandate of the AERA is to take into consideration "the capital expenditure incurred" for determining the tariff for aeronautical services which clearly does not empower the AERA to fix any cap on capital expenditure. Therefore, while the Authority has the power to determine tariffs based on consideration of 'expenditure incurred', HIAL may not be in a position to pre-empt such expenditure beforehand.

5.144. HIAL further pointed that while its submission and the independent consultant's evaluation was based on projected traffic of 20 million passengers, the Authority had projected traffic to be at 23.48 million by FY 2020-21. Additionally, commenting on the assumptions considered by the independent consultant on various aspects such as escalation of civil and building materials, overheads and profits, water charges, zero escalation on equipment, contingencies, supervision charges and design engineering, HIAL submitted that such assumptions can only be validated during contract award. Further, HIAL contended that the independent consultant had benchmarked costs with CPWD rates which while applicable to a standard building structure, cannot apply in the case of airport terminal. This was because airport terminals require complex designing and include multiple interfaces and accordingly would involve higher construction costs. In addition, HIAL submitted that, the cost estimates assumed by the independent consultant are only approximations and thus, requested the Authority to true up the same in the 3rd Control Period based on actual cost details submitted by the airport operator without any capping on costs. Concluding its response on the issue, HIAL stated that,

"Without prejudice to the aforesaid as well as the objection of GHIAL regarding the power of the Authority to fix any cap on capital expenditure pending adjudication in the Normative Appeal challenging Order dated 06.06.2016 (issued on 13.06.2016) passed the Authority, GHIAL submits that as the capital expenditure is based on estimated values, for the time being the cap proposed by the Authority i.e. Rs. 1613.77 maybe kept open and can be revisited based on the actual expenditure incurred by GHIAL."

Depreciation

5.145. Regarding the treatment on depreciation of assets proposed by the Authority in chapter 5, para 5.109 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL argued that it has considered depreciation based on residual period of the existing concession of 30 years in the absence of any confirmation from MoCA on extending the concession period. HIAL further stated that its Concession Agreement also provides for termination provisions and accordingly assuming the concession period of 60 years to prepare books of accounts would be *"premature"*. It pointed that its statutory auditors also considered only 30 years as the concession period and had calculated depreciation based on the residual period of the existing concession in those cases where the economic life of the asset was higher. HIAL therefore requested the Authority to calculate depreciation of building and runways based on the remaining period of the concession.

5.146. In response to the Authority's exclusion of depreciation on the capitalised forex loss adjustment from the depreciation allowed for regulatory purposes as given in chapter 5, para 5.115 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that its treatment of forex loss as per AS11 and calculation of corresponding depreciation is well-established. In the absence of any specific guidelines issued by the Authority on the treatment of forex loss, HIAL requested the Authority to consider the treatment under AS 11. An extract from HIAL's response is given below,

> *"Since this treatment of forex loss as proposed by the Authority is not in sync with the accounting methodology, we request the Authority to be guided by AS 11 and can have its own methodology post framing of separate guideline with prospective effect."*

5.147. On the Authority's proposal of reducing depreciation of those assets funded through ADFG only from aeronautical depreciation given in chapter 5, para 5.116 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL responded that ADFG was used towards building of airport infrastructure and it is impossible to provide enhanced customer experience by segregating aeronautical and non-aeronautical infrastructure. HIAL submitted that,

> *"Hence allocating ADFG to aeronautical assets only is not practicable. From infrastructure point of view both cohabits and conjoint. Hence we request the Authority to reduce depreciation corresponding to assets funded through ADFG proportionately between aeronautical and non-aeronautical depreciation in line with our submission."*

F) Authority's Examination of Stakeholder Comments on Issues pertaining to Regulatory Asset Base

5.148. The Authority has carefully examined the submissions made by the stakeholders including HIAL on the issue of regulatory asset base including allocation of assets and future capital expenditure.

Allocation of Assets

Recognition of cargo, ground handling and fuel throughput services

5.149. The Authority takes note of HIAL's comments pertaining to allocation of CGF assets as non-aeronautical assets and therefore to be considered outside the RAB.

5.150. The Authority has duly examined the submissions made by HIAL, APAO, BIAL and ASSOCHAM requesting recognition of CGF services as non-aeronautical services broadly based on the following reasons submitted by the stakeholders:

- Firstly, HIAL's concession categorises cargo, ground handling and fuel farm as part of non-aeronautical services for which it is free to determine charges without any regulatory interference;
- Secondly, the AERA Act, 2008 mandates the Authority to take due cognizance of the concessions granted to airport operators while determining airport tariffs;
- Thirdly, the Authority's recognition of the said services as non-aeronautical selectively in the case of DIAL and MIAL citing provisions of their respective Concession Agreements led to regulatory inconsistency.

5.151. HIAL also claimed that given its contextual difference, the Authority should not rely on MoCA's letter issued in the case of BIAL's Consultation Paper No. 14/2013-14. In addition, HIAL also resubmitted the opinion provided by the Attorney General at the time of submission of its MYTP for the 2nd Control Period along with a new submission of the views of a Former Chief Justice of India, highlighting the difference between "regulated" and "other than regulated charges".

5.152. Based on a detailed examination of the arguments and documents submitted by stakeholders including HIAL, it is observed that these are similar to those repeatedly addressed by the Authority in both Order No. 38/2013-14 for the 1st Control Period and the Consultation Paper No. 30/2017-18 for the 2nd Control Period, which has been answered in paras 5.40 to 5.44.

5.153. Further, on HIAL's claim of MoCA's letter having "different contextual dimension" and not being in line with its Concession Agreement, the Authority would like to reiterate its argument in Para 5.43 that both the greenfield airports, BIAL and HIAL, have similarly structured concession agreements and therefore, there is no such significant contextual difference between the two airports as is being argued by HIAL. The Authority also believes that it was not fair to expect regulatory consistency on the principles for tariff determination between HIAL and DIAL/MIAL, since tariffs are determined for the latter based on regulatory principles in the SSA entered into between the Government of India and the respective airport operators; and not on the principles enshrined in the Authority's Guidelines.

5.154. Finally, the Authority would like to reaffirm that the AERA Act, 2008, under which it has been granted its regulatory powers, is the guiding document on tariff determination of airports in India including HIAL and in fact, the Act clearly accorded the status of aeronautical services to cargo, ground handling and fuel supply even after having given due consideration to concessions granted to various airport operators in the country prior to its notification, as has been provided in detail in para 5.41.

5.155. In the absence of any fresh arguments presented by stakeholders, the issue does not merit any further examination by the Authority to reconsider its existing treatment mentioned in para 5.44. The Authority therefore, decides to maintain its stance and recognize cargo, ground handling and fuel supply services as aeronautical services to be considered for tariff determination for the 2nd Control Period.

5.156. The Authority has observed BAOA's comment regarding determination of ground handling charges and throughput royalty. However, the Authority would like to highlight that the current process is being undertaken to determine tariffs for RGI, Airport, Hyderabad and not for its ground handling entity. Therefore, the Authority requests BAOA to call attention to these comments when the process for determining tariffs for a ground handling entity is being undertaken.

Allocation of other assets

5.157. The Authority examined the arguments put forth by HIAL to consider allocation of Vehicle Fuelling Services as non-aeronautical on the grounds that these services are not a core function of the airport and are in fact, being provided by a third party operator. The Authority would like to mention that HIAL's justification for the same has already been examined and addressed by the Authority vide chapter 5, para 5.65 of its Consultation Paper No. 30/2017-18, wherein it had held that such services are integral to aircraft operations as they support airside operations. Further, it is pertinent to mention that the premise for recognising services as aeronautical/non-aeronautical/non-airports does not depend only on whether the service is provided by a concessionaire; but on whether it is critical for airside operations at the airport. Given the criticality of the said services to aircraft operations, the Authority has decided to continue with its treatment of allocating Vehicle Fuelling Services as aeronautical. Further, the Authority would like to reiterate its observation in para 5.45 that there will be no change in the RAB in the absence of any assets pertaining to Vehicle Fuelling Services in HIAL's books of accounts.

5.158. The Authority has duly analysed HIAL's submission requesting allocation of CUTE, CUSS and BRS IT services as non-aeronautical on account of them being integral to the ground handling function. It is observed that by virtue of the said services being categorised as part of ground handling services, which have themselves been allocated as an aeronautical service vide the Authority's decision given in para 5.46, the assets pertaining to CUTE, CUSS and BRS IT will be considered as part of the RAB.

5.159. It has been noted by the Authority that HIAL has requested for allocation of CSB assets as non-airport assets owing to its usage as an office space by freight forwarders and as a transit warehouse. It is observed that these arguments have already been analysed by the Authority and addressed in para 5.47, wherein the Authority had held that the building was being used to undertake cargo related operations. In light of no fresh arguments being provided by HIAL, the issue does not merit any reconsideration by the Authority and accordingly, CSB assets will be considered for computation of RAB.

5.160. The Authority observed that HIAL sought treatment of FEGP service as non-aeronautical in line with their related function of ground handling. In this context, the Authority would like to highlight its decision to treat ground handling as an aeronautical service vide para 5.48. Given that FEGP is a part of ground handling services, as pointed out by HIAL, the Authority shall retain its decision of treating the assets pertaining to the same as aeronautical.

5.161. The Authority would like to mention that it has examined in detail HIAL's response wherein it was submitted that the airport operator had "opportunistically leased out" two floors only in the short term and that these would get occupied by HIAL with expansion of the airport operations. The Authority notes that HIAL has not provided any fresh arguments that merit reconsideration of the matter by the Authority, and accordingly the Authority shall uphold its decision to allocate the NOB as provided in paras 5.50 and 5.51.

5.162. Additionally, the Authority while noting HIAL's submission regarding consideration of landscaping as an aeronautical expense, would like to reiterate its stance mentioned in chapter 5, para 5.74 of the Consultation Paper No. 30/2017-18 that HIAL did not create any tangible assets by undertaking landscaping. Accordingly, the Authority has decided to continue with its proposed treatment of keeping landscaping outside RAB and instead considering it as part of the operational expenses of the airport.

5.163. The Authority has taken due cognizance of HIAL's arguments for excluding the ADFG from overall RAB instead of allowing only proportional deduction from the aeronautical asset block. However, the Authority observes that HIAL was not able to provide any justification supporting its request besides stating their submission that a proportionate reduction from aero and non-aero assets would be *"equitable"*. The Authority therefore, finds no reason for it to undertake any further examination in the matter or change its position which considers it similar to a grant. Accordingly, has decided to retain its treatment of ADFG to be reduced entirely from aeronautical RAB as explained in paras 5.54 and 5.55. Accordingly, the Authority decides to reduce depreciation on assets funded by ADFG in a similar manner. The Authority decides to reduce depreciation corresponding to assets funded through an ADFG from aeronautical depreciation rather than proportionately between aeronautical and non-aeronautical depreciation as given in para 5.92.

5.164. The Authority has examined HIAL's comment on the treatment of forex losses in the calculation of RAB. However, based on the rationale provided in, para 5.56, the Authority has decided to disallow the inclusion of forex losses in the calculation of RAB. Instead, the Authority has partially allowed the recovery of foreign exchange losses to the extent that the effective cost of borrowing in foreign currency (net of forex gains / losses) is not higher than the cost of RTLs so as to share the burden along with benefits of foreign currency borrowings between the airport operator and airport users, as described in detail in chapter 7, paras 7.74 and 7.75.

5.165. The Authority notes HIAL's response that employee township houses both critical and support staff who are central to the smooth operation of the airport as well as for overall administration. HIAL has stated that employees are provided accommodation in township to be able to respond quicker in case of an emergency or to continue to operate the airport in case of a disruption in the city. The Authority examined the department-wise breakup of HIAL's critical and non-critical staff residing at the Township as on March 2016 given in para 5.141.

5.166. The Authority notes that most of the employees which come under HIAL's definition of critical employees work in airside operations, emergency services and security and accordingly, it does not prima-facie see a reason to deviate from HIAL's definition of critical employees. Accordingly, the Authority proposes to allow the amount of capex incurred on employee township in proportion to the number of critical employees residing in the township as part of the aeronautical RAB in FY 2015-16. For the purpose of this allocation, the proportion of critical employees is considered based on HIAL's submission quoted in para 5.141.

Future capital expenditure

5.167. The Authority notes the comments made by HIAL, BIAL, APAO and ASSOCHAM advocating the need to undertake future capital expansion to ensure maintenance of a high quality of service for airport users in the form of enhanced aesthetics, variety of service and product offerings, and technologically advanced user experience. It is further observed that the aforementioned stakeholders opposed the capping of true up of capital expenditure at the level determined by the independent consultant on the grounds that the airport operator was bound by its Concession Agreement to provide a certain level of service. The Authority on the other hand, also notes IATA's concurrence with its proposed treatment of capping the true up for capital expenditure, while requesting the Authority to ensure robust implementation of its project consultation process by airport operators.

5.168. The Authority would like to clarify that the rationale for putting a ceiling on the true-up based on the expenditure levels recommended in the RITES report was to ensure efficient spending on terminal expansion to continue providing quality services for the growing traffic volumes and avoiding any additional superfluous expenditure. It is pertinent to mention that imposition of such a limit does not compromise on the quality of service as is being argued by the stakeholders and will in fact, encourage HIAL to plan efficiently and award project contracts to the most competitive vendors. The Authority expects HIAL to carry out value engineering of its projects towards optimization of costs, such that it achieves maximum functionality and quality without incurring unnecessary overhead costs. The Authority acknowledges the aforementioned comment and decides to evaluate any escalations in capital expenditure beyond the levels already determined by RITES Ltd. on a case to case basis, and allow the same in case it is found to be justifiable and reasonable.

5.169. Further, the Authority also notes HIAL's response to IATA's contention that due process was followed based on the guidelines prescribing the conduct of AUCC and all the comments made by stakeholders in the meeting including IATA were responded to and taken on record. In this regard, while the Authority appreciates IATA's concern for compliance with guidelines on project consultation, it agrees in principle that the consultation exercise undertaken by HIAL, in which the Authority had also participated, followed due process with HIAL laying the context for seeking approval on project expansion and also addressing any concerns raised by the meeting participants while deciding on capex plan. The Authority is also in agreement with HIAL's submission that its expansion plan is based on its own assessment for the need and a holistic view of comments made by stakeholders and cannot be based on distinct views of multiple stakeholders.

Depreciation

5.170. The Authority has observed HIAL's comment on considering depreciation based on the residual period greater than the 30 year concession period to be "premature". However, the Authority believes that because the airport's concession period is extendable at HIAL's discretion, the concession period should not be restricted to 30 years. Therefore, based on the detailed rationale provided in para 5.86, the Authority has decided to charge depreciation at the rates specified in para 5.87.

5.171. The Authority has noted HIAL's arguments against the Authority's proposed treatment of excluding depreciation on account of capitalized forex losses. However, as the Authority has decided to disallow the inclusion of forex losses in the calculation of RAB, it has removed the depreciation pertaining to such capitalization to ensure consistency.

Decision No. 5. Regarding Regulatory Asset Base (RAB)

Based on the material before it and its analysis, the Authority decides:

5.a. To include only aeronautical assets of HIAL in RAB for the purpose of determination of aeronautical tariffs for the 2nd Control Period under the 30% shared till mechanism.

5.b. To calculate the RAB for each year as the average of the opening and closing RAB and calculate the return for each year on the average RAB.

5.c. To consider the value of RAB as per Table 19 for determination of aeronautical tariff.

5.d. To accept HIAL's proposed treatment of allocation of assets between aeronautical and non-aeronautical categories except that of cargo, ground handling, fuel farm, cargo satellite building, fixed electrical ground power (FEGP), vehicle fueling services, CUTE/CUSS/BRS IT services, project site office and new office building which have been discussed separately.

5.e. To treat cargo, ground handling, fuel farm, vehicle fueling services, CUTE/CUSS/BRS IT services, cargo satellite building and fixed electrical ground power (FEGP), as aeronautical assets to be included in the calculation of RAB as discussed in paras 5.40 to 5.48. In addition, the Authority decides to reallocate the project site office and new office building between aeronautical and non-aeronautical categories as discussed in paras 5.49 to 5.52.

5.f. To include the proposed capital expenditure and general capital expenditure of HIAL in the determination of RAB for the 2nd Control Period as discussed in paras 5.59 to 5.80. The Authority has revised the estimated cost of the expansion project of HIAL as per Table 16 based on a study undertaken by an independent consultant.

5.g. To allow deferment of only Rs. 3.15 crore of fuel farm related capital expenditure from FY 2015-16 to FY 2016-17 as opposed to Rs. 4.67 crore proposed by HIAL as discussed in para 5.62.

6. WEIGHTED AVERAGE COST OF CAPITAL (WACC)

A) HIAL Submission on Weighted Average Cost of Capital (WACC)

Cost of Equity

6.1. As per its initial submission dated 25.03.2016, HIAL submitted that it has considered Cost of Equity as 24% based on a study conducted by consultancy firm Jacobs. HIAL has resubmitted its arguments pertaining to estimation of cost of equity, which were made by it during the 1st Control Period, and has resubmitted the Jacobs report.

Cost of Debt

6.2. As per its submission dated 5.12.2016, HIAL submitted that the Construction of the airport was funded by term loans from various financial institutions amounting to Rs. 2,120 crores. HIAL further added that these included Rupee Term Loans of Rs. 1,602 crores and Foreign Currency Loan of USD 125 million. Regarding its requirement of debt over 2nd Control Period, HIAL's submission is that its debt shall comprise the following:

a) Rupee Term Loan (Existing)

b) External Commercial Borrowing (Existing)

c) New Debt facility to fund Expansion Capex & Airside expansion

d) Interest Free Loan (Existing)

Rupee Term Loan (Existing)

6.3. Vide its submission dated 5.12.2016, HIAL expressed that pursuant to the Authority's Order No. 38/2013-14 for the 1st Control Period, HIAL faced challenges on account of liquidity constraints and had to take remedial measures to manage cash flow. HIAL explained that in June 2014, it refinanced all its existing Rupee Term Loans ("RTL") with a Term Loan from a consortium led by ICICI Bank Limited.

6.4. HIAL submitted vide its submission dated 5.12.2016 that it's weighted average cost of debt for the RTL as on 31.12.2015 is 10.69% p.a. which has been considered for projecting interest cost for Q4 of FY 2015-16. Regarding the projection of interest rates on RTL over the 2nd Control Period, HIAL has projected an increase of 25 basis points year-on-year over the five year period.

External Commercial Borrowing (ECB)

6.5. Regarding the ECB availed by HIAL, it submitted vide its MYTP submission dated 5.12.2016 that a debt of USD 125 million had been raised during the construction phase of the airport at a spread of 1.75% over the 3 month LIBOR. HIAL also stated that it had entered into an Interest Rate Swap to hedge LIBOR volatility; fixing the same at 5.545% over the tenure of loan. HIAL further submitted that the interest rate was subsequently increased by 100 basis points by the ECB lender, and necessary approval facilitating the same was obtained from RBI dated 20.03.2014. HIAL has also submitted a copy of this RBI approval as an annexure to its MYTP submission.

6.6. Pursuant to the above, a spread of 2.75% on the rate of interest has been accounted for retrospectively from July 2012 and an effective rate of interest of 8.73% p.a. inclusive of withholding tax is considered for projecting the interest cost for FY 2015-16. Regarding hedging against foreign exchange fluctuations, HIAL vide its MYTP submission dated

5.12.2016 mentioned that it plans to take a USD-INR swap for the ECB obligations for the principal and coupon (interest) repayments for the next 5 years including an additional exchange cover premium. Pursuant to the above, HIAL had forecasted the ECB Interest Rate for the 2nd Control Period.

New Debt facility to fund Expansion Capex & Airside expansion / new rupee term loan

6.7. HIAL has submitted vide its MYTP dated 5.12.2016 that it has projected a debt requirement of Rs. 1,335 crores to finance terminal and airside expansion which shall be drawn FY 2016-17 onwards and considered the cost of this new RTL at 50 basis points above the existing RTL due to the construction risk involved. Also, regarding projection of the cost of debt for the new RTL, HIAL has assumed a year on year increase of 25 basis points over the duration of the 2nd Control Period.

Interest Free Loan (IFL)

6.8. HIAL acknowledged an existing interest free loan ("IFL") from the State Government of Rs. 315.05 crores; which it has considered to be a part of total debt at a cost of 0%.

6.9. Vide, its revised financial model dated 28.01.2017, HIAL has projected cost of debt considered for existing and new loan facilities as given below:

Table 20: Cost of debt projected by HIAL as per the revised financial model submitted on 28.01.2017

Loan Facility (Rate of Interest %)	2016	2017	2018	2019	2020	2021
Existing Rupee Loans	10.69%	10.94%	11.19%	11.44%	11.69%	11.94%
New Rupee Loans for Capex	-	11.19%	11.44%	11.69%	11.94%	12.19%
Full cost of ECB	8.73%	16.17%	16.17%	16.17%	16.17%	16.17%
Base Cost	2.89%	2.89%	2.89%	2.89%	2.89%	2.89%
IRS	5.84%	5.84%	5.84%	5.84%	5.84%	5.84%
Exch. cover premium	-	7.44%	7.44%	7.44%	7.44%	7.44%
IFL	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

6.10. Subsequently, HIAL made an adjustment for the amount of RTL pertaining to the demerger of HIAL with GMR Hotel and Resorts Limited ("GHRL"). The Authority as per chapter 13, para 13.23 of its Order No. 38/2013-14 noted that at the time of demerger of the hotel business into GHRL, the assets being demerged were worth Rs. 238.66 crore. HIAL had further stated vide the auditor certificate that this project was fully debt-funded, so at the time of demerger, Rs. 140 crore (a rounded-off figure) was considered as debt outstanding for GHRL and Rs. 110 crore (a rounded-off figure for Rs. 109.66 crore) was considered as equity investment into GHRL. The Authority thus noted from the auditor certificates that HIAL had used debt to fund the equity investment of Rs. 109.66 crore into GHRL.

6.11. Based on the submissions of HIAL presented above, HIAL has requested the Authority to consider its fair rate of return as 17.28%. HIAL's computation in the financial model submitted on 28.01.2017 is presented below,

Table 21: Weighted Average Cost of Capital proposed by HIAL in the 2nd Control Period

Particulars (in Rs. Crores)	2017	2018	2019	2020	2021
Debt (Average Balance) (a)	1717.7	1707.4	1854.1	2351.0	2583.4
Interest Free Loan (IFL) (b)	315.1	315.1	315.1	315.1	315.1
Equity (c)	929.3	1561.0	2227.2	2871.6	3475.1
Debt (including IFL) + Equity (d)=(a)+(b)+(c)	2962.1	3583.5	4396.3	5537.6	6373.6
Cost of Debt (Kd1)	12.67%	12.68%	12.63%	12.54%	12.61%
Cost of IFL (Kd2)	0%	0%	0%	0%	0%
Cost of Debt (Including IFL) (Kd3)	10.71%	10.70%	10.80%	11.06%	11.24%
Cost of Equity (Ke)	24.00%	24.00%	24.00%	24.00%	24.00%
Individual year Gearing (including debt as IFL) (e)={(a)+(b)}/(d)	68.63%	56.44%	49.34%	48.14%	45.48%
	2016-17 to 2020-21				
Weighted Average Gearing (WG) (f) = computed using weights of (d)	51.59%				
Weighted Average Cost of Debt (including cost of IFL) (Rd)	10.93%				
Cost of Equity (Re)	24.00%				
Fair Rate of Return (f)*Rd + {1-(f)}*Re	17.26%				

B) Authority's Examination of HIAL's submission on Weighted Average Cost of Capital

Authority's Examination of HIAL's submission on Cost of Debt

6.12. The Authority notes HIAL's submission dated 5.12.2016 which states that HIAL's Cost of Debt comprises the following:

a) Rupee Term Loan (Existing)

b) External Commercial Borrowing (Existing)

c) New Debt facility to fund Expansion Capex & Airside expansion

d) Interest Free Loan (Existing)

Rupee Term Loan (Existing)

6.13. The Authority notes HIAL's submission dated 5.12.2016, where HIAL expressed that it refinanced all its existing Rupee Term Loans ("RTL") with a Term Loan from a consortium led by ICICI Bank Limited. In the process, HIAL has taken a principal repayment moratorium for two years along with an additional sanction of Rs. 158 crore. The Authority proposes to include the refinanced loan for the purpose of tariff determination for the 2nd Control Period.

6.14. However, prior to this refinancing, HIAL's long terms loans, classified as Rupee Term Loan (RTL) 1 contained an amount which pertained to GHRL; as mentioned in para 6.10. This sum of ~ Rs. 110 crore (rounded of figure) pertaining to GHRL is not supposed to be considered for computation of HIAL's WACC. To exclude the impact of loans corresponding to GHRL, repayments for HIAL's long term debts were being apportioned between the GHRL component (which is outside the regulatory purview) and the other portion which contributes towards the computation of WACC. The Authority proposes to pro-rate HIAL's long term loans categorized as RTL1 for this purpose of GHRL adjustment.

6.15. HIAL had further submitted vide its submission dated 5.12.2016 that its weighted average cost of debt for the Rupee Term Loan as on 31.12.2015 is 10.69% per annum, which has been considered for projecting interest cost for Q4 of FY 2015-16.

6.16. The Authority had requested HIAL to update its financial model based on the actual audited results of FY 2015-16. Accordingly, HIAL updated the same and provided an auditor's certificate corroborating the debt outstanding and the average rate of interest. HIAL's auditor certificate dated 19.01.2017 mentions that Rs. 1,249.26 crores of RTLs are outstanding in the books of HIAL at an average interest rate of 10.70% p.a.

6.17. Regarding the projection of interest rates on RTL over the 2nd Control Period, the Authority has learnt about an exercise of debt restructuring undertaken by HIAL through a Bond issue. Accordingly projection of cost of debt for FY 2017-18 onwards will be governed by details on cost of this Bond issue. Accordingly the Authority does not find the request of HIAL for an increase of 25 basis points year-on-year in the cost of debt relevant any further.

External Commercial Borrowing (ECB)

6.18. Regarding the ECB availed by HIAL, the Authority also noted HIAL's submission that the spread on HIAL's ECB has increased from 1.75% to 2.75% p.a. retrospectively from July 2012. Based on the above, along with withholding taxes at 5% p.a. on the rate of interest, the Authority notes HIAL's effective cost of ECB borrowings to be 8.73% p.a.

6.19. The Authority is also in receipt of an auditor's certificate submitted by HIAL dated 19.01.2017, which confirms that as on 31.03.2016, the amount of ECB outstanding in the books of HIAL are USD 82.10 million (Rs. 548.18 crores) at an effective borrowing cost of 8.732% per annum.

6.20. Regarding hedging against foreign exchange fluctuations, HIAL vide its MYTP submission dated 5.12.2016 mentioned that it plans to take a USD-INR swap for the ECB obligations for the principal and coupon (interest) repayments for the next 5 years. As per the latest financial model submitted by HIAL dated 28.01.2017, HIAL's cost of ECBs post hedge is expected to be 16.17% p.a.

6.21. The Authority notes that the proposed hedge would substantially increase the cost of ECBs from 8.73% p.a. to 16.17% p.a. The Authority is of the view that had the hedging been undertaken at the time of borrowing the ECB, the cost would not have been so high. The Authority would also expect adherence to practices mentioned in para 6.23.5 and the guidelines from Reserve Bank of India to the corporates and their lending banks on unhedged exposure of the corporates. The Authority has also learnt of a debt restructuring exercise by HIAL, which makes this request from HIAL not applicable any further. The same is discussed below:

Bond Issue by HIAL to replace its Rupee Term Loan and External Commercial Borrowing

6.22. Subsequently, the Authority is in receipt of submission from HIAL on the debt restructuring exercise undertaken by it. HIAL raised USD 350 million from a bond issue, at a coupon of 4.25% payable semi-annually with a tenor of 10 year bullet repayment falling due in October 2027. As per HIAL's submission, USD 272 million would be used for refinancing of existing Rupee Loan and ECB and remaining USD 78 million shall be utilized for expansion funding. Additionally, HIAL requested the Authority to consider withholding taxes of 5% and hedging cost in the range of 4.5% p.a.

6.23. In addition to the above, HIAL has sought consideration of one-time charges incurred by it in respect of this Bond issue totalling to a sum of Rs. 126.61 crores. HIAL has proposed consideration of these charges in two parts; Rs. 76.61 crores as a one-time expense in FY 17-18 and out of remaining Rs. 50 crores, Rs. 11 crores to be capitalized and Rs. 39 crores to be amortized over a period of 10 years. Through this amortization HIAL has proposed to increase the cost of debt for this Bond issue by 35 basis points (0.35%) on future value basis.

6.23.1. In line with the information made available by HIAL, the Authority proposes to replace the entire RTL and ECB of HIAL (as presented in from paras 6.13 to 6.21) with this Bond issue.

6.23.2. Cost of debt of this Bond issue comprises the base rate, and withholding tax.

6.23.3. Base rate is stated by HIAL to be at 4.25% p.a.

6.23.4. Withholding tax, as currently applicable, will be 5% on the base rate. Thus the rate will work out to 4.47%

6.23.5. HIAL has proposed to hedge the foreign exchange exposure for this Bond issue and the cost of hedge has been stated to be 4.5% p.a. While opting for such foreign currency loans, it becomes important to be mindful of likely fluctuations in exchange rates, which could significantly impact the actual cost of debt. Hence, the Authority proposes to consider the proposed cost of hedge at 4.5% p.a. and include the same in cost of Bond. and accordingly had proposed not to consider losses, if any, that may be incurred by HIAL on account of fluctuations in foreign currency during the second Control Period from the date of this Bond issue at the time of true-up in the third Control Period.

6.23.6. Overall cost of debt for this Bond issue was proposed to be taken at 8.96% p.a. (4.25%*(1+5%)+4.5%) to be considered from FY 2017-18 onwards.

6.23.7. The Authority will consider the issue of one-time charges totalling to INR 126.61 crores separately upon receipt of Auditor certificates from HIAL detailing years of incurring these charges, the reasonableness of treatment accorded to it in the financial statements of HIAL, and a reconciliation of these with the submissions to the Authority in the past.

New Debt facility to fund Expansion Capex & Airside expansion / new rupee term loan

6.24. The Authority has noted HIAL's capital expenditure plans and acknowledges that HIAL would require additional debt to fund the same. However, the Authority understands that the final cost of the project is yet to be determined. Hence, for the time being, the Authority proposes to accept HIAL's submission requiring Rs. 1,335 crores to finance the terminal and airside expansion.

6.25. Regarding the interest rate on the additional RTL; HIAL has submitted that part of it (USD 78 million) will be funded through the Bond issue. The Authority understands that the balance will be funded through a Rupee Term Loan. While cost of this Bond Issue is available (refer chapter 6, para 6.32 vide Consultation Paper No. 30/2017-18 dated 19.12.2017), cost of this new RTL has been proposed by HIAL at 50 basis points above the existing RTL due to the construction risk involved. However, HIAL has not submitted any quote / sanction letter corroborating the higher interest rate. In this current environment where interest costs are reducing, the Authority believes that HIAL will be able to obtain RTL finance at more competitive rates than HIAL's submission.

6.26. Also, regarding projection of the cost of debt for new RTLs, HIAL has assumed a year on year increase of 25 basis points over the 2nd Control Period. The Authority proposes to use broader indicators to frame a view on interest rates. In line with the same, the Authority has referred to the Weighted Average Lending Rates on outstanding Rupee Loans as published by RBI on its website[2].

[2] https://www.rbi.org.in/rbi-sourcefiles/lendingrate/LendingRates.aspx

Table 22: Bank Group-wise Weighted Average Lending Rates (WALRs)

Weighted Average Lending Rates on Outstanding Rupee Loans (Per cent)				
End-Quarter	**Public Sector Banks**	**Private Sector Banks**	**Foreign Banks**	**WALR of SCBs**
Mar-2012	12.63	12.41	12.08	12.56
Jun-2012	12.39	12.47	12.23	12.40
Sep-2012	12.29	12.59	11.87	12.33
Dec-2012	12.21	12.43	11.73	12.23
Mar-2013	12.11	12.39	12.58	12.19
Jun-2013	12.03	12.33	12.47	12.12
Sep-2013	12.05	12.80	13.10	12.25
Dec-2013	12.02	12.58	12.70	12.18
Mar-2014	11.99	12.43	12.32	12.11
Jun-2014	11.95	12.55	12.32	12.10
Sep-2014	11.74	12.54	11.68	11.90
Dec-2014	11.68	12.34	12.01	11.84
Mar-2015	11.61	12.24	11.84	11.76
Jun-2015	11.46	12.07	11.69	11.61
Sep-2015	11.39	11.97	11.56	11.53
Dec-2015	11.14	11.85	11.33	11.31
Mar-2016	11.10	11.46	11.29	11.20
Jun-2016	11.08	11.47	11.13	11.19
Sep-2016	11.01	11.44	11.02	11.13
Dec-2016	11.01	11.23	11.01	11.07
Mar-2017	10.75	10.92	10.93	10.80
June-2017	10.59	10.82	10.87	10.67
Note: WALRs have been computed based on data submitted by banks. As banks often revise their past data, these data are provisional.				

Based on the above, the Authority infers that interest rates in the economy have been on a declining trend and HIAL's projection of a 25 basis points increase in RTL interest rates may not be appropriate. Cost of debt for this debt has accordingly been considered same as that of existing RTL of HIAL.

6.27. The Authority thus proposed to consider the cost of debt for expansion capex as follows:

6.27.1. Part of debt (USD 78 million which is equivalent to Rs. 507 crores at an exchange rate of INR 65/USD) to be considered to be financed through the Bond issue at 8.96% p.a to be considered from FY 2017-18 onwards, given in para 6.23.6.

6.27.2. Balance part of debt to be considered to be financed through RTL at the current rates of RTL as incurred by HIAL, which is at 10.70% p.a.

Interest Free Loan (IFL)

6.28. The Authority proposes to consider the existing interest free loan from the State Government of Rs. 315.05 crores to be a part of total debt at a cost of 0%.

Ceiling on Interest Cost of Debts

6.29. Earlier, the Authority vide Order No. 38/2013-14 for the 1st Control Period had decided to true up the cost of debt with an extra provision of ceiling the Rupee Term Loan at 12.50% p.a. and the ECB Loan at 8.00% p.a. The Authority had also proposed to review the ceiling of 12.5% for the Rupee Term Loan and 8.00% for the ECB Loan upon reasonable evidence that HIAL may present to the Authority in this behalf.

6.30. The Authority notes that HIAL's cost of ECB borrowings have increased to 8.732% p.a. which is above the ceiling rate allowed by the Authority vide Order No. 38/2013-14. In the given circumstance, the Authority proposes to true-up HIAL's cost of ECB borrowings based on the actual rate of interest incurred by HIAL; excluding foreign exchange losses.

6.31. Pursuant to the above submissions, the Authority has projected HIAL's cost of debt as below,

Table 23: Weighted Average Cost of Capital considered by the Authority for the 2nd Control Period

Particulars (in Rs. Crores)	2017	2018	2019	2020	2021
Debt (Average Balance) (a)	1,502.6	1,463.4	1,473.7	1,837.6	2,133.8
Interest Free Loan (IFL) (b)	315.1	315.1	315.1	315.1	315.1
Equity (c)	603.3	979.6	1,167.3	1,337.0	1,492.2
Debt (including IFL) + Equity (d)=(a)+ (b)+ (c)	2,420.9	2,758.1	2,956.0	3,489.6	3,941.0
Cost of Debt (K_d)	10.28%	8.97%	9.03%	9.24%	9.38%
Cost of IFL	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of Debt (Including IFL)	8.50%	7.38%	7.44%	7.89%	8.17%
Cost of Equity (K_e)	16.00%	16.00%	16.00%	16.00%	16.00%
Individual year Gearing (including debt as IFL) (G)	75.08%	64.48%	60.51%	61.69%	62.14%
	2016-17 to 2020-21				
Weighted Average Gearing (WG)	64.16%				
Weighted Average Cost of Debt (including cost of IFL) (R_d)	7.90%				
Cost of Equity (R_e)	16.00%				
Fair Rate of Return	**10.80%**				

C) Stakeholder comments on Weighted Average Cost of Capital

6.32. As part of the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No. 30/2017-18 dated 19.12.2017. Stakeholders have also commented on issues pertaining to WACC in respect of RGI Airport, Hyderabad. These comments are presented below:

Cost of Equity

6.33. On the issue pertaining to determination of cost of equity, APAO stated that earning a rate of return commensurate with the risk faced is a critical factor for the success of any project and therefore, any dip in these rates to sub-optimal levels would affect investor sentiment. Accordingly, APAO submitted that ensuring contractual return to airport operators is pertinent.

6.34. Also commenting on the issue, ASSOCHAM stated that the aviation industry being "cyclical in nature and heavily dependent on global factors", was vulnerable to several risks and therefore, the heavy investments made by airport operators for airport development and upgrade should be rewarded accordingly. It submitted,

> *"Aviation industry, being cyclical in nature and heavily dependent on global factors, e.g., oil price, geo-political development, natural calamities etc. on which the airport operator has no control, makes the investment more vulnerable. Hence the airport operator needs to be remunerated suitably to attract both equity investors and debt providers for capital investment, recovery of which tend to have very long gestation period."*

6.35. In this context, APAO submitted that the 16% return on equity proposed by the Authority underestimates the risk profile of Indian airports, which operate in a complex environment with long gestation periods. In fact, APAO claimed that the risk profile of airports cannot be compared to other infrastructure assets on account of their "differentiated revenue model and continuous funding requirements." APAO submitted that,

> *"The Indian private airport operators have a significantly higher debt-to-equity ratio compared with listed airports in developed markets. This structure translates into fixed cash outflows in the form of interest and principal repayment which results in a longer gestation period before equity investors receive any dividends."*

6.36. Accordingly, APAO held that to attract further investments in the airport sector, which is perceived to be more risky as compared to other infrastructure sectors, it is important for the Authority to determine a capital cost that takes into account the operational risks of the sector and provide an appropriate return to investors.

6.37. Further, citing the study undertaken by SBI Capital Markets, ASSOCHAM, BIAL and APAO requested the Authority to rely on the same for more appropriate determination of cost of equity for HIAL in the range of 18.5% - 20.5%. Further, in this regard, ASSOCHAM's submission has been reproduced below,

> *"... AERA should take due cognizance of the concession provisions and market realities as reflected in SBI Capital Markets report to arrive at the basis of cost of equity..."*

6.38. BIAL also added that the aforementioned study was based on the CAPM approach, which has been prescribed by the Authority even in its regulatory approach with a view to ensuring a fair return on the investment made by the airport operator.

6.39. However, regarding the subject of WACC, IATA stated that the cost of equity needs to be even lower than 16%. An extract of IATA's submission has been reproduced below, *"While we welcome that the proposed return on equity (16%) is lower than that proposed by HYD, we do believe that it should be even lower. IATA has already made extensive submissions on the subject in the past (i.e. that RoE should be around 14% on the basis of the authority's commissioned external studies). What we propose if for the authority to update the WACC analysis it commissioned years ago."*

6.40. Further, IATA stated that the cost of equity should be revised, which should in turn affect the proposed weighted average cost of capital

Rupee Term Loan (Existing)

6.41. On the subject of interest rates, IATA stated,

"While we agree in principle, we would encourage AERA to review whether the 2015-16 interest rates reflect efficient financial management practices compared to Indian companies in similar industries."

6.42. Further, with respect to the cost of debt, IATA stated.

"Fully agree that there is no need to increase the interest rate in 0.25% as there appears to be no justification for it."

Bond Issue by HIAL to replace its Rupee Term Loan and External Commercial Borrowing

6.43. With respect to hedging the foreign exchange exposure, IATA stated,

"Agree with the approach, provided that 4.5% is the normal hedge cost for companies similar to that of HIAL."

6.44. On the subject of cost of debt, IATA stated that they agree with the proposal to rate the cost of debt at 8.96%.

Ceiling on Interest Cost of Debts

6.45. On the subject of putting a ceiling on cost of debt while truing up, IATA stated

"The truing up should be subject to a ceiling in a similar practice to that for the 1st control period"

6.46. With respect to other treatments made by the Authority in the matter of WACC, the Authority stated,

"We agree with the proposals as that follows what the authority said it would do when determining charges in the first control period"

D) <u>HIAL's response to Stakeholder Comments on issues pertaining to WACC</u>

6.47. Subsequent to the receipt of comments from the Stakeholders on the Consultation Paper No. 30/2017-18 dated 19.12.2017, the Authority forwarded these comments to HIAL seeking its response to these comments. HIAL has provided responses to the stakeholders' comments, which are presented below:

Cost of Equity

6.48. In response to IATA's comment with respect to proposed return on equity, HIAL stated that the proposed return of 16% is low and does not reflect the magnitude of operational risks in their kind of business. It further stated that Jacobs Consulting had recommended an RoE of 24.2% according to which HIAL had proposed a rate of 24%. Accordingly, HIAL proposes,

"….without prejudice to our claim of 24% cost of equity, we have requested the Authority to consider SBI Capital Markets report for determination of CoE who was appointed by MoCA (as a policy making authority) for the purpose of determination of ideal cost of equity for airport sector. SBI Cap recommended CoE in the range of 18.5% to 20.5% for airports sector. We request the Authority to appropriately consider the recommendations of MoCA on the cost of equity."

Rupee Term Loan (Existing)

6.49. In response to IATA's comment with respect to reviewing whether the 2015-16 interest rates reflect efficient financial management practices, HIAL stated,

"GHIAL has always strived for cost optimization and followed the best practices for reducing the borrowing cost. Post USD bond issue we are the most competitive airport in terms of cost of borrowing. Company's average rupee term loan rate in 2015-16 was 10.70% which is competitive compared to the prevailing debt rate during that period."

6.50. In response to IATA's comment on not needing an increase in the interest rate by 0.25%, HIAL stated,

"The project finance being perceived as riskier compared to cash flow backed financing and is always priced at a higher spread.

Further, the rate trajectory in India is on the upswing and 10 year G-Sec has moved up by almost 125 bps in the last 12 months. Post our submission of responses to Consultation Paper, the G-sec yields have further hardened up and the specter(sic) of inflation is looming large.

It would be pertinent to mention that the financing at floating interest rate always carries the risk of higher interest rate in case of rate revision while fixed rate loan does not carry such interest movement risk. However, fixed rate loan always comes at a significant premium over floating rate loan.

Hence we have sought 25 bps more on account of change interest rate scenario in India. "

Ceiling on Interest Cost of Debts

6.51. In response to IATA's comment on truing up subject to a ceiling, HIAL stated,

"Given the backdrop of a rising interest rate scenario, we request the Authority to give us flexibility to true up the cost of debt as funding is always linked to market driven rates and GHIAL always strive to negotiate competitive rates from the lender.

Any restriction of overall cost capping is not only arbitrary but also unfair as we are the least cost airport operator in India today in terms of borrowing cost post issuance of USD bond."

E) HIAL's own comments on issues pertaining to Weighted Average Cost of Capital

Cost of Equity

6.52. Responding to the Authority's treatment of keeping cost of equity unchanged at 16% as given in chapter 6, para 6.18 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL stated that its submission on cost of equity at 24% was based on the recommendation provided in the Jacobs study. It further highlighted that similar range of the cost of equity was also recommended in the report by SBI Capital Markets, which had been appointed by the MoCA to conduct an independent examination. HIAL highlighted that both the Jacobs study and the SBI study adopted the CAPM approach to determination of Cost of Equity ("CoE") as has been prescribed in the regulatory guideline. Further, referring to these studies conducted on behalf of stakeholders such as airport operators, industry associations as well as MoCA, HIAL concluded that only the results of the NIPFP study, which is being relied upon by the Authority, emerged as an outlier.

"...

Name of the Agency	*Cost of Equity*
Jacobs	*24%*
KPMG	*20%-25% based on debt equity ration*
SBI Caps	*18.5% to 20.5%*
NIPFP	*13.2%*

..."

6.53. Accordingly, HIAL contended that the Authority's proposal to consider 16% cost of equity was arbitrary and requested the Authority to consider the cost of equity as recommended by SBI Capital Markets.

Bond Issue by HIAL to replace its Rupee Term Loan and External Commercial Borrowing

6.54. On the Authority's decision of not allowing losses on account of foreign exchange fluctuations in the cost of bond issue as given in chapter 6, para 6.32.5 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted the following,

> *"We would request the Authority to consider Forex Loss suffered on ECB for the period FY17 and FY18 while giving effect to the bond transaction in WACC. We have already submitted vide our letter no. GHIAL/2017-18/SPG/1336 dated 18th December 2017 including the Auditor Certificate for the exchange loss incurred during the said period including the loss on account of refinancing of ECB principal."*

6.55. With regard to the Authority's proposal of considering the issue of one time charges based on receipt of Auditor certificates mentioned in chapter 6, para 6.32.7 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL clarified that it had already submitted auditor certificate pertaining to one time charges vide its communication dated 07.12.2017 to the Authority. In addition, it said that it had also submitted the auditor certificate pertaining to upfront fee and break-up of the cost of ECB vide its Letter No GHIAL/2017-18/SPG/1331 dated 07.12.2017. Additionally, HIAL also said that with its response to the Consultation Paper, it had also submitted the auditor certificate for expenses pertaining to bond issue for the Authority's perusal. Based on the submissions made, HIAL requested the Authority to allow such expenditure, which was an integral part of the refinancing transaction. HIAL also contended that with this transaction, HIAL had brought its cost of debt to the lowest amongst PPP airport operators in India.

New Debt facility to fund Expansion Capex & Airside expansion / new rupee term loan

6.56. Responding to the Authority's proposed treatment of considering cost of debt at par with existing RTL given in chapter 6, para 6.39 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that it is regular industry practice to consider project finance as riskier and priced at a higher spread in comparison to cash flow backed financing. Commenting on the trends of India's interest rates, HIAL submitted,

> *"...the upswing as can be observed from the hardening of yields which will eventually have a reflection on pricing of loan. 10 year G-Sec has moved up by almost 100 bps in the last 12 months and accordingly lending rates have also notched up."*

6.57. Based on these trends, HIAL requested the Authority to consider interest rate of 10.95% (existing rate of 10.70% + 0.25% incremental increase) for funding airport expansion. HIAL further contended that,

> *"...we have always brought in efficiency and optimization while raising money for the business and with the USD bond issue, we have been the most competitive airport in terms of cost of borrowing. Hence we request the Authority to consider the actual cost of debt contracted by the company as true-up item for 2nd control period while determining tariff for next control period."*

6.58. In addition to the above responses, HIAL also pointed that, while the Authority had considered the cost of debt for FY 2017-18 onwards for both ECB and RTL at the cost of USD Bond, the repayments in RTL and ECB had not been revised despite consideration of bond where there are no repayments. HIAL submitted that,

> *"ECB loan was considered at the base rate of 40.56 which was the average drawdown rate at the time of availing ECB during the year 2007. Now, as the ECB loan has been replaced with Bond, the based exchange rate has to be changed to Rs 64.93 as against Rs 40.56. We request the Authority to consider the debt in line with the actual schedule."*

F) Authority's examination of stakeholder comments on issues pertaining to determination of WACC

6.59. The Authority has carefully examined the comments made by the stakeholders including HIAL on the issues pertaining to determination of WACC.

Cost of Equity

6.60. The Authority examined the arguments made and reports submitted by HIAL, BIAL, APAO and ASSOCHAM recommending a higher cost of equity that is commensurate with the operational risks of the aviation sector and also ensures an appropriate return to investors. The Authority observes that similar arguments had been made by stakeholders including HIAL in the 1st Control Period and also reiterated in HIAL's MYTP submission for the 2nd Control Period. The Authority had analysed the arguments and reports in detail and already responded to the same in its Order No. 38/2013-14 for the 1st Control Period. In the absence of any new arguments provided by the stakeholders, the Authority sees no reason for undertaking any additional analysis. Accordingly, the Authority has decided to maintain its stance of considering cost of equity at 16% as proposed in the Consultation Paper No. 30/2017-18 dated 19.12.2017.

6.61. Further, the Authority would like to acknowledge the submission of the stakeholders stating that the Authority needs to re-compute the cost of equity through a fresh study which reflects the current scenario of business risks. Accordingly, the Authority would like to mention that it is already in the process of conducting a study to determine an appropriate Cost of Equity for select airports; and is likely to extend the exercise to multiple other airports including HIAL. Hence, depending on the recommendations proposed in the study, the Authority may consider revising the cost of equity of HIAL in consultation with stakeholders at the time of tariff determination for the 3^{rd} Control Period.

Ceiling on Interest Cost of Debts

6.62. The Authority notes that most of IATA's responses on the issue of WACC are in support of the Authority's position. Further, the Authority notes IATA's suggestion that truing up should be subject to a ceiling in a similar practice to that for the 1^{st} Control Period. The Authority agrees with IATA on its comment on considering a ceiling on cost of debt while truing up. Therefore, to ensure that the airport makes efficient financing arrangements, the Authority has decided to true up the cost of debt subject to a ceiling which is no more than 50 basis points from the projected cost of debt.

Bond Issue by HIAL to replace its Rupee Term Loan and External Commercial Borrowing

6.63. The Authority acknowledges the receipt of auditor's certificates for the upfront fee, break-cost of ECB and bond issue expenses attached as Annexure XI to HIAL's response to the Consultation Paper. Based on the Authority's examination, the one-time expense of Rs. 126.61 crore spread over the 10 year period of issue would increase the effective cost of borrowing over 8.96% claimed by HIAL, but this would still remain lower than HIAL's effective cost of rupee term loan which is ~10.70% per annum. Accordingly, the Authority has decided to allow the expenses on bond issue of Rs. 126.61 crore in the year of incurrence as a one-time expense; at the time of computing true-up while determining tariffs for the 3^{rd} Control Period.

6.64. HIAL has also highlighted that the repayments of RTL and ECB have not been revised despite the Authority having considered the new bond issue; where there have been no repayments since. The Authority understands and acknowledges that there are likely to be changes in HIAL's cost of debt and quantum of debts as a result of the bond issue; and these changes can be appropriately incorporated into the tariff financial model of the Authority at the time of true-up, when the Authority reconciles the debt restructuring assumptions with the auditor's certificates considering the actual dates of repayment, actual interest outgo and cumulative balance of HIAL's debts during the five years of the 2^{nd} Control Period.

6.65. The Authority shall deliberate upon the manner in which losses on account of fluctuations in foreign currency from the date of this bond issue shall be treated during the third Control Period.

Decision No. 6. Regarding Weighted Average Cost of Capital

Based on the material before it and its analysis, the Authority decides:

6.a. To adopt return on equity (post tax cost of equity) as 16% for the purpose of calculation of WACC as discussed in para 6.60.

6.b. To adopt 8.96% as the cost of HIAL's debts (excluding the interest free loan) from FY 2017-18 till the end of the 2nd Control Period as discussed in para 6.23.6.

6.c. To adopt the existing interest rates (as per HIAL's financial statements for FY 2015-16) for the year FY 2016-17.

6.d. To consider the outstanding levels of debt and equity as per Table 2 in chapter 3.

6.e. To true-up the cost of debt for the 2nd Control Period with actual values (determined as weighted average rate of interest for the individual loans outstanding within the Control Period) subject to a ceiling which is no more than 50 basis points from the projected cost of debt as mentioned in para 6.62.

6.f. To consider the weighted average cost of capital as 10.80% as the fair rate of return for HIAL over the 2nd Control Period as discussed in Table 23.

7. OPERATING EXPENSES

A) HIAL Submission on Operating Expenses

HIAL Submission on Rationale for the Operating Expenses being different from the expenses proposed to be incurred

7.1. HIAL, in its MYTP submission dated 05.12.16 has submitted that operating expenditure for FY 2014-15 and FY 2015-16 is not the representative of the actual amount that was required to be spent. HIAL stated that the Authority's tariff Order No. 38/ 2013-14 resulted in a cash crunch and HIAL was forced to undertake several measures to conserve cash which included postponement of various O&M activities and general capex. HIAL has also submitted that as their infrastructure and equipment ages, it would result in an increase in maintenance costs.

7.2. In addition to the above submission, HIAL requested that uncontrollable costs should be allowed to be trued up by the Authority based on the actual expenditure. HIAL explained that such costs could be in the nature of security costs, statutory operating costs (including but not limited to DGCA, Customs, Immigration, etc.), property taxes, safety and environment cost, utilities cost variation due to change in rates (Electricity/Water), cost variance due to increase in service levels etc. Further, HIAL requested that any change in direct and indirect tax rates may be allowed as pass-through.

HIAL Submission on Manpower Expenses

7.3. The Authority notes HIAL's submission regarding manpower expenses. An extract of HIAL's MYTP submission dated 05.12.2016 showing the increase in manpower expenses.

7.4. HIAL submitted the requirement of increased manpower on the back of growing passenger traffic, poaching of employees which led to unforeseen attrition and vacant positions which could not be filled during FY 2015-16 and proposed terminal expansion projects to increase HIAL's airport capacity from 12 MPPA to 20 MPPA. An extract from the submission on the projection for manpower numbers for FY 2016-17 - FY 2020-21 is given below,

7.5. HIAL submitted the requirement of increased manpower on the back of growing passenger traffic, poaching of employees which led to unforeseen attrition and vacant positions which could not be filled during FY 2015-16 and proposed terminal expansion projects to increase HIAL's airport capacity from 12 MPPA to 20 MPPA. An extract from the submission on the projection for manpower numbers for FY 2016-17 - FY 2020-21 is given below,

"...

Year	*Manpower at the beginning of the year (Nos)*	*Additional manpower requirement during the year*		*Total Manpower (Nos)*
		Operational (Nos)	*Business & Support Services (Nos)*	
2017	*486*	*48*	*30*	*564*
2018	*564*	*18*	*11*	*593*
2019	*593*	*76*	*47*	*717*
2020	*717*	*91*	*57*	*865*
2021	*865*	*23*	*14*	*902*

- *The average increment payout during the last 3 years was 7% to 9% i.e. previous increments only covered the effect of inflation, due to the cash crunch faced post the previous AERA Order.*
- *Keeping in mind the competitive environment GHIAL is subject to, and also addressing the management of attrition levels being currently experienced, we estimate a 7% p.a. real increase in salary rates for Control Period 2.*

The table below provides an overview of the same:

Amounts in Rs. crores	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Manpower Cost	*72.55*	*81.62*	*106.28*	*138.04*	*154.02*
Aeronautical	*59.26*	*66.58*	*86.81*	*114.04*	*128.55*

…"

HIAL Submission on Utility Expenses

7.6. With respect to the Utility expenses, HIAL submitted that utility costs are calculated at gross level, less recovery from the airlines and concessionaires. A summary of HIAL's submissions for electricity charges have been presented below.

7.7. The effective electricity rate charged by Telangana State Utility was considered and actual power consumption for the 9M FY 2016 (YTD 31st December 2015) was prorated for 12 months for projecting the power consumption for FY 2015-16.

7.8. Further, as part of the green initiative for the airport, HIAL operationalized a 5 MW captive power plant at a cost of Rs. 31.59 crores in October 2015. This project is expected to provide savings of 3.18 million units in FY 2016 (from October 2015 to March 2016) and 7.88 million units every year from FY 2017 onwards.

7.9. Further, as part of the green initiative for the airport, HIAL operationalized a 5 MW captive power plant at a cost of Rs. 31.59 crores in October 2015. This project is expected to provide savings of 3.18 million units in FY 2015-16 (from October 2015 to March 2016) and 7.88 million units every year from FY 2016-17 onwards.

7.10. HIAL has assumed escalations of 11% on FY 2015-16 electricity unit rates for 2nd Control Period based on a CAGR of 11% p.a. during last four years and an annual escalation in unit consumption of 2% on account of loss of efficiency in aging equipment and increased utilization on account of higher passenger loads. HIAL also submitted for an increases in electricity unit consumption on account of increase in terminal area from 117,000 sq. m. to 146,601 sq. m. in FY 2018-19 and further to 218,175 sq. m. in FY 2019-20 and higher traffic at the airport.

7.11. Accordingly, projections for power costs for the period from FY 2016-17 to FY 2020-21 are as follows:

"…

Amounts in Rs. crores	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Power Cost	*17.41*	*14.17*	*13.02*	*28.32*	*42.30*

…"

7.12. HIAL submitted that Water consumption at Hyderabad airport has reduced from 7,17,807 Kl in the FY 2011-12 to 4,91,594 Kl in FY 2014-15, primarily on account of water conservation initiatives and measures being undertaken by the company. However, HIAL stated that the possibility for further savings in the water consumption is limited and on the other hand there has been an increase in the water consumption, due to increase in activity at the airport.

7.13. HIAL submitted that the effective per unit water charges charged by HMWS&SB is Rs 183/KL and the water consumption for the 3 quarters of FY 2015-16 has been prorated for the full year to estimate the consumption for FY 2015-16.

7.14. For the remaining 2nd Control Period, HIAL's submissions on projections for water expenses is for an increase of 25% year on year in water unit rates and an increase in water consumption for 2nd Control Period in line with the expected traffic growth over the same period. An extract of the submission has been presented below:

7.15. For the remaining 2nd Control Period, HIAL's submissions on projections for water expenses is for an increase of 25% year on year in water unit rates and an increase in water consumption for 2nd Control Period in line with the expected traffic growth over the same period. An extract of the submission has been presented below:

"...

Amounts in Rs. crores	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Water Cost	*7.80*	*10.64*	*14.46*	*19.62*	*26.50*

..."

7.16. Based on the aforesaid assumptions, HIAL's projections for utility cost for the period from FY 2016-17 to FY 2020-21 is projected as stated below,

"...

Amounts in Rs. crores	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Utility Cost	*25.21*	*24.81*	*27.48*	*47.94*	*68.81*
Aeronautical	*24.90*	*24.51*	*27.14*	*47.34*	*67.95*

..."

HIAL Submission on General Administrative Expenses

7.17. The Authority notes from HIAL's submission that administrative cost can be classified into two broad categories:

1) Administrative Expenses (Other than Bank & Finance Charges)

2) Bank & Finance Charges

7.18. As per HIAL's submission for Administrative Expenses (Other than Bank and Finance Charges) for FY 2015-16, select expense heads such as communication expenses, director sitting fee, rent, rates and taxes security etc. the actual expenses incurred for 3 quarters of FY 2015-16 has been extrapolated for 12 months and for select other heads such as audit fees, travel cost, advertisement, community development, office maintenance etc., which are accounted towards the end of the financial year a real increase of 7% is considered for projecting such expenses over the expenses of FY 2014-15.

7.19. HIAL submission projecting Administrative Expenses (Other than Bank & Finance Charges) for 2nd Control Period was based on a real increase of 7% and an additional increase of 15% in administrative cost for FY 2018-19 and FY 2019-20 each on account of expansion. The forecasted expenditure is as under:

"...

Amounts in Rs. crores	*FY2016*	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Admin Expense (excl Fin charges)	*60.88*	*67.49*	*80.27*	*96.19*	*115.27*	*122.40*
Aeronautical	*52.16*	*58.45*	*68.89*	*82.76*	*100.47*	*107.89*

...

7.20. HIAL's submission regarding the projected cost for banking and finance charges for FY 2015-16 and 2nd Control period was based on a percentage of average outstanding debt. HIAL has used actual bank charges and working capital interest for 9 months ending 31.12.2015, and has prorated it for 12 months for projecting the bank charges for the FY 2015-16.

7.21. HIAL projected working capital interest at 12.19% p.a. and working capital requirement at the levels of FY 2014-15 with Months Receivables Outstanding as 2.5 months, Months Inventory Outstanding at 1 month and Months Payables Outstanding at 0.5 months. A margin of 25% was considered for calculation of Maximum Permissible Bank Finance (MPBF) for Working Capital.

7.22. Accordingly, the forecasted bank charges /other finance charges for the period from FY 2016-17 to FY 2020-21 is as follows:

"...

Amounts in Rs. crores	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Bank & Other Finance Charges	*6.21*	*6.62*	*7.62*	*10.08*	*11.50*
Working Capital Interest	*15.43*	*32.36*	*35.32*	*38.42*	*41.75*
Total	*21.64*	*38.97*	*42.94*	*48.49*	*53.25*
Aeronautical	*18.10*	*32.88*	*36.51*	*41.21*	*45.25*

Based on abovementioned submissions, aggregate administrative expenses and its aeronautical component for the period from FY 2016-17 to FY 2020-21 is as given below,

"...

Amounts in Rs. crores	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Admin Expenses	*89.14*	*119.24*	*139.13*	*163.76*	*175.65*
Aeronautical	*76.55*	*101.77*	*119.27*	*141.68*	*153.14*

"

HIAL Submission on Repairs & Maintenance Cost

7.23. As per HIAL's submission, repair and maintenance of the airport comprises two broad categories:

A. Repairs & Maintenance of Buildings, Plant and Machinery, IT and others.

B. Stores and Spares

7.24. Based on HIAL's MYTP submission dated 05.12.2016, Repairs and Maintenance cost projections for the FY 2015-16 is based on the actual expenses incurred during the period from 01.04.2015 to 31.12.2015 which has been extrapolated for the full year. Projections for the 2nd Control Period are in line with the growth of capitalized assets (i.e. Gross Block).

7.25. HIAL further explained that various R&M activities had to be deferred on account of insufficient cash flows in FY 2014-15 and FY 2015-16 which are planned to be undertaken in FY 2016-17 at an estimated cost of Rs. 9.28 crores.

7.26. Based on above assumptions, HIAL's projection for R&M cost for the period from FY 2016-17 to FY 2020-21 is reproduced below,

"...

Amounts in Rs. crores	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
R&M Expenses	*42.32*	*49.50*	*56.78*	*75.88*	*108.51*

..."

7.27. Regarding costs pertaining to stores and spares, HIAL submitted that many items which were earlier under warranty and defect liability period; after expiration of the warranty/defect liability, are now the responsibility of HIAL. Spare parts costs are therefore expected to rise disproportionately. HIAL has projected stores and spares cost for the FY 2015-16 based on actual expenses incurred during the nine month period (1st April 2015 to 31st December 2015) which has been extrapolated for the full year. Additionally, HIAL has projected the expenses in line with the growth in capitalized assets base in the 2nd Control Period and submitted annexures Annexure 12 and 13 containing details of the additional requirement of stores and spares. Based on the above, the forecast for stores and spares cost is as follows,

Amounts in Rs. crores	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Stores & Spares	*13.34*	*15.60*	*17.90*	*23.92*	*34.20*

7.28. Based on the above, the total projected R&M cost including stores and spares is as given below:

"...

Amounts in Rs. crores	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
R&M expenses	*42.32*	*49.50*	*56.78*	*75.88*	*108.51*
Stores & Spares	*13.34*	*15.60*	*17.90*	*23.92*	*34.20*
Total	*55.65*	*65.10*	*74.68*	*99.79*	*142.72*
Aeronautical	*51.16*	*59.83*	*68.66*	*92.13*	*132.25*

..."

7.29. With respect to the projections of the insurance expenses likely to be incurred an extract of the HIAL's submission is presented below,

"...

The respective forecasted premium percentage for the above polices is given below:

Policy	*Details*	*FY2016*	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Large Risk Policy (Property Damage & Business Interruption (BI))	*% of asset insured +Gross Revenues*	*0.012%*	*0.016%*	*0.017%*	*0.018%*	*0.019%*	*0.020%*
AOL/3rd Party Liability Policy	*Premium on sum insured of $500mn*	*$0.135mn*	*$0.14mn*	*$0.145mn*	*$0.15mn*	*$0.155mn*	*$0.16mn*
Terrorism Policy	*Premium as % to IAR policy value (i.e., PD + BI)*	*0.015%*	*0.016%*	*0.017%*	*0.018%*	*0.019%*	*0.020%*
Other Policies		*Rs 44 lakhs*	*Rs 47 lakhs*	*Rs 50 lakhs*	*Rs 54 lakhs*	*Rs 58 lakhs*	*Rs 62 lakhs*

..."

7.30. Based on the above principles, the aggregate insurance expense forecast is as follows:

"...

Amounts in Rs. crores	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Insurance Cost	*2.96*	*3.25*	*3.77*	*4.55*	*4.86*
Aeronautical	*2.47*	*2.74*	*3.21*	*3.87*	*4.13*

HIAL Submission on Other Operating Costs

7.31. HIAL submitted that the other operating expenses include expenses such as housekeeping charges, manpower outsourcing charges, bus hire charges, car park operator fee and maintenance fee etc. A summary of HIAL's assumptions on other operating costs are as given below,

Expense	**Projections for 2nd Control Period**
Housekeeping cost	Annualized the actual expenses incurred during the nine months period between 1.4.2015 to 31.12.2015 for FY 2015-16. A real year on year increase of 7% and an additional increase of 2% in FY 2016-17 on account of award of new contracts. In line with the planned expansion of the terminal, increase in proportion to the addition in floor area in the FY 2018-19 and FY 2019-20.
Manpower outsourcing cost	Annualized the actual expenses incurred during the nine months period between 1.4.2015 to 31.12.2015 for FY 2015-16. One-time increase of 15% is considered for the outsourced manpower deployed for IT, PMT, Technical and Landscaping works (~70% of outsourcing costs) on operationalization of expansion projects in FY 2018-19 and FY 2019-20. Balance 30% of the outsourcing cost towards activities like taxiway turnaround, vehicle hire, bird control, wildlife management, passenger ferrying services, ramp handling, baggage handling, and other operating services is expected to increase in line with increase in line with the projected passenger traffic growth from the FY 2016-17 to FY 2020-21. Contractual increase of 10% year on year for the manpower cost for IT, Landscaping, Technical services and project management and real increase of 7% in cost for manpower deployed at airside and terminal for the 2nd Control Period. Deferred outsourcing contracts would be entered into from FY 2016-17 onwards.
Other operating expenses	Other operating expenses are expected to increase on account of increase in manpower cost and R&M activities for these services and a bare minimum of 7% real increase is considered. Considered a one-time increase of 15% for these expenses on operationalization of expansion projects in FY 2018-19 and FY 2019-20.

7.32. Based on the above principles, HIAL's projections on Other Operating Cost for 2nd Control Period are given below,

"...

Amounts in Rs. crores	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Housekeeping Cost	*11.51*	*12.08*	*14.56*	*21.55*	*27.59*
Amounts in Rs. crores	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*

Manpower Outsourcing Cost	*22.42*	*25.42*	*31.15*	*38.18*	*42.94*
Aeronautical	*21.05*	*23.86*	*29.25*	*35.88*	*40.40*

Amounts in Rs. crores	*FY2016*	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Bus Hire Charges	*0.56*	*0.60*	*0.64*	*0.78*	*0.96*	*1.03*
Others	*0.18*	*0.19*	*0.21*	*0.26*	*0.32*	*0.34*
Other Operating Costs	*0.74*	*0.79*	*0.85*	*1.04*	*1.28*	*1.37*

…"

HIAL's submission on Treatment of Land Lease

7.33. HIAL in its MYTP Submission dated 05.12.2016 submitted that land lease is considered in operating expenses only towards the airport land which accounts for ~ 72.69%.

HIAL Submission on Concession Fee

7.34. HIAL's submitted that as per the terms of the Concession Agreement, HIAL has to pay a Concession Fee equal to 4% of the gross annual revenue to the Government of India. The concession fee with respect to the first 10 financial years is deferred till the 11th year from COD and is payable in 20 equal half-yearly instalments starting from FY 2018-19.

HIAL Submission on classification of operating expenses

7.35. The Authority is in receipt of an Auditor's Certificate (Annexure-12) from HIAL dated 25.03.2016 with the allocation of the operating expenses into aeronautical, non-aeronautical, common and non-airport components. The Authority subsequently examined the revised concept note on allocation of expenses where HIAL has explained its methodology for classification of expenses into aeronautical, non-aeronautical and common expenditure. An extract of HIAL's concept note dated 14.10.2015 on HIAL's allocation process for the respective heads of operating expenditure are as given below,

"...

Expenditure Name	*Key Used*
Personnel Costs	*Head count based on cost center*
Power Costs & Water Costs	*Aeronautical cost (net of amounts recovered from*
Security Expenses	*Common cost*
Consultancy/ Advisory Expenses	*Based on cost center*
Auditor's Fees	*Common cost*
Director's Sitting Fees	*Common cost*
General and Administration Cost	*Based on cost center*
Travelling and Conveyance	*Based on cost center*
Rates & Taxes (incl property tax)	*Aero & non -aero asset ratio*
Recruitment and Training Charges	*Head count based on cost center*
Repair and Maintenance cost	*Based on cost center*
Insurance	*Aero & non -aero asset ratio*
Rents/ Property Related Expenses	*Common cost*
Manpower Outsourcing Expenses	*Based on cost center*
Car Parking expenses	*Non Aeronautical cost*
Passenger Bus Hire charges	*Common*
Housekeeping Expenses	*Based on cost center*
Bank & other finance charges	*Aero & non -aero asset ratio*

Note: Common costs are allocated between aero and non-aero in the ratio of actual expenditure incurred ..."

7.36. Additionally, HIAL highlighted that it proposes to change the allocation ratio of bank & other finance charges as debt funding is obtained for building assets, and hence it is more appropriate to link it to the asset allocation ratio as against expenses allocation ratio.

7.37. Other modifications in HIAL's expense allocation (as compared to the 1st Control Period) pertains to the treatment of landscaping, facility management, protocol, township expenses, the rationale for which has been reproduced below,

"...

- *Landscaping is part of the overall airport infrastructure and intended to enhance the passenger experience. Landscaping along the main access road, rotaries and inside the airport premise is primarily used by the passengers. Hence, the cost of landscaping is treated as aero*
- *Facility Management mainly includes the house keeping cost for keeping the airport terminal clean for passengers and hence it is treated as aero cost.*
- *Protocol includes costs relating to management and facilitation of certain category of passengers passing through airport terminal. Hence, cost related to protocol services is treated aero cost.*
- *Township includes costs incurred for maintaining the facility which is used by airport critical staff deputed at the Terminal/Fire station/Airside...* "

7.38. Subsequently, HIAL vide its MYTP submission dated and 5.12.2016 provided the basis for projections of operating expenses which included the application of relevant growth drivers which have already been elaborated further in the above mentioned sections.

7.39. The summary of operating expenses thus requested by HIAL via the MYTP submission dated 05.12.2016, was as under:

Table 24: Projections for operating costs for the 2nd Control Period as per HIAL's MYTP submission dated 05.12.2016

(Rs in crore)	2016-17	2017-18	2018-19	2019-20	2020-21	Aggregate 2nd CP
Payroll Expenses						
Salary and Wages	67.85	76.33	99.39	129.08	144.03	516.68
Staff Welfare	4.56	5.13	6.68	8.67	9.67	34.71
Training	0.15	0.17	0.22	0.28	0.32	1.14
Total Payroll expense (a)	72.55	81.62	106.28	138.04	154.02	552.51
Utility expenses						
Utility Costs (b)	25.21	24.81	27.48	47.94	68.81	194.25
Electricity Expense	17.41	14.17	13.02	28.32	42.3	115.22
Water Expense	7.8	10.64	14.46	19.62	26.5	79.02
General / Admin expenses						
Administrative Expenses (excl. Bank Chg)	67.49	80.27	96.19	115.27	122.4	481.62
Bank & Finance Charges	21.64	38.97	42.94	48.49	53.25	205.29
Total General / Admin expenses (c)	89.14	119.24	139.13	163.76	175.65	686.92
Repair and Maintenance expenses						
R&M Expenses	42.32	49.5	56.78	75.88	108.51	332.99
Stores and Spares	13.34	15.6	17.9	23.92	34.2	104.96
Total RM expenses (d)	55.65	65.1	74.68	99.79	142.72	437.94
Insurance Cost						
Insurance Cost (e)	2.96	3.25	3.77	4.55	4.86	19.39
Other Operating expenses						
House Keeping	11.51	12.08	14.56	21.55	27.59	87.29
Manpower Outsourcing expenses	22.42	25.42	31.15	38.18	42.94	160.11
Car Parking Charges	2.69	2.88	3.54	4.36	4.66	18.13
Others	0.79	0.85	1.04	1.28	1.37	5.33
Total Other Operating expenses (f)	37.41	41.22	50.29	65.37	76.56	270.85
Land lease						

Land Lease (g)	3.27	3.43	3.61	3.79	3.98	18.08
Concession Fee						
Concession Fee (h)	66.22	72.53	78.83	85.54	92.35	395.47
Incidental Income adj. against Opex (i)	-2.29	-2.41	-2.53	-2.65	-2.79	-12.67
Total Operating Expense (a+b+c+d+e+f+g+h+i)	**350.11**	**408.8**	**481.55**	**606.12**	**716.16**	**2562.74**

7.40. Subsequently, HIAL submitted the revised tariff determination model via response e-mail dated 28.01.2017 where the projections were based on the audited financial results of FY 2015-16. The summary of operating expenses thus submitted by HIAL for the tariff determination for 2nd Control Period is as under,

Table 25: Projections for Operating costs for the 2nd Control Period as per HIAL's revised tariff financial model submitted on 28.01.2017

(Rs in crore)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Aggregate 2nd CP
Payroll Expenses							
Salary and Wages	54.12	67.2	75.6	97.87	126.4	141.04	508.11
Staff Welfare	3.85	4.78	5.38	6.96	8.99	10.03	36.14
Training	0.9	1.12	1.26	1.63	2.11	2.35	8.47
Total Payroll expense (a)	58.87	73.11	82.24	106.47	137.5	153.42	552.74
Utility expenses							
Utility Costs (b)	22.42	23.27	22.94	25.63	46.36	68.02	186.22
Electricity Expense		16.16	13.25	12.48	28.52	43.93	114.34
Water Expense		7.12	9.69	13.16	17.84	24.09	71.9
General / Admin expenses							
Auditors Fee	0.55	0.59	0.63	0.77	0.95	1.02	3.96
Directors Sitting Fee	0.2	0.21	0.23	0.28	0.35	0.37	1.44
Communication Expenses	1.9	2.03	2.18	2.68	3.29	3.52	13.7
Travelling Expenses	6.77	7.24	7.75	9.54	11.74	12.56	48.83
Rent	1.42	1.52	1.63	2	2.46	2.63	10.24
Rates and Taxes	5.7	6.1	6.53	8.03	9.88	10.57	41.11
Advertisement	2.65	2.84	3.03	3.73	4.59	4.92	19.11
Office Maintenance	2.36	2.53	2.7	3.32	4.09	4.38	17.02
Printing and Stationary	0.27	0.29	0.31	0.38	0.47	0.5	1.95
Event Management	0	0	0	0	0	0	0
Recruitment	0.06	0.06	0.07	0.08	0.1	0.11	0.42
Community Development	0.36	0.36	12.63	13.32	13.32	13.32	52.95
Other Miscellaneous Business Promotion	1.34	1.43	1.53	1.89	2.32	2.49	9.66
Consultancy	5.06	7.91	5.79	7.13	8.77	9.39	38.99

Total Bank Charges	5.39	21.73	40.11	44.93	51.44	57.35	215.56
Security Cost	8.38	8.97	9.59	11.81	14.53	15.54	60.44
Corporate Common Costs	15.45	16.532	17.689	21.766	26.783	28.658	111.427
Total General / Admin expenses (c)	57.86	80.35	112.41	131.67	155.1	167.33	646.86
Repair and Maintenance expenses							
Deferred R&M expenses to be incurred from FY2016		9.28	10.97	12.58	16.81	24.04	73.68
Building	4.71	5.38	6.36	7.3	9.75	13.94	42.73
Plant and Machinery	13.43	15.34	18.14	20.81	27.8	39.75	121.84
Electrical Installations	10.7	12.225	13.426	15.4	20.576	29.423	91.0485
Others	1.56	1.78	2.11	2.42	3.23	4.62	14.16
Diminution in value of Inventory	0	0	0	0	0	0	0
Stores and Spares	8.58	14.3	16.79	19.26	25.73	36.79	112.87
Total RM expenses (d)	38.98	58.31	67.79	77.76	103.9	148.57	456.33
Insurance Cost							
Insurance Cost (e)	2.04	2.95	3.24	3.77	4.54	4.86	19.36
Manpower expense							
Manpower Outsourcing expenses (f)	20.16	24.08	26.66	32.75	40.23	45.18	168.9
Other Operating expenses							
Fuel Farm Expenses	10.27	10.99	11.76	12.59	13.47	14.41	63.22
Bus Hire Expenses	0.47	0.5	0.54	0.66	0.81	0.87	3.38
Car Parking	2.32	2.48	2.66	3.27	4.02	4.3	16.73
House Keeping	10.26	11.2	11.75	14.16	20.97	26.84	84.92
O&M Expenses	0.2	0.21	0.23	0.28	0.35	0.37	1.44
Total Other Operating expenses (g)	23.53	25.39	26.94	30.96	39.62	46.8	169.71
Land lease							
Land Lease (h)	3.12	3.28	3.44	3.61	3.79	3.98	18.1
Concession Fee							
Concession Fee (i)	25.79	66.23	72.55	78.87	85.61	92.43	395.69
Incidental Income adj. against Opex (j)	-3.71	-3.9	-4.09	-4.29	-4.51	-4.74	-21.53
Total Operating Expense (a+b+c+d+e+f+g+h+i+j)	**249.06**	**353.08**	**414.13**	**487.19**	**612.15**	**725.85**	**2592.4**

B) Authority's Examination of HIAL Submissions on Operating Expenses

7.41. The Authority has noted that there is a difference in the projection for total operating expense between the two submissions on account of the revised tariff determination financial model being based on the audited financial results of FY 2015-16. Further, the Authority proposes that the real increase in each operating cost head for the 2nd Control Period should be in line with the growth in the underlying cost driver for the respective cost heads. Hence, the Authority examined each head of the operating expenses and their respective cost drivers provided in HIAL's MYTP submission dated 25.03.2016 and revised submission dated 05.12.2016. Further, while the actual expenses for the historical period (submitted by HIAL) included both the real and the inflationary growth; i.e. they are on a nominal basis, HIAL's projections for 2nd Control Period were on real basis; i.e. assuming no inflation (WPI inflation as 0%). This creates an inconsistency in determination of aeronautical tariff. Hence, the Authority proposed to consider WPI of 3.9% p.a., based on the Results of the Survey of Professional Forecasters on Macroeconomic Indicators- Round 44, in the projections to remove this inconsistency over and above the increase in real terms on expenditure heads where the WPI is relevant.

Payroll Cost

7.42. As per HIAL's submission dated 05.12.2016, employee cost has been estimated on the basis of projected changes in head-count and escalation in manpower expenses (i.e. increase in salaries).

7.43. The Authority acknowledges that HIAL faced "unforeseen attrition" and is of the view that for FY 2016-17, HIAL's manpower headcount should be restored to levels before UDF was taken away i.e. 510 employees in FY 2013-14 where HIAL had normal operations. Further, the Authority also proposes to accept HIAL's request for an additional increase of 16% in manpower numbers in each of FY 2018-19 and FY 2019-20. Consequently, the Authority's projection for manpower numbers for FY 2016-17 to FY 2020-21 is as under,

Table 26: HIAL's headcount requirement considered by the Authority for the 2nd Control Period

Particulars (Units)	2016	2017	2018	2019	2020	2021
Operational Manpower	486	510	510	592	686	686

7.44. On HIAL's request for a 7% p.a. real growth in manpower expenses, the Authority is not convinced on basis for bare minimum increase which are based on HIAL's own estimates.

7.45. Consequently, the Authority had decided to grant an increase of 3.0% in real terms, similar to its Order No. 38/2013-14 for the 1st Control Period. Further the average salary per employee for FY 2015-16, which is the base year for projections has been computed using the average of the number of employees of HIAL at the end of FY 2014-15 and that at the end of FY 2015-16.

Utility Expense

Utilities Expenses - Electricity

7.46. The Authority has noted from the MYTP submission dated 05.12.2016 that HIAL has projected increases in electricity unit consumption on account of increase in terminal area at the airport. The Authority also notes that HIAL has assumed an escalation of 11% p.a. in cost per unit of power bought from grid considering FY 2015-16 as the base. Further, HIAL has netted off recoveries of electricity from concessionaires (towards non-aeronautical costs) from the total electricity cost to arrive at net electricity cost to be recovered by HIAL. In addition to these, an annual escalation in unit consumption of 2% is considered on account of loss of efficiency in aging equipment and increased utilization on account of higher passenger loads.

7.47. The Authority proposed to consider the escalations in the electricity costs as per HIAL's revised projections for the 2nd Control Period except for the escalation in the electricity rate, which are contingent on multiple factors and cannot be forecast reliably. Further, the Authority proposes to true-up the electricity cost based on the actual expenditure at the end of the 2nd Control Period.

7.48. On HIAL's submission regarding the savings from Phase-1 of the solar power project which got commissioned in October 2015 and future savings from Phase 2 of the green initiative, the Authority is of the view that it may not be possible for the Authority to accurately determine the extent of these savings; hence differences between HIAL's projected and actual savings would be trued up and netted off from electricity expenses.

Utility Expenses - Water

7.49. The Authority proposes to consider units of water projected to be consumed as per HIAL's projections for the 2nd Control Period, however, is not in agreement with HIAL's projection of escalation in the water unit rates. The Authority proposes to allow a one-time escalation in the unit rate by 25% in FY 2018-19 (mid-year of the current Control Period) to compensate HIAL for increasing water tariffs. Further, as water charges are contingent on multiple factors which cannot be forecasted reliably the Authority also proposes to true up the water cost at the end of the 2nd Control Period based on the actual costs incurred by HIAL.

General and Administrative expenses

Bank & Finance Charges

7.50. The Authority notes that bank charges have been projected proportionately with average outstanding debt in the revised tariff model submitted by HIAL on 28.01.2017. The Authority proposes to allow the same.

7.51. The Authority observed that HIAL's working capital requirement has been worked out based on months receivables outstanding of 2.5 months, months inventory outstanding of 1 month and months payables outstanding of 15 days (0.5 months). The Authority noted that in HIAL's rate card has provided a credit period of 15 days for airlines to pay aeronautical dues. Further, HIAL has mandated airlines to provide a bank guarantee for an amount equivalent to six months of projected billing for the facilities offered by it, including but not limited to Landing and Parking, Passenger Service Fees, Common Infrastructure Charges and one month of UDF. In such a scenario, the Authority finds no reason for HIAL's receivables to be outstanding for 2.5 months on average. Hence, through its query email dated 17.03.2017, the Authority sought a justification from HIAL for projecting an outstanding period of 2.5 months for its revenues from regulated charges and other sources for the 2nd Control Period.

7.52. In response to the above query HIAL on 22.05.2017 submitted their response that in case of delayed payments from a vendor, HIAL proactively engages with the vendor to identify and understand the underlying issues and conducts regular follow- till the payment is voluntarily made by the debtor. Security is encashed as a last resort and hence, it is normal for the level of receivables to be higher than the levels stipulated in the credit policy.

7.53. The Authority is of the opinion that HIAL must not levy the cost delayed payments by select airlines / customers on the rest of its customer base and must in fact, recover penal interest from the defaulting customers itself. Accordingly, the Authority proposes to allow HIAL a working capital for receivables commensurate to its credit cycle of 0.5 months. The Authority proposes to accept HIAL's submission on the inventory. Further, in the context of trade payables, the Authority observed that HIAL has projected trade payables much below its trade payables in the previous three years.

7.54. The Authority, vide a clarification dated 17.03.2017, sought justification from HIAL for projecting lower trade payables in its MYTP submission to which HIAL submitted vide its submissions dated 22.05.2017 the normal credit period agreed with the suppliers is around 15 day, and in the previous years, release to creditors were bit protracted due to cash flow constraints. The Authority notes HIAL's response with regard to payables and acknowledges that going forward HIAL's payables should be projected at 0.5 months.

7.55. Based on the above treatment proposed by the Authority HIAL would be allowed the following amount of interest in the respective years of the 2nd Control Period.

Table 27: Working Capital Interest allowed by the Authority for the 2nd Control Period

Particulars (in Rs. Crore)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Aggregate 2nd CP
Working Capital Interest	2.11	4.21	3.69	3.40	3.90	17.31

7.56. Additionally, to ensure the judicious use and financing of working capital loans, the Authority proposes to cap the true-up of HIAL's working capital interest at the amount mentioned in Table 27.

Administrative Expenses (Other than Bank & Finance Charges)

7.57. The Authority proposes to exclude the community development cost from the General and Administrative expenses as it is of the view that such expenses should not be transferred to the customers.

7.58. As regards the other general and administrative costs, the Authority has proposed to consider only an inflationary increase of 3.9% p.a. for the time being and to true up any additional costs incurred by HIAL at the end of the 2nd Control Period.

Repairs and Maintenance

7.59. The Authority observes that repairs and maintenance cost (which includes the cost towards spares) for the 2nd Control Period has been projected in line with the growth of capitalized assets (i.e. Gross Block). Further, a real increase of 7% p.a. over and above inflationary increase has been used for these costs. The Authority accepts capitalized assets (i.e. gross block) as the driver for projecting the R&M expenses and costs towards stores for the 2nd Control Period. However, the real increase of 7% p.a. considered by HIAL is proposed to be disallowed by the Authority. Instead the Authority proposes to consider only an inflationary increase of 3.9% p.a. on the gross block of capitalized assets.

7.60. Regarding HIAL's submission regarding deferred R&M expenses to be incurred from FY 2016-17 the Authority is of the view that since HIAL was able to meet the required service levels and was ranked as the third best airport in the world in 2015 as per ACI's ASQ Awards for the 7th year in a row in the 5-15 million passengers per annum (MPPA) category, the airport can continue to function with the existing levels of R&M. Accordingly, the Authority has proposed to disallow the additional R&M expenditure but to allow for a true up of any additional R&M expenditure incurred by HIAL during the 2nd Control Period.

7.61. Additionally, the Authority has noted from the tariff financial model submitted on 28.01.2017 that HIAL has made certain reductions in the R&M expenses from FY 2017-18 on account of outsourcing of CUTE, CUSS, BRS (IT ops) such as IT AMC Costs and stocks & spares. The Authority has proposed to accept these reductions voluntarily considered by HIAL.

Insurance Cost

7.62. With respect to the Large Risk Policy and Terrorism Policy, the Authority, vide its query dated 03.03.2017 sought extracts of documents pertaining to these policies in order to review the basis of the projections considered by HIAL. HIAL, via its response dated 05.04.2017, has shared its insurance policies for 12 months ending 13.07.2016. The Authority notes that HIAL's premium on its current large risk policy is Rs. 26,00,760 while that on terrorism policy is Rs. 36,70,330 excluding service taxes. The Authority understands that HIAL would have renewed these policies after 13.07.2016. However, in the absence of details on the renewed contracts, the Authority proposes to adjust these premiums by the inflation rate of 3.9% p.a. for the 2nd Control Period and allow the same towards the cost of these insurance policies.

7.63. Further, based on trends in the insurance market, the Authority expects that owing to intense competition and falling insurance policy rates, there will be no substantial increase in insurance cost. Accordingly, for the 3rd Party Liability Policy and Other policies, the Authority has proposed to consider only an inflationary increase on annual basis.

7.64. Furthermore, the Authority proposes to true up insurance costs of HIAL at the end of the 2nd Control Period based on the actual expenses incurred.

Other Operating Cost

Housekeeping Cost

7.65. The Authority proposes to accept the planned expansion of the terminal as the driver for the housekeeping cost. However, ACI's ASQ rankings implies that HIAL is able to manage high service quality even at the current level of housekeeping expenses. Hence, the additional contracts proposed by HIAL do not seem necessary. Accordingly, the Authority has proposed to disallow this additional increase of 2%. Also, the Authority proposes to consider an inflationary increase in housekeeping expenditure of 3.9% p.a. instead of HIAL's proposed real increase of 7% p.a. over and above the inflationary increase. However, if HIAL does happen to incur expenditure in excess of the amount allowed by the Authority, such an amount shall be deliberated upon and trued up at the time of tariff determination for the 3rd Control Period.

Fuel farm

7.66. HIAL's tariff determination model dated 28.01.2017 projects fuel farm expenses to increase at 7% p.a. on a real basis. The Authority based on past trends notes that fuel farm expenses of HIAL have increased from Rs. 8.55 crores in FY 2011-12 to Rs. 10.27 crores in FY 2015-16. Hence, HIAL's proposal for a real increase of 7% p.a. along with inflation appears to be on the higher side and accordingly proposed to allow only an inflationary increase of 3.9% p.a. and to true up any additional cost incurred by HIAL.

Bus Hiring and Car Parking Charges

7.67. The Authority is of the view that these expenses have no association with terminal expansion and hence proposed not to allow a one-time increase of 15% in the years of terminal expansion. Moreover, as these expenses have shown a declining trend over the 1st Control Period, hence, assuming that these have been brought down to an efficient base in FY 2015-16, the Authority proposes to allow only an inflationary increase of 3.9% p.a. for the bus hiring and car parking expenses over the 2nd Control Period with a provision to true up based on actual expenditure.

Other O&M expenses

7.68. The Authority takes a similar position as mentioned in para 7.67, and proposes to allow only an inflationary increase of 3.9% on the other O&M expenses. The Authority would deliberate upon and true up any other O&M expenses incurred by HIAL.

Manpower Outsourcing cost

7.69. The Authority had requested HIAL to provide a copy of the contracts pertaining to manpower outsourcing based on which projections have been made for operating expenditure in the 2nd Control Period. HIAL responded to the Authority's request vide HIAL's e-mail dated 05.04.2017, stating that "Manpower deployed at terminal & airside" have are single year contracts without escalation clauses and manpower cost for IT/Technical Services/Landscaping/Project Management is a long-term contract where the yearly revision is on negotiation.

7.70. Based on the above response, the Authority understands that there is no contractual rate of increase in either of the two outsourcing agreements and proposes to allow HIAL an increase in remuneration at 7% p.a. (nominal increase including inflation); as allowed on employee costs (refer para 7.45). However, the Authority proposes to accept HIAL's rationale for the projected increase in outsourced manpower numbers. Further, it is proposed that HIAL's outsourcing expenses shall be trued up based on its actual outgo at the time of tariff determination for the next Control Period.

7.71. As regards the new contracts to be entered by HIAL from FY 2016-17 onwards, the Authority had sought for clarification on Vanamitra recommendations associated with bird control contract via query e-mail dated 03.03.2017. HIAL in response to the query vide its e-mail dated 05.04.2017 submitted the Vanamitra report, which recommended HIAL to have a dedicated wildlife management practice. In view of the above, the Authority proposed to allow the outsourcing contracts which HIAL had to defer due to paucity of funds along with an increase in remuneration at 7% p.a. (nominal increase including inflation); as allowed on employee costs (refer para 7.45).

Treatment of Land Lease

7.72. The Authority proposed to accept HIAL's view on considering land lease rentals for 72.69% of land used for airport activities as an aeronautical expense. However, the Authority's view on treatment of property development has been explained in chapter 9, paras 9.66 to 9.68, where the Authority proposes to consider property development as a non-aeronautical activity. Therefore, the Authority proposes to treat the balance portion of land lease rentals as non-aeronautical expenditure contrary to HIAL's treatment of the same as a non-airport expenditure.

Concession Fee

7.73. The Authority acknowledged HIAL's submission on the concession fee required to be incurred by HIAL comprising 4% of its gross annual revenues. The Authority proposes that the amount of fee corresponding to the aeronautical revenues be allowed for the purpose of tariff determination of the 2nd Control Period.

Foreign exchange losses

7.74. The Authority understands that while borrowings in foreign currency are usually associated with a lower rate of interest compared to domestic borrowings, foreign currency borrowings are also associated with currency fluctuations and in many cases lead to foreign exchange losses. Until now, these foreign exchange losses have been borne completely by the airport operator. Thus, while the benefits of lower interest rates are shared with airport users, losses arising to the airport operator as a result of foreign exchange fluctuations are not. HIAL, vide its submission dated 31.08.2017 requested the Authority to correct this unilateral treatment.

7.75. The Authority, while fixing the cap on cost of borrowing through ECBs, had not considered any fluctuation in foreign exchange rate during the first Control Period. However, the Authority now proposes to compare the cost of borrowing through ECBs (foreign currency borrowings) with that of the RTLs (domestic borrowings) and allow HIAL to recover forex losses to the extent that the effective cost of borrowing in foreign currency (net of forex gains / losses) is not higher than the cost of RTLs. The Authority proposes to execute this treatment at the time of true-up since the Authority believes it is not in a position to forecast foreign exchange losses till the date of issue of foreign currency bond.

7.76. The Authority further notes the debt restructuring exercise undertaken by HIAL, through which it has raised USD 350 million from a bond issue, at a coupon of 4.25% payable semi-annually with a tenor of 10 year bullet repayment falling due in October 2027, as mentioned in chapter 6, para 6.22. In context of the foreign currency Bond issue and the hedge cost claimed by HIAL (chapter 6, para 6.23.5), the Authority proposes not to consider any losses incurred by HIAL on account of fluctuations in foreign exchange rates from the date of the foreign currency Bond issue. The principle to be followed by the Authority for consideration of losses on account of fluctuations in foreign exchange rates before the date of this Bond issue has been presented in Table 3 (while this table is for the 1st Control Period, similar assessment will be performed at the time of tariff determination for the 3rd Control Period for the losses, if any may be incurred by HIAL during the 2nd Control Period before the Bond issue). In case HIAL subsequently decides not to partly / fully hedge the foreign currency bond, the losses, if any, due to fluctuations in foreign exchange rates will be calculated in the same manner with a cap of 8.96% p.a. (fixed part plus withholding tax plus cost of hedge) in respect of the 2nd Control Period.

7.77. Based on the above, a summary of total operating expenses proposed to be allowed by the Authority is presented below (includes the actual operating expenses incurred by HIAL in FY 2015-16):

Table 28: Operating expenses considered by the Authority in the 2nd Control Period

Operating expenses (Rs. in crore)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Aggregate 2nd CP
Payroll Expenses						
Salary and Wages	59.66	63.84	79.24	98.35	105.23	**406.32**
Staff Welfare	4.24	4.54	5.64	7.00	7.49	**28.91**
Training	1.00	1.07	1.32	1.64	1.76	**6.78**
Total Payroll expense (a)	**64.90**	**69.45**	**86.20**	**106.99**	**114.48**	**442.01**
Utility expenses						
Utility Costs (b)	**20.83**	**17.83**	**18.87**	**29.69**	**38.28**	125.50
General / Admin expenses						
Auditors Fee	0.57	0.59	0.62	0.64	0.67	**3.09**
Directors Sitting Fee	0.21	0.22	0.22	0.23	0.24	**1.12**
Communication Expenses	1.97	2.05	2.13	2.21	2.30	**10.67**
Travelling Expenses	7.03	7.31	7.59	7.89	8.20	**38.02**
Rent	1.48	1.53	1.59	1.65	1.72	**7.98**
Rates and Taxes	5.92	6.15	6.39	6.64	6.90	**32.01**
Advertisement	2.75	2.86	2.97	3.09	3.21	**14.88**
Office Maintenance	2.45	2.55	2.65	2.75	2.86	**13.25**
Printing and Stationery	0.28	0.29	0.30	0.31	0.33	**1.52**
Event Management	0.00	0.00	0.00	0.00	0.00	**0.00**
Recruitment	0.06	0.06	0.07	0.07	0.07	**0.34**
Other Miscellaneous Business Promotion	1.39	1.45	1.50	1.56	1.62	**7.53**
Consultancy	7.76	5.46	5.68	5.90	6.13	**30.92**
Bad debts written off	0.00	0.00	0.00	0.00	0.00	**0.00**
Total Bank Charges	**7.96**	**10.24**	**10.12**	**11.77**	**13.96**	**54.05**
Common corporate Cost	16.05	16.68	17.33	18.00	18.71	**86.77**
Security Cost	8.71	9.05	9.40	9.77	10.15	**47.06**
Total General / Admin expenses (c)	**64.60**	**66.50**	**68.57**	**72.50**	**77.06**	**349.22**
Repair and Maintenance expenses						
Deferred R&M expenses to be incurred from FY2016	0.00	0.00	0.00	0.00	0.00	**0.00**
Building	5.16	5.75	6.21	7.22	10.23	**34.67**
Plant and Machinery	14.71	16.40	17.71	20.60	29.45	**98.86**
Electrical Installations	11.72	12.04	13.00	15.12	21.62	**73.50**
Others	1.71	1.90	2.06	2.39	3.42	**11.48**
Diminution in value of Inventory	0.00	0.00	0.00	0.00	0.00	**0.00**
Stores and Spares	13.90	15.37	16.60	19.31	27.61	**92.79**
Total RM expenses (d)	**47.19**	**51.47**	**55.57**	**64.64**	**92.43**	**311.31**

Insurance Cost						
Insurance Cost (e)	**2.05**	**2.12**	**2.21**	**2.29**	**2.38**	**11.06**
Manpower expense						
Manpower Outsourcing expenses (f)	**23.23**	**24.74**	**29.59**	**35.60**	**38.86**	**152.02**
Other Operating expenses						
Fuel Farm Expenses	10.68	11.09	11.52	11.97	12.44	**57.71**
Bus Hire Expenses	0.49	0.51	0.53	0.55	0.57	**2.64**
Car Parking	0.65	0.68	0.71	0.73	0.76	**3.54**
House Keeping	10.66	11.08	12.97	18.65	23.17	**76.53**
O&M Expenses	1.97	2.05	2.13	2.21	2.30	**10.67**
Total Other Operating expenses (g)	**24.46**	**25.41**	**27.86**	**34.11**	**39.25**	**151.08**
Land lease						
Land Lease (h)	**3.28**	**3.44**	**3.61**	**3.79**	**3.98**	**18.10**
Concession Fee						
Concession Fee (i)	**44.97**	**44.72**	**34.91**	**39.21**	**44.16**	**207.98**
Total Operating Expense (j)=(a)+(b)+(c)+(d)+(e)+(f)+(g)+(h)+(i)	**295.50**	**305.68**	**327.38**	**388.83**	**450.88**	**1768.27**

Allocation of Operating Expenses

7.78. The Authority has already outlined the principles of RAB boundary in chapter 5, para 5.34 and 5.35. The adjustments made by the Authority in the context of operating expenses have been summarized below.

7.79. The Authority has proposed to transfer cargo, ground-handling and fuel farm services from non-aeronautical to aeronautical services for reasons discussed in chapter 5, paras 5.40 to 5.44. Similarly, expenses pertaining to the same would now be treated as aeronautical.

7.80. The Authority has proposed to reallocate vehicle fuelling activity and to consider the same as aeronautical for reasons discussed in chapter 5, para 5.45. However, as there are no expenses in HIAL's financial statements with respect to vehicle fuelling services, no adjustment would have to be made for the purpose of this chapter.

7.81. Further, the Authority has disagreed with HIAL's proposal of treating CUTE, CUSS and BRS (IT) from the 2nd Control Period as non-aeronautical since these are considered as part of the overall ground handling activity, which in turn has been treated as an aeronautical service by the Authority, as discussed in chapter 5, para 5.46. In the 1st Control Period, CUTE, CUSS & BRS (IT) has been treated as an aeronautical service under a composite service charge of Common Infrastructure Charges (CIC). Accordingly, this would not have to be reallocated for the purpose of this chapter.

7.82. The Authority observed that since the Cargo Satellite Building (CSB) was being used to undertake cargo related operations, it needs to be treated as an aeronautical asset (as cargo services are treated as aeronautical as explained in chapter 5, paras 5.40 to 5.44). Accordingly, expenses pertaining to the CSB need to be relocated from non-airport expenses to aeronautical expenses for the purpose of this chapter. Till FY 2014-15 the entire non-airport expenditure in the books of HIAL pertained to the CSB. In the auditor certificate for FY 2015-16 submitted by HIAL on 28.01.2017, the Authority noted non-airport expenditures aggregating to Rs. 1.28 crores. The certificate also mentioned that HIAL *"had not maintained separate cost center for expenses relating to fixed electricity ground power (FEGP) and cargo satellite building (CSB) from April 1, 2015 to March 31, 2016 and that these expenses have been separately confirmed by the management in letter dated September 19, 2016 for allocation purpose."* As a result of the above, it is unclear whether HIAL's non-airport expenditure in the year FY 2015-16 pertains to the CSB. Accordingly, the Authority, vide its clarification dated 17.03.2017, requested HIAL to furnish a copy of the abovementioned management letter in addition to auditor certified expenses pertaining to Cargo Satellite Building (CSB) for FY 2015-16. In the absence of information being furnished by HIAL, the Authority proposes to treat select non-airport expenses (i.e. Repairs & Maintenance Expense of Rs. 0.22 crore and Outsourcing expenses of Rs. 0.21 crore) for FY 2015-16 as expenses pertaining to CSB to be included within the aeronautical expenses for tariff determination and reserves the right to alter the treatment based on information received from HIAL. In case HIAL is unable to clarify the cost center for the non-airport expense, the Authority would disallow the same assuming it to be non-airport in nature. Furthermore, the Authority is of the opinion that the non-airport rent of Rs. 0.85 crore incurred by HIAL in FY 2015-16 would not pertain to the CSB since HIAL would not pay rent for its own building. The Authority's treatment for the same has been documented in para 7.84.

7.83. As ground handling activity has been categorised by the Authority as an aeronautical service, the Authority has proposed to include FEGP also within the aeronautical category, as discussed in chapter 5, para 5.48.

7.84. In addition, it was also observed by the Authority that while a rental expense of Rs. 0.85 crore pertaining to non-airport operations had been incurred by HIAL. The Authority, vide its clarification email dated 17.03.2017, sought information from HIAL regarding the exact cost center under which this expense was incurred. In the absence of information received from HIAL, the Authority currently proposes to accept HIAL's treatment of not including it within the regulatory opex for tariff determination but may alter the treatment in the final tariff order for the 2nd Control Period depending on the nature of cost center as submitted by HIAL.

7.85. Additionally, HIAL has submitted an auditor's certificate dated 13.02.2017 on the treatment of township, landscaping and facility management costs. The Authority's position on the treatment of the above costs is as given below,

7.86. Employee Township: While the Authority, in principle, is in agreement with the principle of including the cost of Employee Township (housing critical staff) within the aeronautical RAB; it is not clear if all the employees living in the township are engaged in airport critical operations and exactly how HIAL defines critical operations. Through clarification emails dated 03.03.2017 and 17.03.2017, the Authority sought from HIAL details regarding the number of critical and non-critical staff residing at the township from FY 2008-09 to FY 2015-16. However, in the absence of any response received from HIAL till date, the Authority proposes to allocate the complete expenses pertaining to Employee Township as aeronautical and reserves the right to alter the treatment based on the response received from HIAL during the release of the Tariff Order for the 2nd Control Period. In the absence of a satisfactory response in this regard in the consultation process, the Authority may decide to consider the entire township expenditure as non-aeronautical.

7.87. Landscaping: The Authority notes that HIAL has considered landscaping expenses to be aeronautical in nature stating that it is used to enhance passenger experience. However, the Authority is of the view that while landscaping enhances passenger experience it is not integral to airport operations in general. Hence, treating landscaping costs entirely as aeronautical may not be appropriate. Accordingly, the Authority proposes to treat this expenditure as a common cost divided in the ratio of aeronautical and non-aeronautical expenses.

7.88. Facility management costs: HIAL has considered these costs to be aeronautical in nature since these pertain to the passenger terminal building. The Authority however is of the view that since the terminal building is a common asset; housekeeping costs pertaining to the common asset should also be treated as a common expense and divided between aeronautical and non-aeronautical expenditure. The Authority notes that HIAL has allocated the PTB based on the terminal area submitted by HIAL. The Authority proposes to use the same ratio of terminal area to allocate the expenditure on facility management.

7.89. The Authority notes that the Auditor has certified HIAL's allocation of operating expenses based on concept note dated 14.10.2015. As per its revised financial model dated 28.01.2017, HIAL proposes to use the expense allocation ratio of FY 2015-16 to allocate projected operating expenses in the 2nd Control Period. While the Authority is in agreement with the principle of using the expense allocation ratio of latest completed financial year i.e. FY 2015-16 for the projections, it proposes to make adjustments to the allocation methodology submitted by HIAL as explained in paras 7.79 to 7.88. Accordingly, the final expense allocation used by HIAL is as given below,

Table 29: Allocation of operating expenses considered by the Authority in the 2nd Control Period

Operating Expenses (in INR crores)	2017	2018	2019	2020	2021	Aggregate 2nd CP
Payroll Expenses						
Salaries and wages	**59.66**	**63.84**	**79.24**	**98.35**	**105.23**	**406.32**
Aero	19.63	21	26.07	32.36	34.62	133.68
Non-aero	3.82	4.09	5.08	6.31	6.75	26.05
Common	34.14	36.53	45.34	56.28	60.22	232.51
Staff Welfare	**4.24**	**4.54**	**5.64**	7	**7.49**	**28.91**
Aero	0.12	0.13	0.16	0.2	0.21	0.82
Non-aero	0.01	0.01	0.02	0.02	0.02	0.08
Common	4.11	4.4	5.46	6.78	7.25	28
Training	**1**	**1.07**	**1.32**	**1.64**	**1.76**	**6.79**
Aero	0.04	0.05	0.06	0.07	0.08	0.3
Non-aero	0	0	0	0	0	0
Common	0.95	1.01	1.26	1.56	1.67	6.45
Total Payroll Costs (a)	**64.9**	**69.45**	**86.2**	**106.99**	**114.48**	**442.02**
Utility Expenses						
Aero	20.83	17.83	18.87	29.69	38.28	125.5
Non-aero	0	0	0	0	0	0

Common	0	0	0	0	0	0
Total Utility Costs (b)	**20.83**	**17.83**	**18.87**	**29.69**	**38.28**	**125.5**
General/Admin Expenses						
Auditors Fee	**0.57**	**0.59**	**0.62**	**0.64**	**0.67**	**3.09**
Aero	0	0	0	0	0	0
Non-aero	0	0	0	0	0	0
Common	0.57	0.59	0.62	0.64	0.67	3.09
Directors Sitting Fee	**0.21**	**0.22**	**0.22**	**0.23**	**0.24**	**1.12**
Aero	0	0	0	0	0	0
Non-aero	0	0	0	0	0	0
Common	0.21	0.22	0.22	0.23	0.24	1.12
Communication Expenses	**1.97**	**2.05**	**2.13**	**2.21**	**2.3**	**10.66**
Aero	1.67	1.73	1.8	1.87	1.94	9.01
Non-aero	0.08	0.08	0.08	0.09	0.09	0.42
Common	0.23	0.24	0.25	0.26	0.27	1.25
Travelling Expenses	**7.03**	**7.31**	**7.59**	**7.89**	**8.2**	**38.02**
Aero	1.3	1.35	1.4	1.46	1.51	7.02
Non-aero	0.24	0.25	0.26	0.27	0.28	1.3
Common	5.5	5.71	5.93	6.16	6.41	29.71
Rent	**1.48**	**1.53**	**1.59**	**1.65**	**1.72**	**7.97**
Aero	0	0	0	0	0	0
Non-aero	0	0	0	0	0	0
Common	1.48	1.53	1.59	1.65	1.72	7.97
Rates and Taxes	**5.92**	**6.15**	**6.39**	**6.64**	**6.9**	**32**
Aero	-0.02	-0.02	-0.02	-0.02	-0.02	-0.1
Non-aero	0.02	0.02	0.02	0.02	0.02	0.1
Common	5.92	6.15	6.39	6.64	6.9	32
Advertisement	**2.75**	**2.86**	**2.97**	**3.09**	**3.21**	**14.88**
Aero	1.13	1.18	1.22	1.27	1.32	6.12
Non-aero	0.36	0.38	0.39	0.41	0.43	1.97
Common	1.26	1.31	1.36	1.41	1.47	6.81
Office Maintenance	**2.45**	**2.55**	**2.65**	**2.75**	**2.86**	**13.26**
Aero	0.43	0.45	0.46	0.48	0.5	2.32
Non-aero	0.06	0.06	0.06	0.07	0.07	0.32
Common	1.96	2.04	2.12	2.2	2.29	10.61
Printing and Stationery	**0.28**	**0.29**	**0.3**	**0.31**	**0.33**	**1.51**
Aero	0.1	0.11	0.11	0.12	0.12	0.56
Non-aero	0	0	0	0	0	0
Common	0.18	0.18	0.19	0.2	0.21	0.96
Event Management	**0**	**0**	**0**	**0**	**0**	**0**
Aero	0	0	0	0	0	0
Non-aero	0	0	0	0	0	0
Common	0	0	0	0	0	0

Recruitment	**0.06**	**0.06**	**0.07**	**0.07**	**0.07**	**0.33**
Aero	0	0	0	0	0	0
Non-aero	0	0	0	0	0	0
Common	0.06	0.06	0.07	0.07	0.07	0.33
Miscellaneous	**1.39**	**1.45**	**1.5**	**1.56**	**1.62**	**7.52**
Aero	0.44	0.45	0.47	0.49	0.51	2.36
Non-aero	0.02	0.02	0.02	0.02	0.02	0.1
Common	0.94	0.97	1.01	1.05	1.09	5.06
Consultancy Costs	**7.76**	**5.46**	**5.68**	**5.9**	**6.13**	**30.93**
Aero	3.14	0.67	0.7	0.72	0.75	5.98
Non-aero	0.04	0.04	0.04	0.05	0.05	0.22
Common	4.57	4.75	4.94	5.13	5.33	24.72
Bank Charges	**7.95**	**10.24**	**10.12**	**11.77**	**13.96**	**54.05**
Aero	7.23	9.32	9.28	10.57	12.51	48.91
Non-aero	0.73	0.92	0.85	1.20	1.45	5.14
Common	0.00	0.00	0.00	0.00	0.00	0.00
Security Cost	**8.71**	**9.05**	**9.4**	**9.77**	**10.15**	**47.08**
Aero	0.19	0.19	0.2	0.21	0.22	1.01
Non-aero	0.31	0.32	0.34	0.35	0.36	1.68
Common	8.21	8.53	8.86	9.21	9.57	44.38
Total General/Admin Costs (c)	**64.60**	**66.50**	**68.57**	**72.50**	**77.06**	**349.22**
Repair and Maintenance Cost						
Buildings	**5.16**	**5.75**	**6.21**	**7.22**	**10.33**	**34.67**
Aero	1.23	1.37	1.48	1.72	2.47	8.27
Non-aero	0.3	0.33	0.36	0.42	0.59	2.00
Common	3.63	4.05	4.37	5.09	7.27	24.41
Plant & Machinery	**14.71**	**16.40**	**17.71**	**20.60**	**29.45**	**98.86**
Aero	14.35	16.00	17.28	20.10	28.74	96.47
Non-aero	0.02	0.02	0.02	0.02	0.03	0.11
Common	0.34	0.38	0.41	0.48	0.68	2.28
Electrical Installations	**11.72**	**12.04**	**13.00**	**15.12**	**21.62**	**73.50**
Aero	7.61	7.82	8.44	9.82	14.04	47.74
Non-aero	0.55	0.56	0.61	0.71	1.01	3.43
Common	3.56	3.66	3.95	4.59	6.57	22.32
Others	**1.71**	**1.90**	**2.06**	**2.39**	**3.42**	**11.48**
Aero	1.21	1.34	1.45	1.69	2.41	8.11
Non-aero	0.04	0.05	0.05	0.06	0.09	0.29
Common	0.46	0.51	0.55	0.64	0.92	3.09
Diminution in the value of Inventory	**0**	**0**	**0**	**0**	**0**	**0**
Aero	0	0	0	0	0	0
Non-aero	0	0	0	0	0	0
Common	0	0	0	0	0	0
Stores and Spares	**13.90**	**15.37**	**16.60**	**19.31**	**27.61**	**92.79**
Aero	12.84	14.20	15.33	17.83	25.50	85.70

Non-aero	0.72	0.79	0.85	0.99	1.42	4.78
Common	0.35	0.38	0.41	0.48	0.69	2.31
Total R&M Costs (d)	**47.19**	**51.47**	**55.57**	**64.64**	**92.43**	**311.31**
Other Operating Expenses						
Insurance Costs	**2.05**	**2.12**	**2.21**	**2.29**	**2.38**	**11.05**
Aero	1.86	1.93	2.02	2.06	2.14	10.01
Non-aero	0.19	0.19	0.18	0.23	0.25	1.04
Manpower Outsourcing Expenses	**23.23**	**24.74**	**29.59**	**35.6**	**38.86**	**152.02**
Aero	21.94	23.35	27.92	33.61	36.72	143.54
Non-aero	1.29	1.39	1.66	1.99	2.14	8.47
Fuel Farm expenses	**10.68**	**11.09**	**11.52**	**11.97**	**12.44**	**57.7**
Aero	10.68	11.09	11.52	11.97	12.44	57.7
Non-aero	0	0	0	0	0	0
Bus Hire Expenses	**0.49**	**0.51**	**0.53**	**0.55**	**0.57**	**2.65**
Aero	0	0	0	0	0	0
Non-aero	0	0	0	0	0	0
Common	0.49	0.51	0.53	0.55	0.57	2.65
Car Parking Expenses	**0.65**	**0.68**	**0.71**	**0.73**	**0.76**	**3.53**
Aero	0	0	0	0	0	0
Non-aero	0.65	0.68	0.71	0.73	0.76	3.53
Common	0	0	0	0	0	0
Housekeeping Costs	**10.66**	**11.08**	**12.97**	**18.65**	**23.17**	**76.53**
Aero	9.15	9.51	11.13	16	19.89	65.68
Non-aero	1.46	1.51	1.77	2.55	3.16	10.45
Common	0.06	0.06	0.07	0.1	0.12	0.41
Other O&M Expenses	**1.97**	**2.05**	**2.13**	**2.21**	**2.3**	**10.66**
Aero	0.2	0.2	0.21	0.22	0.23	1.06
Non-aero	1.76	1.83	1.9	1.97	2.05	9.51
Common	0.02	0.02	0.02	0.02	0.02	0.1
Total Other Operating expenses (G)	24.46	25.41	27.86	34.11	39.25	151.09
Total Other Costs (e)	**49.73**	**52.27**	**59.65**	**72.01**	**80.49**	**314.15**
Concession Fee (f)	**44.97**	**44.72**	**34.91**	**39.21**	**44.16**	**207.98**
Aero	33.94	32.41	21.14	23.70	26.68	137.87
Non-Aero	10.20	11.48	12.94	14.68	16.65	65.95
Non-Airport	0.89	0.94	0.99	1.04	1.09	4.94
Land Lease (g)	**3.28**	**3.44**	**3.61**	**3.79**	**3.98**	**18.1**
Aero	2.38	2.5	2.63	2.76	2.89	13.16
Non-Aero	0.89	0.94	0.99	1.04	1.09	4.95
Total Expenses (h)=(a)+(b)+(c)+(d)+(e)+(f)+(g)	**295.50**	**305.68**	**327.38**	**388.83**	**450.88**	**1768.27**

Additionally, the Authority has noted HIAL submission requesting for a true-up of all uncontrollable costs based on actual expenditure incurred. The Authority however believes that all expenses allowed to HIAL (including those which are controllable) should be trued-up. Accordingly, the Authority proposes that each of the above expense heads mentioned in Table 28 shall be examined at the end of the Control Period; and subject to HIAL providing both (i) adequate justification that the spend was necessary and reasonable and (ii) conclusive proof that the amount was actually incurred, the expense shall be allowed by the Authority. This true-up shall however, be subject to a cap (if any) mentioned for the specific expense head in the Authority's analysis of this chapter.

C) Stakeholder comments on issues pertaining to Operating Expenses

7.90. As part of the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No. 30/2017-18 dated 19.12.2017. Stakeholders have also commented on issues pertaining to operating expenses in respect of RGI Airport, Hyderabad. These comments are presented below:

Payroll Cost

7.91. On the issue of additional manpower, IATA feels that an increase of 176 people due to increased terminal size is not justified. It requests the Authority to further scrutinize this increase (what are the additional positions needed, why the average salary needs to be the same, etc.).

7.92. Furthermore, on the subject of increase in wages, IATA stated that,

> *"We agree with AERA's observation that no justification was provided for the proposed 7% (real) increase in wages. However, adopting a 3% real increase may still be on the high side."*

Utility Expense

Utilities Expenses –Water and Electricity

7.93. On the proposals for water and electricity, IATA stated that,

> *"While we agree with the proposals for water and electricity, we believe that it may also be prudent for the authority to better understand the drivers behind the water and electricity tariffs increases over the past years."*

Repairs and Maintenance

7.94. On the subject of R&M costs, IATA stated that it agrees with the proposed increase in R&M. In addition, it believes that deferred R&M should not be allowed as it would lead to double counting of costs.

Concession Fee

7.95. On the subject of concession fee, IATA stated that,

> *"We do not believe that the concession fee is treated as a pass through cost as this is not related to the cost of running aeronautical services. We urge AERA not to take these costs into account."*

Foreign exchange losses

7.96. On the subject of foreign exchange losses, IATA stated that,

> *"It is unclear as to why there would be foreign exchange losses if AERA is allowing 4.5% for hedging. If such risk still existed, we believe that the Authority should do a more exhaustive analysis of how this risk could impact the cost base of HYD before making the proposal to agree, on an upfront basis, to include such potential losses should they occur. "*

Miscellaneous

7.97. On the subject of truing up operating costs, IATA believes that all operating cost items should not be trued up as it may not provide any incentives to outperform and lead to inefficiencies in cost. If the Authority still wishes to go ahead with this it should carry out an independent study on the operating cost efficiency before truing up costs in the 3rd Control Period.

7.98. In addition, with respect to operating expenses IATA also stated that,

> *"Agree with the remaining proposals.*
>
> *"There is not enough information to make a proper assessment of the cost allocation."*

D) HIAL's response to Stakeholder Comments on issues pertaining to Operating Expenses

7.99. Subsequent to the receipt of comments from the Stakeholders on the Consultation Paper No. 30/2017-18 dated 19.12.2017, the Authority forwarded these comments to HIAL seeking its response to these comments. HIAL has provided responses to the Stakeholders' comments, which are presented below:

Payroll Cost

7.100. In response to IATA's comment on addition of 176 people as manpower, HIAL stated that this increase is on account of expansion,

> *"….Primarily more deployment shall be required in terminal operations, airside operations, AOCC, security and control, fire-fighting, environment and safety, business development etc.*
>
> *We have been operating the airport with lower headcounts due to continuous attrition and hence asked for increased headcounts during the expansion phase to which the Authority has considered a very nominal increase in headcounts."*

7.101. In response to IATA's comment on the proposed 7% (real) increase in wages being high IATA submitted that,

> *"Aviation is a manpower centric growing industry. The experienced manpower always comes at a premium. We are facing higher attrition rates in the past on account of higher salary being offered at the competing airports. The average salary increase in aviation industry ranges between 12- 14%, which translate to real increase of 8-9%.*
>
> *In view of that the company has requested for a real increase of 7% which is bare minimum to retain talent and arrest further attrition in the critical resources viz airport operations, ARFF, and Security et al.*

With the miniscule increase proposed by Authority, GHIAL will not be able to carry out operations efficiently. We request the Authority to carry out a reality check w.r.t. real increase allowed in other airports which is broadly in the range of 7% and for AAI airport there has been one time increase of

25% apart from real increase annually. Hence we request the Authority to consider real increase of 7% in manpower expenses in addition to inflationary increase."

Utility Expense

Utilities Expenses –Water and Electricity

7.102. In response to IATA's comment on the proposals for water and electricity, HIAL submitted that historical tariff increase in water and electricity rates are uncontrollable in the hands of the company as they have been made by the government authorities. HIAL further stated that,

"....Justification has been submitted to Authority for the sought increase in utility expenses. The past 5 year CAGR of hike in utility is a 39.5% in case of water and 11% in case of power, Hence we request the Authority to consider real increase as utility cost is one of the major operating costs"

Repairs and Maintenance

7.103. In response to IATA's comment on R&M costs, HIAL submitted,

"Various R&M activities were deferred in FY16 on account of cash crunch faced by the company during discontinuation of UDF. These activities were critical for the airport's smooth operation and were planned from FY 2017 onwards. Any disallowance of these expenses will put strain on our operations making it very challenging for us to operate efficiently.

It has been 9.5 years since the airport was operationalized. Due to the aging of assets and equipment, additional expenditure will be required for maintenance and upkeep for various assets. Mostly R&M works are outsourced contracts and hence, a real increase over and above inflationary increases is required for the manpower component of these costs."

Concession Fee

7.104. In response to IATA's comment on the treatment of concession fee as a pass through cost, HIAL stated,

"As per the concession agreement of GHIAL the concession fee payable is a pass through expense for the purpose of tariff determination.

And we agree with AERA approach as it is in line with the section 13 (1) (a) (vi) of the AERA Act."

Foreign exchange losses

7.105. In response to IATA's comment on foreign exchange losses, HIAL stated that exchange loss and hedging are mutually exclusive and the company has already taken hedge for USD bond and that there would not be any further exchange loss on this account, HIAL further submitted,

"....However, we request the Authority to take cognizance of exchange loss suffered during the period of FY17 and FY18 together with the exchange loss suffered on account of ECB refinancing though USD Bond."

Miscellaneous

7.106. In response to IATA's comment on truing up all operating cost, HIAL stated,

> *"We have been one of the most efficient airport operator in terms of opex per million passenger.*
>
> The Authority has proposed only inflationary increase in expenses (except manpower) and it would be very challenging for us to operate with a meagre inflationary increase given the fact that airport is undergoing major expansion. Hence we appreciate the Authority's approach of truing up all cost in CP 3."

E) <u>HIAL's own comments on issues pertaining to operating expenses</u>

7.107. Payroll Cost

7.108. With respect to the Authority's proposal in chapter 7, para 7.47 and 7.48 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, wherein it has only allowed a real increase of 3% over and above WPI of 3.9% in the absence of any rationale provided by the airport operator, HIAL responded that its request for a real increase of 7% was in line with industry standards and necessary to prevent the attrition rates in its various departments. HIAL stated that,

> *"This is the bare minimum increase which is envisaged to match the salary hikes in other industries and prevent the growing retention especially in the critical resources viz airport operations, ARFF and Security..."*

7.109. HIAL also pointed that the minimum wage rates had significantly increased in the state, which in turn would contribute to higher manpower expenses. It clarified that it had a total manpower strength of 516 as on 31.03.2017 compared to 510 considered by the Authority. In addition to this staff strength, it would also need hire more staff to fill vacant positions in various departments by the end of FY 2017-18, which would also increase the manpower cost further. Citing the above reasons, HIAL requested the Authority to consider its submission of 7% real increase above the WPI and accordingly, approve the same.

Utility Expense

Utilities Expenses – Electricity

7.110. Further, responding to the Authority's proposal of disallowing escalation in the electricity rates as given in chapter 7, para 7.50 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL stated that it had demonstrated a year-on-year increase of 11% in electricity rate since the last four years. Given that power cost contributed a significant proportion in total cost and cannot be controlled by HIAL, it has requested the Authority to reconsider its submission of projected growth based on past trends.

Utilities Expenses – Water

7.111. On similar lines, HIAL has also submitted that based on past trends, water unit rates have risen by a CAGR of 39.5% in the last five years. Given the significant rise in water costs over the years and the fact that such costs are beyond its control, HIAL has requested the Authority to reconsider projected water unit rates.

General and Administrative expenses

Bank & Finance Charges

7.112. In response to chapter 7, para 7.58 of the Consultation Paper No. 30/2017-18 dated 19.12.2017 on the Authority's proposal to only allow working capital for receivables commensurate to its credit cycle of 0.5 months, HIAL submitted that while it strived to recover dues in a timely manner, payments made by airlines also depended on their financial strength and availability of cash flow. Further HIAL stated that since aviation is categorised as an essential service with few number of service providers, it would be difficult to disrupt airline operations on account of non-payment/delayed payment. It submitted that

> *"Since we are engaged in the business which falls under the domain of essential services with limited number of service providers, we just can't encash the BG or can't stop the airline from flying due to non-payment/delayed payment."*

7.113. In its submission, HIAL also highlighted that the national carrier, which had significant market share, had not cleared a significant proportion of its receivables. In light of the reasons cited, HIAL requested the Authority to allow receivable collection period of 30 days instead of 15 days as proposed in the Consultation Paper No. 30/2017-18.

7.114. On the Authority's proposal to cap HIAL's working capital interest and its true up as provided in chapter 7, paras 7.64 and 7.65 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL responded that it has consistently remained "prudent" and availed working capital from banks only as a last resort. HIAL further stated that the tariff principles considered by the Authority and the difference between projected and actual figures would determine the company's financial position and in turn impact the working capital interest. HIAL's submission in this regard has been reproduced below,

> *"The financial position of the company depends on the consideration of tariff principles by AERA and difference between actual and projected expenses. The working capital interest is directly related to the above considerations which may be considered as a truable item aligned with other building blocks. Company may have to avail increase working capital limits to support the lower cash flows on account of reduced tariff."*

7.115. It also submitted that while the Authority's Guidelines at para 5.4.3 allow consideration of interest on short term loans as working capital interest, they do not prescribe any limits on the same. Based on its arguments stated above and taking into consideration the increasing volume of business, HIAL has requested the Authority to revise upwards the receivable collection period from 15 to 30 days and remove any cap on the working capital interest by allowing true up on actuals.

Administrative Expenses (Other than Bank & Finance Charges)

7.116. In the context of Community Development Costs, wherein the Authority had proposed to disallow CSR costs from General and Administrative expenses, HIAL submitted that CSR expenses had been made a mandatory expenditure by the government, which impacts the company's overall profitability. Accordingly, it submitted that the CSR spent by the company be treated similar to tax deduction and requested the Authority to consider the aeronautical portion of CSR as derived from aeronautical P&L as an eligible expense. HIAL pointed that disallowing the same would diminish the return assured on equity under the regulatory regime. Its submission in this regard has been provided below, *"We would like to submit that the CSR as stipulated by the central government is in the nature of tax which reduces the overall profitability of the company including the aeronautical profitability as decided under regulatory framework thereby reducing the return to equity shareholders... We request the Authority to consider aeronautical portion of CSR as derived from aeronautical P&L should form part of eligible expenses. Moreover, the return assured on equity under the regulatory regime is reduced in case this is not considered as an expense. This being a regulated asset, the Authority should ensure that the return to the shareholders after making statutory deduction (in the form of tax or similar deduction like CSR) is protected under all circumstances."*

7.117. Responding to the Authority's proposed treatment of only allowing a 3.9% inflationary increase in general and administrative costs as mentioned in chapter 7, para 7.67 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL argued that the Authority had allowed real increase on expenses while determining aeronautical tariffs for other airports. Accordingly, it requested the Authority to allow a real increase of 7% p.a. on general and administrative costs at par with the revised real increase in manpower costs submitted by HIAL.

Repairs and Maintenance

7.118. On the Authority's proposal to disallow real increase of 7% p.a. on repairs and maintenance cost as provided in chapter 7, para 7.69 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL contended that allowing only inflationary increase in expenses would make it difficult to achieve efficiency in operations as it renewed maintenance contracts every alternate year, which included an escalation clause over and above the inflationary increase.

7.119. Further, pointing that the Authority had allowed real increase in expenses in the past, HIAL requested the Authority to allow a real increase in Repairs and Maintenance costs at par with the revised real increase in manpower costs submitted by it. HIAL further reiterated its earlier submission regarding its assets being a decade old and thereby being in *"enhanced need of repair and maintenance"*. HIAL highlighted that the airport operator had already deferred various maintenance activities in FY 2014-15 and FY 2015-16 due to the depleted pool of revenues post temporary discontinuation of UDF, which were reinstated only from FY 2016-17. Additionally, HIAL submitted that advances in technology increased the rate of obsolescence of plant and machinery thereby, increasing expenditure on regular maintenance. Based on the reasons provided, HIAL requested the Authority to allow a 7% real increase in R&M cost.

Insurance Cost

7.120. Responding to the proposed treatment of considering only an inflationary increase of 3.9% p.a. on insurance costs owing to the falling insurance rates, as given in chapter 7, para 7.74 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL resubmitted that only allowing inflationary expenses would make it difficult for the airport operator to achieve efficiency. In line with the Authority's past treatment of allowing a real increase in expenses, HIAL requested for allowing real increase in insurance costs at par with the revised real increase in manpower cost as submitted by HIAL.

Other Operating Cost

Housekeeping Cost

7.121. The next issue flagged by HIAL was with respect to the Authority's proposal to disallow cost increase of 2% on additional contracts for housekeeping services and only allowing an inflationary increase in housekeeping expenditure year-on-year as mentioned in chapter 7, para 7.77 of the Consultation Paper No. 30/2017-18 dated 19.12.2017. Responding to the Authority's treatment, HIAL stated that with the expansion of the terminal building, it would issue new housekeeping contracts to maintain the service levels at the airport. HIAL also pointed that in fact, even the existing contracts are typically renewed annually with an escalation factor in addition to providing for an inflationary increase. Therefore, given the dependence on manpower in housekeeping services, HIAL requested the Authority to consider real increase at par with the revised real increase in manpower cost requested by it.

Bus Hiring and Car Parking Charges

7.122. In response to the Authority's proposal of only allowing an inflationary increase of 3.9% p.a. for projecting fuel farm expenses based on past trends, as given in chapter 7, para 7.79 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that it had requested a one-time cost increase considering the increase in manpower on account of terminal expansion. HIAL had stated that,

> *"Since our office is away from the city and airport not being connected well through public transport system, in order to facilitate mobility of employees we are running buses. We have envisaged additional deployment of buses as the employee strength is going to increase. Hence we request the Authority to consider our submission of one time increase of 15%."*

7.123. HIAL further said that contract renewal for hiring of buses largely depended on fuel prices in addition to operating costs of running the bus service. Accordingly, HIAL submitted that only an inflationary increase would not be sufficient. Citing the past treatment by the Authority to allow real increase in expenses, HIAL requested consideration of real increase in bus hiring charges at par with revised real increase in manpower cost requested by it.

Other O&M expenses

7.124. Responding to the Authority's proposed treatment of only allowing an inflationary increase of 3.9% on the other O&M expenses given in chapter 7, para 7.80 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that,

> *"Terminal expansion is a reality and floor plate is expected to increase by 0.9x on account of increase annual passenger capacity from 12 million to 20 million. Hence one-time increase in O&M expenses is envisaged in our submission and request the Authority to consider the same. The Authority in the past has allowed real increase in expenses and hence we request the Authority to consider real increase in other O&M expenses in line with revise real increase in Manpower cost requested by us."*

Manpower Outsourcing cost

7.125. On chapter 7, para 7.83 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, , wherein the Authority proposed to allow a real increase of only 3% p.a. over and above the WPI increase of 3.9% p.a. to escalate manpower outsourcing costs HIAL submitted that as the

Authority had allowed real increase in expenses in the past. Accordingly, HIAL stated that the same treatment should be meted out in its case for projecting manpower outsourcing cost at par with revised real increase in manpower cost requested by it.

Foreign exchange losses

7.126. In the context of the Authority's proposal of fixing the cap on cost of borrowing through ECBs provided in chapter 7, para 7.91 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that cost of bond was being considered for determination of WACC. Accordingly, HIAL requested the Authority to take into account the exchange loss suffered during the period of FY 2016-17 and FY 2017-18 along with exchange loss suffered on account of ECB refinancing. HIAL also pointed that it had submitted the relevant auditor certificate along with expenses incurred on account of raising USD Bond.

7.127. Responding to chapter 7, para 7.92 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, which deals with the Authority's proposal of not considering forex losses post the issue of the foreign currency Bond, HIAL requested the Authority to allow consideration of foreign exchange loss as per AS 11 for FY 2016-17 and the period prior to issuance of Bond in FY 2017-18. HIAL also stated that the exchange loss and issue expenses should be allowed by the Authority in the current tariff order, wherein users would benefit with lower cost of debt in WACC.

Allocation of Operating Expenses

7.128. In response to the Authority's proposal of classifying expenses on vehicle fuelling service as an aeronautical expense given in chapter 7, para 7.101 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that the service is not core to airport operations and had been outsourced to a third party concessionaire. Accordingly, HIAL requested the Authority to treat the same as a non-aeronautical service.

7.129. Responding to chapter 7, para 7.102 of the Consultation Paper No. 30/2017-18 dated 19.12.2017 on recognising CUTE, CUSS and BRS charges as aeronautical, HIAL submitted that given that these services are a part of ground handling they should be treated as a non-aeronautical activity in accordance with HIAL's Concession Agreement.

7.130. On the Authority's proposal to consider CSB expenses as aeronautical, as given in chapter 7, para 7.103 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL contended that the CSB had been leased out to function as both a non-bonded warehouse and as an office space for cargo agents and freight forwarders. It was further clarified that the goods stored in the warehouse were not necessarily meant for air cargo services and hence, not pertaining to cargo operation at airport. Additionally, HIAL submitted that its Concession Agreement clearly defined CSB as part of non-airport activities, and accordingly, requested the Authority to treat the expenses pertaining to CSB as non-airport expenses outside the regulatory purview.

7.131. With respect to Authority's treatment of considering FEGP expenses as aeronautical in chapter 7, para 7.104 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL while referring to its submissions from chapter 5, paras 5.120 to 5.130, stated that,

> *"FEGP being part of ground handling services is considered as non-aeronautical as per concession provision…"*

7.132. With regard to the Authority's treatment of considering property development as a non-aeronautical activity, HIAL responded that real estate was to be treated as a non-airport activity as per the provisions of the Concession Agreement. HIAL submitted that,

> *"As per the master plan submitted to ministry we have identified 1500 acres of land for commercial property development activities more specifically activities detailed as per Schedule 3 of Concession Agreement. Accordingly, we have treated the land lease rent payable on this 1500 acres of land as non-airport and considered it out of regulatory purview."*

7.133. In the context of treating rental expense of Rs 0.85 crore pertaining to non-airport operations as outside the regulatory opex in the absence of information on the cost center, as provided in chapter 7, para 7.105 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that out of the total land lease rentals of Rs 3.12 crores, Rs 0.85 crores came from the 1500 acres of land earmarked for commercial property development. HIAL's response has been reproduced below,

> *"As per the master plan submitted to ministry we have identified 1500 acres of land (out of total land of 5492 acres) for commercial property development activities more specifically activities detailed as per Schedule 3 of Concession Agreement. Accordingly, we have treated the land lease rent payable to the state government on this 1500 acres of land as non-airport and considered it out of regulatory purview. Out of the total land lease rentals of Rs 3.12 crores, Rs 0.85 crores pertains to non-airport land."*

7.134. On the issue of allocating expenses incurred on the employee township between aeronautical and non-aeronautical as given in chapter 7, para 7.107 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL referring to its detailed rationale cited in chapter 5, paras 5.140 to 5.142 responded that both critical and support staff were residing in the township and are important for maintaining quality service and smooth functioning of the airport. According to HIAL's submission,

> *"It would be pertinent to reiterate that employee township houses both critical and support staff who are central to the smooth operation of the airport as well as for overall administration. The township was built to ensure that the key resources to airport operations and overall supervision from administration and finance function is available on call. Both critical and support staffs are integral part of overall service delivery to passengers, customers etc."*

7.135. With respect to the Authority's proposal of considering Landscaping expenses as a common cost, as mentioned in chapter 7, para 7.108 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that it was an integral part of airport aesthetics to ensure superior customer experience. Highlighting that landscaping expenses had been treated as aeronautical expenses in the context of other airports in the past, HIAL requested the Authority to extend the same treatment in the context of HIAL.

Miscellaneous

7.136. In response to the Authority's proposed treatment of considering a projected WPI of 3.9% as given in chapter 7, para 7.42 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that with the economic growth only starting to recover, the Authority to revise upwards the projected inflation rate to 4.2% as was considered in recent tariff orders for Kolkata and Goa airports. HIAL's submission has been reproduced below,

> "We are on the trough of inflation as growth momentum in the economy is coming back. Hence projected inflation of 3.9% in the coming years would be challenging to hold good. The Authority in its recent order of Kolkata Airport and Goa Airport considered inflation of 4.2%. Hence we request the Authority to align inflation projection at 4.20%."

F) Authority's examination of stakeholder comments on issues pertaining to operating expenses

7.137. The Authority has carefully examined the comments made by the stakeholders as well as HIAL in respect of operating expenses in the tariff determination for the current Control Period

Payroll Cost

7.138. The Authority has examined the argument made by IATA and HIAL on addition of 176 people as manpower. As the airport operator is better equipped to take decisions with respect to day to day operations of the airport, the Authority deems the Authority's clarification to be justified. Accordingly, the Authority has decided to maintain its stance of considering an increase of 176 people due to increased terminal size to be justified.

Utility Expense- Electricity and Water

7.139. The Authority has examined the arguments made and reports submitted by HIAL and IATA on the escalation in cost and rates for electricity and water. The Authority observes that similar arguments had been made by HIAL in HIAL's MYTP submission for the 2nd Control Period. In the absence of any new arguments provided by the stakeholders, the Authority sees no reason for undertaking any additional analysis. Accordingly, the Authority has decided to maintain its stance on the same.

General and Administrative expenses

Bank & Finance Charges

7.140. The Authority has examined the comment made by HIAL on increasing receivables collection period from 15 days to 30 days. However, the Authority believes that the cost of late payment on behalf of select customers/ airlines shall not be borne by the entire customer base and should be recovered from the defaulting parties in the form of penalties, the same has been elucidated in para 7.51 to 7.53. Accordingly, the Authority maintains its stance on providing a receivables collection period of 15 days.

7.141. The Authority has noted HIAL's request to remove the cap on true-up of its working capital interest as it submitted that while it has been "prudent and judicious" in availing any banking limit, its working capital interest is directly related to the tariff determined by the Authority and difference between actual and projected expenses. Further, HIAL also stated that since AERA does not put any limits on the interest of short term loans, there should be no cap on its working capital interest as well. However, the Authority would like to reiterate that to ensure efficient utilization and financing of working capital loans it is necessary to cap the true-up of HIAL's working capital interest as given in para 7.56. Therefore, the Authority has decided to maintain its stance on capping this amount to the values mentioned in Table 27.

Administrative Expenses (Other than Bank & Finance Charges)

7.142. The Authority has noted HIAL's comment on treating the amount spent by the company as CSR, similar to that of tax computation and to consider the aeronautical portion of CSR as an eligible expense. However, the Authority believes that such expenses should not be transferred to the customers. Therefore, the Authority maintains its stance on excluding this amount from the General and Administrative expenses.

Repairs and Maintenance

7.143. The Authority has noted the submissions made by HIAL and IATA on allowing deferred R&M expenses, the Authority has noted HIAL's submission that some R&M activities were deferred due to cash crunch faced by the company during discontinuation of UDF and need for increased R&M on account on reducing efficiency of the aging assets. However, the Authority is of the opinion that as per ACI's ASQ ranking results, RGI airport was able to maintain good service quality at the existing levels of R&M expenses and can continue to operate smoothly with similar levels of expenses, this rationale has further been elaborated in para 7.60. Accordingly, the Authority maintains its stance on disallowing additional expenditure and agrees to allow for a true up of any additional R&M expenditure in the 3rd Control Period.

Insurance Cost

7.144. The Authority has observed the comment made by HIAL on the increase in insurance cost. However, based on the rationale provided in para 7.63, which states that due to intense competition and dropping insurance policy rates the increase in insurance cost will not be substantial, the Authority has decided to maintains its stance on providing an inflationary growth of 3.9% p.a. and to true-up any additional cost in the next control period.

Other Operating Cost

Bus Hiring and Car Parking Charges

7.145. The Authority has noted the submission made by HIAL on a one-time increase of 15% in bus hiring and car parking charges on account of each of the expansion projects. The Authority agrees that these charges may increase on account of additional manpower being added at the time of expansion. However, due to inadequacy of information on the traveling requirements of additional manpower, the Authority has decided to maintain its stance on not allowing this one-time increase. The Authority will deliberate upon and true-up HIAL's operating expenses in the third control period based on the actual expenses incurred.

Other O&M expenses

7.146. The Authority has examined HIAL's submission on a one-time increase of 15% in Other O&M expenses on account of the expansion projects. However, the Authority has decided to maintain its previous stance as mentioned in para 7.68 that it does not see any direct relation between these expenses and terminal expansion and has therefore, decided to disallow this one-time increase in the Other O&M expenses on account of terminal expansion. The Authority will deliberate upon and true-up HIAL's operating expenses in the third control period based on the actual expenses incurred.

Manpower Outsourcing cost

7.147. The Authority has noted HIAL's comment on the increase in manpower outsourcing cost. However, based on the rationale provided in para 7.70, the Authority maintains its stance on allowing a 7% p.a. nominal increase (including inflation); as allowed on employee cost (refer para 7.45) and to true-up any additional cost in the next control period.

Concession Fee

7.148. The Authority has noted IATA's comment that concession fee should not be treated as a pass through cost. However, in the absence of any further justification as to why it must not be treated as pass through, the Authority continues its extant stance of considering the aeronautical portion of the concession fee as aeronautical expenditure.

Foreign exchange losses

7.149. The Authority has noted the comment made by HIAL on fixing the cap on cost of borrowings through ECBs. It is pertinent to mention that the Authority permitted recovery of foreign exchange losses so as to ensure that the interests of the airport operator are not unjustly compromised, as given in paras 7.74 and 7.75 However, to strike a balance between protecting the interests of the airport operator along with the interests of the airport users, the Authority has decided to retain its stance of capping the recovery of foreign exchange losses to the extent that the effective cost of borrowing in foreign currency (net of forex gains / losses) is not higher than the cost of RTLs.

7.150. In the absence of any fresh arguments raised by HIAL, the Authority has decided to maintain its stance of not considering any losses incurred by HIAL on account of fluctuations in foreign exchange rates from the date of the dollar bond issue since HIAL is being allowed to hedge this exposure , as explained in detail in para 7.76. The Authority would partially allow foreign exchange loss prior to the issue of dollar bond at the time of true-up of 2nd Control Period, based on the principles established in Table 3.

Allocation of Operating Expenses

7.151. The Authority has examined HIAL's comment on treatment of vehicle fuelling activity as non-aeronautical. However, as highlighted in chapter 5, para 5.45 these services are critical to aircraft operations. Therefore, the Authority maintains its stance on treating such activity as aeronautical. However, the Authority would like to reiterate that there are no expenses in HIAL's financial statements with respect to vehicle fuelling services, therefore, no adjustment would have to be made for the purpose of this chapter.

7.152. The Authority has duly analysed HIAL's submission requesting allocation of CUTE, CUSS and BRS (IT) as non-aeronautical. However, as these services are related to ground handling which have in turn been considered as aeronautical services, as per chapter 5, para 5.46, the Authority has decided to maintain its stance on treating CUTE, CUSS and BRS (IT) as aeronautical.

7.153. The Authority has observed HIAL's submission on treatment of expenses related to Cargo Satellite Building (CSB) as non-airport expenses. However, the Authority has observed that this building is being used for operations related to cargo, as explained in chapter 5, para 5.47. Therefore, the Authority has decided to treat such expenses as aeronautical.

7.154. The Authority has observed HIAL's submission on treatment of expenses related to FEGP as non-aeronautical expenses. However, as these services pertain to ground handling which are in turn treated as aeronautical as per chapter 5, para 5.48, the Authority has decided to maintain its stance on treating FEGP expenses as aeronautical.

7.155. In addition, it was observed by the Authority that a rental expense of Rs. 0.85 crore pertaining to real estate development (which HIAL considered to be non-airport) operations had been incurred by HIAL, and HIAL vide its response to the Consultation Paper has clarified that it is the portion of land lease cost which pertains to non-airport activities. Accordingly, the Authority proposes not to consider these expenses as part of operating expenses as proposed in the Consultation Paper, as they pertain to non-aeronautical activities. Further, the Authority had instructed HIAL to furnish an auditor certificate pertaining to expenses on Cargo Satellite Building (CSB) for FY 2015-16 which clearly state the cost center for R&M expense of Rs. 0.22 crore and outsourcing expenses of Rs. 0.21 crore. In the absence of information being furnished by HIAL, the Authority has decided to exclude these expenses (i.e. Repairs & Maintenance Expense of Rs. 0.22 crore and Outsourcing expenses of Rs. 0.21 crore) for FY 2015-16 from aeronautical operating expenses pertaining. As the nature of these expenses have not been clarified, the Authority would disallow the same assuming it to be non-airport in nature.

7.156. The Authority has examined HIAL's comment on treatment of expenses related to Employee Township. The Authority agrees with HIAL's submission of critical employees and based on the justification given in chapter 5, para 5.166, the Authority has decided to allow the expenses in proportion to the number of critical employees residing in the township as part of the aeronautical expenses.

7.157. The Authority acknowledges HIAL's submission that landscaping is integral to ensure enhanced passenger experience. However, the Authority stands by its previous proposal that landscaping is not an expense that is directly associated with aeronautical activities and the entire expense should therefore not be treated as aeronautical. Accordingly, the Authority has decided to treat this expenditure as a common cost divided in the ratio of aeronautical and non-aeronautical expenses.

Growth Rates

7.158. The Authority has observed the response submitted by HIAL on the proposed growth rates for general administrative expenses, housekeeping expenditure, bus hiring and car parking charges and other O&M expenses. On further analyzing each line item for which a higher increase has been requested by HIAL, the Authority observed that the CAGR for these administrative expenses was ~1.2% p.a. and other operating expenses was 2.51% p.a.

7.159. Accordingly, the Authority does not see any reason to allow a real increase in these expense heads in addition to inflation. It is pertinent to note that despite this low growth in operating expenses the airport has been able to achieve good ASQ ratings, implying that the decline in expense has not come at the compromise of passenger experience. Therefore, the Authority has decided to maintain its stance of considering an increase of 3.0% p.a. in real terms over and above WPI increase in case of manpower expenses and inflationary growth of 3.9% p.a. for most other expense heads as projected in Table 29 and to consider a true-up of any additional cost incurred by HIAL in the next Control Period, if the expenditure is found to be reasonable.

Miscellaneous

7.160. The Authority notes HIAL's submission that the Authority may have considered a higher inflationary allowance in the case of other airports in its recent tariff orders. Based on the detailed rationale provided in chapter 11, para 11.10, which states that because the regulatory documents are being issued at different points of time such subtle differences are inevitable and truing up of the operating expenses will account for any gaps in such assumptions, the Authority has decided to maintain inflation at 3.9% p.a. and true-up the operating expenses based on the actual financial results and the Authority's examination on whether the costs have been efficiently incurred.

7.161. The Authority has observed the comment made by IATA and response submitted by HIAL on truing up of all operating expenses. The Authority believes that it is in the interest of the airport's business to eliminate all inefficiencies in cost and maintain a high levels of service quality to enhance passenger experience. Therefore, the Authority deems that truing up all operating expenses is justified and maintains its stance on doing so in the 3rd Control Period.

7.162. The Authority has noted IATA's comment on non-availability of adequate information for making proper assessment of cost allocation. However, the Authority believes that all the relevant information has been clearly presented in the Consultation Paper No. 30/2017-18 dated 19.12.2017.

Decision No. 7. Regarding Operating Expenses

Based on the material before it and its analysis, the Authority decides:

7.a. To consider the operational expenditures in respect of HIAL as a standalone entity as presented in Table 29.

7.b. To allocate expenses between aeronautical and non-aeronautical categories as decided in paras 7.78 to 7.89.

7.c. To allow for true-up of all expenses incurred by HIAL during the 2nd Control Period while determining tariffs for the 3rd Control Period (except true-up of interest on working capital loan which is subject to a pre-defined cap, refer Table 27). The true-up of operating expenses shall be subject to a justification and proof as mentioned in para 7.89.

8. TAXATION

A) HIAL Submission on Taxation

8.1. As per its initial submission dated 25.03.2016 and its revised submission dated 05.12.2016, HIAL stated that it had separately computed corporate tax pertaining to aeronautical service, based on the provisions of the extant Income Tax laws, as a building block to be included in the calculation of the target revenue.

8.2. The tax projections for the 2nd Control Period submitted by HIAL as per its revised submission dated 05.12.2016 is as under,

Particulars (Amts in Rs crores)	*FY2017*	*FY2018*	*FY2019*	*FY2020*	*FY2021*
Tax on Aeronautical Segment	*149.66*	*166.05*	*206.48*	*256.89*	*274.10*
Tax on P&L	*179.57*	*294.69*	*353.76*	*308.68*	*329.61*

B) Authority's examination of HIAL's Submissions on Taxation

8.3. Due to the switch in regulatory till from a single till to a 30% shared till, the Authority has decided to consider only the aeronautical portion of the taxes paid on actuals by the regulated entity. The Authority's computation has been as explained in para 8.5.

8.4. Subsequent to its revised submission dated 05.12.2016, HIAL had submitted an updated financial model dated 28.01.2017. On reviewing the taxation calculation methodology followed by HIAL in the abovementioned model, the Authority notes that the financial model contains two profit and loss accounts. An aggregate profit and loss account, which computes taxes for HIAL as a standalone entity, while the other aeronautical profit and loss account, which computes taxes pertaining only to its aeronautical operations. Both the above taxes computed by HIAL are as presented below,

Table 30: Corporate Tax considered by the HIAL for the 2nd Control Period

Particulars (Rs. in crores)	2017	2018	2019	2020	2021
Tax on P&L for the entity	180.33	312.17	358.79	313.84	333.57
Tax on Aeronautical Segment	150.94	166.55	228.13	262.00	278.14

8.5. The Authority understands that under the 30% shared till mechanism, HIAL will have to incur taxes based on its profits as an entity however, for determination of tariffs HIAL should consider taxes incurred pertaining only to its aeronautical operations. Therefore, the allocation of the total taxes incurred by HIAL into aeronautical and non-aeronautical components becomes essential. HIAL has allocated its taxation between aeronautical and non-aeronautical by preparing a separate aeronautical profit & loss account that computes taxes for its aeronautical operations. However, the Authority is of the view that it will be prudent to allocate taxes after considering a non-aeronautical profit and loss account in addition to the aeronautical profit & loss account used by HIAL. The Authority proposes to allocate HIAL's taxes (as per the aggregate profit & loss account) between aeronautical and non-aeronautical components based on the ratio of taxes as per both aeronautical and non-aeronautical profit & loss accounts.

8.6. The Authority has computed revised taxes (for the standalone entity of HIAL & aeronautical services) by capturing the Authority's analysis and tentative proposals mentioned in the respective sections of the Consultation Paper No. 30/2017-18 dated 19.12.2017. The Authority then prepared a profit and loss account pertaining to non-aeronautical services and computed non-aeronautical taxes. Based on the methodology explained in para 8.5, the Authority's computation is as presented below,

Table 31: Detailed computation of the Corporate Tax considered by the Authority for the 2nd Control Period

Computation of Tax 2nd Control Period (Rs. In crore)	2017	2018	2019	2020	2021	Aggregate 2nd CP
Aeronautical PBT	351.68	326.71	54.95	17.98	-20.33	730.98
Aeronautical tax (a)	73.71	68.48	11.52	3.77	0.00	157.48
Non-Aeronautical PBT	188.37	219.21	262.48	288.84	322.51	1281.40
Non-Aeronautical Tax (b)	67.78	79.03	90.39	94.35	108.36	439.92
PBT for HIAL as a standalone entity	478.03	476.15	237.48	214.66	196.32	1602.64
Tax for HIAL as a standalone entity (c)	100.20	99.80	49.78	44.99	41.15	335.91
Ratio for allocation of taxes to be incurred by HIAL as a standalone entity (d)={a/ (a+b)}	52%	46%	11%	4%	0%	NA
Aeronautical portion of the total tax to be considered for tariff determination {d*c}	52.20	46.33	5.63	1.73	0.00	105.88

C) Stakeholder comments on issues pertaining to Taxation

8.7. As part of the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No. 30/2017-18 dated 19.12.2017. Stakeholders have also commented on issues pertaining to taxation in respect of RGI Airport, Hyderabad. These comments are presented below:

8.8. On the subject of calculation of tax, IATA requested more details on how calculations are made. IATA stated,

> *"We cannot fully understand the tax calculations in the proposals, and fully appreciate for the authority to provide further details on it. In particular, and as previously expressed, we believe that the authority should share the financial model it uses to make all these calculations."*

8.9. On the proposal of taxes from non-aeronautical revenues IATA stated that

> *"These proposals makes sense. Aeronautical charges should not include taxes from non-aeronautical activities"*

8.10. On the proposal of truing up tax, IATA stated that,

> *"If the Authority plans to true up most of the building blocks, it will be natural to true up tax as well."*

D) HIAL's response to stakeholder comments on issues pertaining to Taxation

8.11. HIAL has not submitted any responses to comments made by stakeholders in the context of Taxation.

E) HIAL's own comments on issues pertaining to Taxation

8.12. HIAL has not submitted any comments on Authority's proposals submitted in the context of Taxation vide Consultation Paper No. 30/2017-18 dated 19.12.2017.

F) Authority's examination of stakeholder comments on issues pertaining to taxation

8.13. The Authority has carefully examined the comments made by the stakeholders in respect of taxation in the tariff determination for the 2^{nd} Control Period

8.14. The Authority has examined the comment made by IATA on sharing the financial model for providing more visibility into the calculations of tax. However, the Authority believes that all the relevant information has been clearly presented in the Consultation Paper No. 30/2017-18 dated 19.12.2017 and there is no need for any further information.

8.15. The Authority acknowledges IATA's support on truing up of taxes and not considering taxes from non-aeronautical activities as aeronautical charges. Accordingly, the Authority has decided to maintain its stance on the same.

Decision No. 8. Regarding Taxation

Based on the material before it and its analysis, the Authority decides:

8.a. To allocate HIAL's total tax between aeronautical and non-aeronautical based on the ratio of aeronautical and non-aeronautical taxes as per the respective Profit & Loss statement, as presented in Table 31.

8.b. To consider only aeronautical portion of HIAL's total taxes for the purpose of tariff determination.

8.c. To true up the (aeronautical) corporate taxes paid for the 2^{nd} Control Period at the time of tariff determination for the 3^{rd} Control Period.

9. NON-AERONAUTICAL REVENUE

A) HIAL Submission on Non-aeronautical revenue

9.1. The Authority's Order No. 38/2013-14 for the 1st Control Period for HIAL was based on single-till methodology where the entire amount of non-aeronautical revenues were considered to cross-subsidize aeronautical operations. Also, HIAL was allowed to recover in the form of tariffs, the expenditure incurred by the airport operator to earn these non-aeronautical revenues. However, due to the change in the regulatory mechanism to 30% shared-till as per HIAL's submission provided in chapter 5, para 5.2, only 30% of the non-aeronautical revenues shall now be used to cross-subsidize aeronautical operations.

9.2. HIAL, in its MYTP submission dated 25.03.2016 and revised submission dated 05.12.2016 has provided a breakup of the non-aeronautical revenue. The Authority has quoted HIAL's revised MYTP submission dated 05.12.2016 for the purpose of this section. HIAL has submitted that non-aeronautical revenues have been projected based on the following revenue drivers,

"...*ATM growth rate (ICF/SH&E report)*

- *Total passenger traffic growth rate (ICF/SH&E report)*
- *International passenger traffic growth rate (ICF/SH&E report)*
- *Cargo throughput growth rate (ICF/SH&E report)*
- *Contractual (Rentals, Minimum Guarantees, Common Area Maintenance etc), and*
- *Others (which cannot be forecasted based on specific growth factors)*

..."

HIAL Submission on ATM Growth Linked Revenue Streams

9.3. Regarding Fuel Farm Revenues, HIAL has submitted it receives two revenue streams from the Fuel Farm at RGIA including: (1) Capital Cost Recovery and (2) Throughput Royalty. HIAL also submitted the trends affecting fuel off-take at RGIA which include (a) A trend among airlines to opt for more fuel-efficient aircrafts (b) Domestic airlines having received permission from DGFT to directly import ATF and (c) Due to the higher VAT rate in Telangana, several airlines are opting to only top-up at RGIA and off-take bulk of their fuel requirement from other states. Consequently, HIAL has projected a negative impact of 10% on fuel throughput revenues at RGIA compared to the projected ATM growth.

9.4. With respect to the Ground handling revenue, HIAL submitted that revenues up to Q3 FY2015-16 is taken on actuals which is extrapolated for remaining 1 quarter of FY 2015-16 and then escalated by ATM growth rate for the 2nd Control Period. HIAL has used a similar projection for Fixed Electrical Ground Power revenue ("FEGP").

HIAL Submission on Passenger Growth Linked Revenue Streams

9.5. HIAL has submitted that revenues from in-flight kitchen service providers up to Q3 FY2015-16 is taken on actuals and extrapolated for remaining 1 quarter of the financial year. Revenue projections from FY 2016-17 to FY 2020-21 are based on growth rates applied on those FY 2015-16 figures. With respect to the trends in the revenue share from in-flight catering, HIAL cited trends like (a) High penetration of Low Cost Carriers, (b) shift towards 'Buy on Board' concept, (c) Price competition and (d) Back-catering major international carriers are reasons for slow growth and considered the growth rate at 5% below passenger traffic growth. HIAL submitted that it proposes to discontinue Common Infrastructure Charges and proposes to charge CUTE, CUSS and BRS IT services, separately in line with the practices prevailing in other airports. HIAL has also submitted to the Authority that the same should be considered non-aeronautical in nature. Regarding the Plaza lounge / Airport Lodge charges, HIAL submitted that revenues up to Q3 FY 2015-16 is taken at actuals and extrapolated for remaining 1 quarter of FY 2015-16. From FY 2016-17 onwards, revenues are escalated based on passenger traffic growth rate. HIAL stated that a higher growth rate cannot be used for projections due to the reasons including nature of traffic (primarily O&D), increased competition from boutique hotels and the lounge only attracting a specific niche of passengers.

9.6. HIAL submitted that its retail revenues comprise of the following:

(a) Concession Fee – which comes from fixed percentage share of revenues of retail concessionaires at the Airport. Concession Fee upto Q3 FY 2015-16 is taken on actuals, and extrapolated for remaining 1 quarter. From FY 2016-17 onwards, concession fee revenue is escalated by passenger traffic growth rate.

(b) Retail MAG – which as per the financial model is projected to increase at 5% p.a. and the same has been discussed along with contractual revenue streams.

9.7. Regarding Food and Beverages ("F&B") concessions at the RGIA, HIAL submitted that revenues up to Q3 FY 2015-16 has been taken at actuals, extrapolated for the reminding 1 quarter of FY 2015-16. From FY 2016-17 onwards, F&B revenues have been escalated by the passenger traffic growth rate citing reasons including increasing competition in the terminal and low passenger stopover times due to O&D nature of traffic.

9.8. HIAL submitted regarding car parking that revenues from collection of parking charges accrues to HIAL, and HIAL pays an Operator Fee/Management Fee to Tenaga Parking. HIAL submitted that revenues up to Q3 FY 2015-16 is taken on actuals and extrapolated for remaining 1 quarter of FY 2015-16. Revenues from FY 2016-17 onwards is extrapolated by passenger traffic growth rate.

9.9. The Authority notes HIAL's submission regarding the Radio Taxi revenues. HIAL has submitted that revenues up to Q3 FY 2015-16 is taken on actuals and extrapolated for remaining one quarter of FY 2015-16. From FY 2016-17 onwards, revenue share to HIAL has been assumed to increase based on passenger traffic. HIAL submitted that it has not considered any additional growth rate due to increasing competition from other prominent taxi operators such as Uber, Ola, etc. who have not entered into revenue sharing agreements with HIAL.

9.10. HIAL submitted that advertisement revenue is generally linked with passenger traffic growth as advertisement business depends on "eye contacts within and outside terminal from where the passengers are passing through." The projections submitted by HIAL are based on revenues of FY 2015-16 escalated at the passenger growth rate for each year of the 2nd Control Period. Revenue from promotions have also been projected in a similar manner.

HIAL Submission on revenue streams linked to International Passenger Growth

9.11. Regarding Duty Free revenues, HIAL has submitted that these operations have been concessioned out to Hyderabad Duty Free Retail Ltd. ("HDFRL") where the contract with

HDFRL specifies a percentage share of duty free revenues to be shared with HIAL; along with a minimum guaranteed amount. HIAL further submitted that Duty Free revenues for HIAL up to Q3 FY 2015-16 is taken on actuals and is extrapolated for remaining 1 quarter of FY 2015-16. From FY 2016-17 onwards, the concession fee is escalated by international passenger traffic growth rate as Duty Free revenues "are primarily in foreign currency".

9.12. Regarding the revenue from Forex Services, HIAL submitted that forex services at the RGIA are concessioned out to Weizmann Forex Ltd. ("Weizmann"). HIAL further submitted that revenues up to Q3 FY 2015-16 is taken on actuals and extrapolated for remaining 1 quarter of FY 2015-16. This From FY 2016-17 to FY 2020-21, these have been projected at the international passenger growth rate. Regarding the revenues from public admission fees, HIAL submitted that up to Q3 FY 2015-16 the revenue is taken at actuals which is extrapolated for remaining 1 quarter of FY 2015-16. HIAL explained that the revenues from FY 2016-17 onwards are projected on the basis of international passenger growth rate as a major portion of this revenue stream comes from the meeters and greeters of international passengers.

9.13. With respect to the cargo revenues, HIAL submitted to the Authority that Hyderabad Menzies Air Cargo Pvt Ltd ("HMACPL") has been concesssioned to operate a cargo terminal at RGIA. HIAL earns both revenue share and space rentals from HMACPL. HIAL further submitted that the cargo revenues up to Q3 FY 2015-16 is taken on actuals; which is extrapolated for remaining 1 quarter of FY 2015-16, and considered as the basis of projections for the 2nd Control Period.

9.14. HIAL's submission states that GHIAL receives 18% revenue share on the gross revenues. HMACPL revenues are projected separately for cargo volume-linked income and demurrage income. While cargo tonnage growth rates as per SH&E report have been applied to project revenues from domestic and international volume-linked revenue, demurrage income is expected to fall due to process improvement initiatives taken by the Customs Department. Hence de-growth of 60% is projected on Demurrage income in FY 2016-17 after which demurrage revenue is considered flat from FY 2017-18 to FY 2020-21 due to similar process improvements being undertaken by airlines.

HIAL Submission on Contractual Revenue Streams

9.15. HIAL submitted that rental income includes rent from airline offices, airline ticketing counters, ground handlers, government agencies, promotional counters, PTC, blue dart building, airline lounges, telecom, canteens, new office building and old site office, fuel station, common area maintenance (CAM) etc. HIAL explained that these revenues are contractual in nature and are therefore projected based on existing arrangements.

9.16. HIAL further explained that rental income upto Q3 FY 2015-16 is taken on actuals and extrapolated for the remaining 1 quarter of FY 2015-16. HIAL also acknowledged that additional rentals of Rs. 3 crores are expected from FY 2017-18 onwards for the additional commercial area resulting from HIAL's terminal expansion.

9.17. HIAL submitted that HMACPL (the cargo concessionaire) pays HIAL a fixed amount of Rs. 5.78 crores for each year. HIAL justified that it has not applied any growth rate on the rental as it is a contractual revenue stream.

9.18. Regarding the Minimum Guarantee Amount from Retail Concessionaires, HIAL submitted that if the contracted revenue share for a retailer falls below the contracted minimum guarantee amount. the concessionaire has to pay the minimum guarantee amount. HIAL submitted that the MAG up to Q3 FY 2015-16 is taken on actuals, and extrapolated for the remaining one quarter of FY 2015-16. Thereafter, it has been used as the base for projections for the 2nd Control Period.

9.19. Regarding license fee for airport lounges. HIAL submitted that from FY 2016-17. the license fee for the Premium Plaza lounge is escalated by 15% every 3 years fixed in contractual terms of the agreement between HIAL and Premium Plaza.

9.20. Regarding rentals from duty free operator, HIAL explained that HDFRL pays rentals for storage and office areas occupied by HDFRL at the airport which are escalated by 5% p.a. based on contractual terms.

9.21. HIAL submitted that in FY 2010-11, Weizmann paid HIAL a non-refundable premium of Rs. 13.74 crores which is being amortized and recognized as revenue over a period of 7 years. HIAL also called this is a contractual revenue stream, the impact of which shall end in FY 2018-19.

9.22. HIAL's submission regarding revenues from Other Revenue Streams (Miscellaneous Income) explains that this comprises revenues from airport entry passes (AEP), I.T., permits, airline security, filming and paid porters. HIAL stated that since Miscellaneous Income is not directly linked to any growth driver HIAL has projected this as a constant revenue stream.

9.23. Regarding the other adjustments to non-aero revenues, HIAL stated that in line with the Authority's Order No. 38/2013-14, interest and dividend income have been excluded from tariff calculations. HIAL also stated that it has excluded revenues from non-airport land and non-airport activities for the purpose of tariff determination.

9.24. HIAL further submitted with respect to the ATC rentals that these are being classified as aeronautical revenues and are hence not being included in their projections for rentals.

9.25. The Authority also notes HIAL's submission regarding incidental revenues in the form of rentals; which HIAL has adjusted against off against total operating expenses. HIAL has explained that it earns rentals from its office facilities leased to other entities.

9.26. HIAL further explained that such space is rented out by HIAL pending its utilization for common airport activities due to airport expansion. HIAL has excluded this income from non-aeronautical revenues and netted them off against total operating expenses, in line with the Concept Note attached to their MYTP submission for the 2nd Control Period. The summary of non-aeronautical revenues thus requested by HIAL via the MYTP submission, for tariff determination for 2nd Control Period is as under:

Table 32: Projections for non-aeronautical revenue for the 2nd Control Period as per HIAL's MYTP submission dated 05.12.2016

Revenue From Other Sources (Rs. In crore)	2016	2017	2018	2019	2020	2021	Aggregate 2nd CP
In-flight Kitchen							
Revenue Share	5.49	5.82	6.13	6.42	6.7	6.94	32.01
Lease Rentals	1.02	1.07	1.12	1.18	1.24	1.3	5.91
IFK Revenues	6.51	6.89	7.25	7.6	7.94	8.24	**37.92**
Ground Handling							
% additional growth over ATM growth rate	0%	0%	0%	0%	0%	0%	
Concession Fee	9.55	10.51	11.51	12.54	13.61	14.68	62.85
Revenue Share to GHIAL	0	20.06	22.14	24.29	26.55	28.85	121.89
Ground Power Unit	0.95	1.05	1.15	1.25	1.36	1.46	6.27
Ground Handling Revenue	10.5	31.62	34.8	38.08	41.52	44.99	**191.01**
Fuel Farm							
Fuel Farm Revenue	71.67	71.7	71.35	70.58	69.55	68.06	**351.24**
Cargo							
Cargo Revenue	10.29	11.26	12.27	13.32	14.45	15.6	66.9
Demurrage Revenue	4.25	1.7	1.7	1.7	1.7	1.7	8.5
Cargo - Concession Fee	14.54	12.96	13.97	15.02	16.15	17.3	75.4
% revenue share	0	0.18	0.18	0.18	0.18	0.18	0.9
Cargo - Rentals	5.78	5.78	5.78	5.78	5.78	5.78	28.9
Cargo Revenue	20.32	18.74	19.75	20.8	21.93	23.08	**104.3**
Duty Free Revenue Share (Rs. crores)	18.76	21.65	24.68	27.83	31.17	34.6	139.93
Duty free Rental (Rs. crores)	0.33	0.35	0.36	0.38	0.4	0.42	1.91
Duty Free	19.09	22	25.04	28.21	31.57	35.02	**141.84**
Retail MAG Income	23.22	24.38	25.6	26.88	28.22	29.63	134.71
Retail Revenue Share	2.93	3.25	3.59	3.94	4.31	4.68	19.77
Retail	26.15	27.63	29.19	30.82	32.53	34.31	**154.48**
Forex							
Revenue Share	9.2	10.2	11.25	12.35	13.51	14.7	62.01
Upfront Non-Refundable Premium	1.96	1.96	1.96	0.34	0	0	4.26
Forex services	11.16	12.16	13.21	12.69	13.51	14.7	**66.27**
Plaza Lounge							
License Fee	2.08	2.39	2.39	2.39	2.75	2.75	12.67

Revenue Share - Plaza & Airport Lodge	2.41	2.67	2.95	3.23	3.54	3.84	16.23
Plaza Lounge	4.49	5.06	5.34	5.62	6.29	6.59	**28.9**
Food & Beverage							
Food & Beverage	18.56	20.62	22.75	24.96	27.29	29.65	**125.27**
Rentals							
From Others	42.87	45.01	47.26	49.63	52.11	54.71	248.72
Rentals from additional space post-expansion	0	0	3	3.15	3.31	3.47	12.93
Rentals	42.87	45.01	50.26	52.78	55.42	58.18	**261.65**
Advertisement & Promotions							
Advertisement	26.85	29.82	32.91	36.11	39.47	42.89	**181.2**
Radio Taxi							
Radio Taxi	8.82	9.79	10.81	11.86	12.97	14.09	**59.52**
Car Parking charges							
Car Parking charges	28.26	31.38	34.63	37.99	41.54	45.13	**190.67**
Public Admission Fee							
Public Admission Fee	9.74	10.8	11.91	13.07	14.3	15.56	**65.64**
Miscellaneous Income							
Miscellaneous Income	8.97	8.97	8.97	8.97	8.97	8.97	**44.85**
Total non-aero revenues		352.25	378.27	400.2	424.84	449.52	**2005.08**

9.27. Subsequent to the MYTP submission dated 05.12.2016, HIAL submitted a revised tariff determination model via its response e-mail dated 28.01.2017. In the revised financial model projections were based on HIAL's audited financial results of FY 2015-16. Summary of non-aeronautical revenues submitted by HIAL for the tariff determination of the 2nd Control Period is as under,

Table 33: Projections for non-aeronautical revenue for the 2nd Control Period as per HIAL's revised tariff financial model dated 28.01.2017

Revenue From Other Sources	2016	2017	2018	2019	2020	2021	Aggregate 2nd CP
In-flight Kitchen							
Revenue Share	6.23	6.61	6.97	7.29	7.61	7.88	**36.36**
Lease Rentals	1.01	1.06	1.11	1.17	1.23	1.29	**5.86**
IFK Revenues	7.24	7.67	8.08	8.46	8.84	9.17	**42.22**
Ground Handling							
% additional growth over ATM growth rate	0%	0%	0%	0%	0%	0%	
Concession Fee	9.02	9.93	10.87	11.84	12.85	13.86	**59.35**
CUTE, CUSS & BRS (IT charges)		56.19	62.02	68.04	74.38	80.82	**341.45**
% Revenue Share		0.36	0.36	0.36	0.36	0.36	**1.8**
Revenue Share to GHIAL	0	20.23	22.33	24.49	26.78	29.09	**122.92**
Ground Power Unit	1.06	1.17	1.28	1.39	1.51	1.63	**6.98**
Ground Handling Revenue	10.08	31.32	34.48	37.72	41.14	44.58	**189.24**
Fuel Farm							
Fuel Throughput	320865	320973	319424	315969	311343	304660	**1572369**
Throughput Royalty	0	21.51	21.4	21.17	20.86	20.41	**105.35**
Capital Cost Recovery	0	48.15	47.91	47.4	46.7	45.7	**235.86**
Fuel Farm Revenue	69.63	69.65	69.32	68.57	67.56	66.11	**341.21**
Cargo							
Cargo Revenue	58.89	64.44	70.22	76.23	82.65	89.28	**382.82**
Demurrage Revenue	28.26	11.3	11.3	11.3	11.3	11.3	**56.5**
Cargo Revenue	87.15	75.74	81.52	87.53	93.95	100.58	**439.32**
% revenue share	0	0.18	0.18	0.18	0.18	0.18	**0.9**
Cargo - Concession Fee	15.51	13.63	14.67	15.76	16.91	18.1	**79.07**
Cargo - Rentals	5.78	5.78	5.78	5.78	5.78	5.78	**28.9**
Cargo Revenue	21.29	19.41	20.45	21.54	22.69	23.88	**107.97**
Minimum Annual Guarantee (USD / Intl. Pax)	0	0.75	0.75	0.75	0.75	0.75	**3.75**
MAG (Rs. crores)	0	17.2	18.97	20.81	22.77	24.77	**104.52**
Sales per Pax (USD / Intl. Pax)	3.62	3.62	3.62	3.62	3.62	3.62	**18.1**
Duty Free Sales (USD mn)	11.24	12.43	13.71	15.03	16.45	17.9	**75.52**
Revenue Share (Rs. crores)	21.36	21.36	24.35	27.46	30.76	34.14	**138.07**
Rental (Rs. crores)	0.33	0.35	0.36	0.38	0.4	0.42	**1.91**
Duty Free	21.69	21.71	24.71	27.84	31.16	34.56	**139.98**
Retail MAG Income	18.25	19.16	20.12	21.13	22.18	23.29	**105.88**

Retail Revenue Share	8.91	9.89	10.92	11.98	13.1	14.23	**60.12**
Retail	27.16	29.06	31.04	33.11	35.28	37.52	**166.01**
Forex							
Revenue Share	8.34	9.25	10.2	11.19	12.24	13.32	**56.2**
Upfront Non-Refundable Premium	1.96	1.96	1.96	0.34	0	0	**4.26**
Common Area Maintenance	0.04	0.05	0.05	0.05	0.05	0.06	**0.26**
Forex services	10.34	11.26	12.21	11.58	12.29	13.37	**60.71**
Plaza Lounge							
License Fee	3.8	4.37	4.37	4.37	5.03	5.03	**23.17**
Escalation Year	2	3	4	5	6	7	**25**
Revenue Share - Plaza & Airport Lodge	1.57	1.74	1.92	2.11	2.31	2.51	**10.59**
Plaza Lounge	5.37	6.11	6.29	6.48	7.33	7.53	**33.74**
Food & Beverage							
Food & Beverage	19.59	21.75	24.01	26.34	28.8	31.29	**132.19**
Rentals							
From non-Airport land	4.7	4.94	5.18	5.44	5.71	6	**27.27**
From Others	42.07	44.17	46.38	48.7	51.14	53.69	**244.08**
Rentals from additional space post-expansion	0	0	3	3.15	3.31	3.47	**12.93**
Rentals	46.77	49.11	54.56	57.29	60.16	63.16	**284.28**
Advertisement & Promotions							
Revenue Share	25.42	28.23	31.16	34.18	37.37	40.6	**171.54**
Promotions	0.1	0.11	0.12	0.13	0.15	0.16	**0.67**
Advertisement	25.52	28.34	31.28	34.31	37.51	40.76	**172.2**
Radio Taxi							
Radio Taxi	7.55	8.38	9.25	10.15	11.1	12.06	**50.94**
Car Parking charges							
Car Parking charges	30.98	34.4	37.97	41.66	45.54	49.48	**209.05**
Public Admission Fee							
Public Admission Fee	9.74	10.8	11.91	13.07	14.3	15.56	**65.64**
Miscellaneous Income							
Miscellaneous Income	9.11	9.11	9.11	9.11	9.11	9.11	**45.55**
CGF	101	120.39	124.24	127.83	131.39	134.58	**638.43**
Total (excluding CGF)	221.06	237.71	260.45	279.41	301.42	323.58	**1402.57**
Total	**322.06**	**358.09**	**384.69**	**407.23**	**432.81**	**458.16**	**2040.98**
Less: Rentals from non-airport land	4.7	4.94	5.18	5.44	5.71	6.00	**27.27**
Revenue other than regulated charges	**317.36**	**353.15**	**379.51**	**401.79**	**427.1**	**452.16**	**2013.71**

B) Authority's Examination of HIAL Submissions on Non-Aeronautical Revenue

9.28. The Authority takes note of HIAL's submission regarding the adoption of 30% shared till by virtue of which only 30% of non-aeronautical revenues will be used to cross-subsidise aeronautical charges. The Authority proposes to accept HIAL's submission in this regard as discussed in chapter 2, paras 2.1 to 2.3.

9.29. The Authority has noted from the above submissions that the differences in the projections for non-aeronautical revenues between the two MYTP submissions and the financial model are on account of the tariff determination model being updated with the audited financial results of FY 2015-16. This update has resulted in a change in base revenues (FY 2015-16) which are used for projections over the 2nd Control Period. Accordingly, the Authority proposes to evaluate HIAL's submissions considering this revised base of FY 2015-16.

9.30. The Authority proposes to maintain its stance and consider revenues from services of cargo, ground handling and fuel farm assets as aeronautical revenue in the hands of the Airport Operator, irrespective of whether these services are provided by the Airport Operator itself or concessioned out to third parties. The Authority's stand has been further elucidated in chapter 5, paras 5.40 to 5.43.

9.31. Further, the Authority noted in chapter 5, para 5.45 that HIAL in its concept note on allocation methodology had included vehicle fuelling services in the list of non-aeronautical services. In addition, HIAL, in response to a query dated 16.01.2017 had submitted on 14.02.2017 that the vehicle fuelling services had been concessioned to BPCL and also provided an auditor certificate for the revenues earned by HIAL from BPCL. Based on the rationale discussed by the Authority in chapter 5, para 5.45 wherein these services have been categorised as incidental to aircraft operations, the Authority proposes to include these as aeronautical revenues within the regulatory purview for tariff determination purposes.

9.32. The Authority also noted HIAL's proposal to discontinue Common Infrastructure Charges ("CIC") and merge the same with UDF. The Authority also notes that HIAL intends to separate CUTE, CUSS and BRS IT services from CIC and treat the same as non-aeronautical revenues. The Authority took the view that while HIAL may separate the three abovementioned charges, treating them as non-aeronautical revenues would not be appropriate as they are part of the overall ground handling activity, which itself has been treated as an aeronautical service. Accordingly, the Authority proposed to consider revenues from CUTE, CUSS and BRS IT services as aeronautical.

9.33. Further, the Authority also took note that HIAL has not considered any inflationary increase in its MYTP submissions while projecting non-aeronautical revenues. However, the Authority proposed to consider inflation (change in WPI) in the projections over and above the increase in real terms projected by HIAL. A WPI of 3.9% p.a. has been proposed by the Authority based on the Results of Round 44 of Survey of Professional Forecasters on Macroeconomic Indicators conducted by the RBI mentioned in chapter 11, para 11.3 and 11.4.

9.34. The Authority also is of the view that many projects such as terminal expansion etc. will be taken up during the 2nd Control Period, which has led to higher uncertainties in projecting non-aeronautical revenues. Hence, the Authority proposes to true-up the non-aeronautical revenues based on actual financial results of HIAL.

9.35. The Authority's examination of the HIAL's submission for non-aeronautical revenues for the 2nd Control Period has been presented below.

Passenger traffic growth linked revenue streams

In-Flight Kitchen ("IFK") Revenue

9.36. The Authority noted HIAL's rationale for projecting revenue share from in-flight catering services at 5% below the domestic passenger traffic growth. However, the Authority proposes to project the revenue share from in-flight kitchen services based on the growth rate of domestic passenger traffic along with inflation. Further, in case HIAL is not able to generate the projected revenues, the Authority proposes to true-up the cross subsidy on account of IFK at the time of tariff determination of the 3rd Control Period.

Retail concession fee

9.37. As retail performance may be linked to passenger traffic, HIAL has projected retail concession fee for the 2nd Control Period based on growth rate of passenger traffic and the growth in spending per passenger (which however is projected to be 0% by HIAL for 2nd Control Period).

9.38. The Authority proposes to accept the approach submitted by HIAL with the exception that spending per passenger (which is projected to be 0% by HIAL for 2nd Control Period) shall change to the projected inflation rate of 3.9% p.a.

Revenue from lounge share

9.39. The Authority has proposed to accept the total passenger traffic as the growth driver for the revenue share from the plaza lounge and airport lodge, yet, proposes to add an inflationary increase to project the revenue share per passenger earned by HIAL for the 2nd Control Period.

F&B revenues

9.40. The Authority notes HIAL's rationale for projecting lower growth in F&B revenues and expecting spending per passenger to remain unchanged over the 2nd Control Period. The Authority accepts HIAL's submission of linking F&B revenues to passenger traffic. However, the Authority proposes to add an inflationary increase to F&B revenues in addition to the increase due to passenger traffic for projecting F&B revenues for the 2nd Control Period.

Radio taxi revenue share

9.41. The Authority notes HIAL's submission regarding the revenue share from radio taxi. The Authority proposes to accept HIAL's submission of linking radio taxi revenues to passenger traffic. However, the Authority proposes to add an inflationary increase in addition to the increase due to passenger traffic.

Car parking revenues

9.42. The Authority proposes to accept HIAL's submission of linking car parking revenues to passenger traffic but also proposes to consider an inflationary increase over the projections submitted by HIAL for tariff determination for 2nd Control Period.

Advertising revenue share

9.43. HIAL has considered the revenues in FY 2015-16 as the base and projected the revenues at the passenger growth rate for each year of the 2nd Control Period. The Authority accepts HIAL's basis of projection regarding advertisement revenue share. However, the Authority additionally proposes to consider an inflationary increase over and above the projections submitted by HIAL for the 2nd Control Period.

International passenger traffic growth linked revenue streams

Duty Free revenue share

9.44. The Authority accepts HIAL's submission of linking Duty Free revenues to international passenger traffic for projecting revenues over the 2nd Control Period. However, the Authority proposes to consider an inflationary increase over and above the projections submitted by HIAL for the 2nd Control Period.

Forex services revenue share

9.45. The Authority accepts HIAL's submission of linking forex service revenues to international passenger traffic. The Authority accordingly proposes to consider the principle submitted by HIAL for tariff determination for the 2nd Control Period.

9.46. The Authority is also of the view that depreciation and appreciation of exchange rates take into account inflation in the economy. Thus, revenue share from forex services would not require an inflationary adjustment over and above the international passenger growth rate.

Public Admission fees

9.47. The Authority accepts HIAL's submission of linking revenues from public admission fees to international passenger traffic, however, the Authority proposes to consider an inflationary increase over and above the projections submitted by HIAL for the 2nd Control Period.

Contractual revenue streams

Rental Income

9.48. The Authority notes the constituents of HIAL's rental revenues and that HIAL has projected the rental revenue streams based on contracts and existing arrangements. The Authority understands that these revenues are already projected on nominal basis and would not require a separate inflationary adjustment.

9.49. The Authority accepts HIAL's submission of escalating the rentals by 5% and proposes to consider the projections towards tariff determination for the 2nd Control Period. The Authority is of the view that once the terminal expansion is completed, the Authority will consider the level of actual non-aeronautical revenue and will true it up in the review period.

Fixed Rental from Cargo Concessionaire

9.50. The Authority notes HIAL's submission that HIAL received a fixed rental of Rs. 5.78 crores p.a. from HMACPL. HIAL has submitted that this revenue stream is contractual, and hence the Authority proposes to accept HIAL's projection in this regard.

Retail MAG revenue:

9.51. The Authority further notes that HIAL has considered an annual escalation of 5% p.a. in MAG from the base year revenues in FY 2015-16. The Authority proposes to accept HIAL's projections and to consider the same towards determination of aeronautical tariffs for the RGIA for the 2nd Control Period.

Premium Plaza License Fee

9.52. The Authority accepts HIAL's submission of license fees being escalated by 15% every 3 years (fixed in the contractual terms of the agreement between HIAL and Premium Plaza).

License Fee from Duty Free

9.53. HIAL has projected HDFRL rentals to escalate by 5% on an annual basis, based on contractual terms. The Authority accepts HIAL's submission.

Lease Rentals from In-flight kitchen

9.54. The Authority notes from HIAL's submission that lease rentals from In-flight kitchen are contractually escalated by 5% throughout the 2nd Control Period. The Authority accepts HIAL's submission and proposes to consider HIAL's projections for the same towards tariff determination for the 2nd Control Period.

Amortization of Non-Refundable Premium from Forex Services

9.55. Regarding the non-refundable premium of Rs. 13.74 crores, the Authority also notes that while HIAL's MYTP submission dated 05.12.2016 mentions that the revenue impact will end in FY 2017-18, HIAL's amortization table shows that an amount of Rs. 0.34 crores would continue till FY 2018-19. The Authority proposes to consider HIAL's amortization table towards tariff determination for the 2nd Control Period.

Miscellaneous income

9.56. The Authority notes from HIAL's submission that as miscellaneous income is not directly linked to any growth driver, it is considered as a constant revenue stream for the 2nd Control Period. The Authority proposes to accept HIAL's submission on the above.

Other adjustments to Non-aero revenues

9.57. As per HIAL's MYTP submissions dated 25.03.2016 and 05.12.2016 the interest and dividend income from HIAL's subsidiaries, had not been considered in the estimation of revenues from both regulated charges other than regulated charges. The Authority notes that HIAL received interest and dividend income from two of its subsidiaries Hyderabad Duty Free Retail Limited and Hyderabad Menzies Air Cargo Pvt. Ltd. The Authority has examined HIAL's comment on the treatment of dividend and interest income received from cargo and duty free subsidiaries. Given that the Authority has considered cargo as an aeronautical activity, the corresponding revenues from the cargo subsidiary have also been considered as aeronautical revenues. Similarly, revenues from duty free services have been treated as non-aeronautical income and accordingly, the Authority proposes to include the dividend and interest incomes received from Hyderabad Duty Free Retail Ltd as non-aeronautical income.

9.58. Further, the Authority observed that the interest income from subsidiaries did not reconcile with the interest income stated by HIAL in its revised tariff financial model dated 28.01.2017 for the period FY 2008-09 to FY 2015-16. In this context, the Authority, sought from HIAL auditor certificates providing the break-up of the certified interest income into interest received from its subsidiaries, interest income received from other entities, other income received from its subsidiaries (which are clubbed with interest in the certificate) and any other income from other entities (which is clubbed with interest in the certificate). Through its reply dated 22.05.2017, HIAL provided a break-up of the same. The Authority took note of the interest and other incomes that HIAL had considered as neither aeronautical nor non-aeronautical. The Authority had opined that it would not want to interfere in managing HIAL's day-to-day operations and accordingly decided not to consider interest income other than those from its subsidiaries, profit on sale of current investments, write back of provisions no longer required, profit on sale of discarding assets, and other non-operating income while determining aeronautical tariff for RGI airport for the 2nd Control Period. Moreover, the Authority has decided to further review its stance on this treatment based on consultations with stakeholders while determining tariff for the 3rd Control Period.

9.59. Further, the Authority notes that HIAL has earned income from FY 2010-11 to FY 2012-13 through the sale of scrips under the Served From India Scheme (SFIS). The Authority vide its query email dated 13.06.2017, sought a clarification in the form of an auditor certificate from HIAL regarding the different airport operations that led to the generation of such foreign income. In its response dated 13.07.2017, HIAL submitted that "Under the Foreign Trade Policy 2009-14, GHIAL was eligible for SFIS scrips till December '10 only. Accordingly, GHIAL applied for and received SFIS scrips for Deemed Foreign Exchange Earnings till December 2010 only. As allowed under the Scheme, calculation of SFIS Scripts had been done based on deemed foreign exchange earnings and not on the actual foreign exchange earnings. The Authority proposes to allocate the realized income from SFIS scrips between aeronautical and non-aeronautical based on the allocation of income that resulted in earning these SFIS scrips.

9.60. The Authority also observed that HIAL has treated income arising out of reversal of loss on revaluation of inventory as income outside the regulatory purview. The Authority would like to point out that in the 1st Control Period, the loss due to revaluation of inventory was treated as an aeronautical expense and included in the determination of tariff. In such a situation, the Authority does not see a valid reason for keeping the income from reversal of this loss outside its purview in the 2nd Control Period. Accordingly, the Authority proposes to treat the income as aeronautical to be considered in the tariff determination for HIAL.

9.61. In the context of gains on exchange fluctuation, the Authority notes that while HIAL has requested for capitalisation of forex losses to be considered in the estimation of RAB, as per its MYTP submission dated 25.03.2016 and revised submission dated 05.12.2016, the gains on exchange fluctuation have been considered outside the regulatory purview. The Authority, however, notes that while the benefits of lower interest rates are shared with airport users, losses arising on account of foreign exchange fluctuations are absorbed by the airport operator. Therefore, based on its rationale provided in chapter 7, paras 7.74 to 7.75, the Authority proposes to consider these gains as part of tariff determination and allow HIAL to recover forex losses to the extent that the effective cost of borrowing in foreign currency net of forex gains, is not higher than the cost of RTLs.

9.62. In the context of rentals from ATC facilities, the Authority observed that these rentals had not been added to the other non-aeronautical rentals and instead classified as an aeronautical revenue stream, as per HIAL's MYTP submission. The Authority accepts the treatment of ATC rentals being classified as an aeronautical income and proposes to include the rentals from ATC facilities within 'Revenues from regulated charges.'

9.63. Further, the Authority notes from the tariff determination model as submitted by HIAL on 28.01.2017 that the incidental revenue from project site office (PSO) and new office building (NOB) is being netted off from the operating expenditure. However, the Authority proposes to modify this treatment and allocate rental revenues from PSO and NOB as part of non-aeronautical revenues.

9.64. The Authority also notes that HIAL has earned a rental of Rs. 0.84 crore from the employee township in FY 2015-16. As per HIAL's financial model, this has been netted off against aeronautical operating expenses. The Authority proposes to treat this as a revenue item instead of netting it with operating expenses. Also, the Authority proposes to allocate this expenditure between aeronautical and non-aeronautical in the ratio of gross block of Employee Township.

9.65. The Authority noted that HIAL has netted off the concession fee paid to the Government of India from the non-aeronautical revenues before computing the 30% cross-subsidy from non-aeronautical operations. The Authority understands that in a 30% shared till mechanism the entire non-aeronautical revenue needs to be considered for cross-subsidy. Hence, the Authority proposes not to net-off the concession fee while computing the amount of cross subsidy.

Treatment of income from real estate development

9.66. The Authority vide its Order No. 38/2013-14 for the 1st Control Period of HIAL mentioned that it understood that the real estate development or commercial development on land may be subject to land zoning restrictions of the local bodies or in other specific covenants or special acts like the Airports Authority of India Act, etc. Additionally, they may also be governed by the covenants of other agreements entered into by the public authorities with the airport operator (for example, OMDA or Lease Agreement, etc.). The treatment considered by the Authority in respect of land in excess of airport requirement for HIAL has been discussed in the following paras which talk about the Authority's approach in this regard.

9.67. The Authority had proposed in the Consultation Paper No 09/2013-14 dated 21.05.2013 that it would reduce the market value or sale value (premium lease) of land from the RAB to bring about a nexus between real estate development and interest of the passengers. Since the land was acquired and leased to HIAL by the GoAP, the Authority had separately sought the views of the GoAP on this issue, which recommended the treatment of income from real estate to be treated as non-aeronautical revenue, but the state didn't comment on reduction of market value of land from RAB. Accordingly, for the 1st Control Period, the Authority did not proceed with its proposed treatment of reducing RAB by the market value of land and instead adopted the recommendation of the GoAP to treat real estate income as non-aeronautical revenue.

9.68. Based on the above context, and given the scenario of following a 30% shared till (compared to a single till which was followed as per Order No. 38/2013-14), the Authority proposed to consider property development as a non-aeronautical activity. Accordingly, the income from property development would be used to cross-subsidize airport operations to the extent of 30% and any expenditure associated with these revenues would not be allowed through RAB or Operating Expenses.

9.69. Based on the above examination, the non-aeronautical revenues for the 2nd Control Period to be considered by the Authority are as below:

Table 34: Non-aeronautical revenues considered by the Authority for the 2nd Control Period

Revenue From Other Sources (in Rs. Crores)	2017	2018	2019	2020	2021	Aggregate 2nd CP
In-flight Kitchen						
Revenue Share	8.23	9.60	11.20	13.07	15.24	57.34
Lease Rentals	1.06	1.11	1.17	1.23	1.29	5.86
IFK Revenues (a)	**9.29**	**10.71**	**12.37**	**14.29**	**16.53**	**63.20**
Duty Free						
Minimum Annual Guarantee (USD / Intl. Pax)	0.75	0.75	0.75	0.75	0.75	3.75
MAG (Rs. crores)	16.88	18.26	20.05	22.03	24.19	101.41
Sales per Pax (USD / Intl. Pax)	3.76	3.91	4.06	4.22	4.38	20.32
Duty Free Sales (USD mn)	12.67	14.24	16.25	18.55	21.16	82.87
Revenue Share (Rs. crores)	21.93	25.60	30.30	35.66	41.78	155.27
Rental (Rs. crores)	0.35	0.36	0.38	0.40	0.42	1.91
Duty free Revenue (b)	**22.27**	**25.96**	**30.68**	**36.06**	**42.20**	**157.18**
Forex						
Revenue Share	8.90	9.63	10.57	11.61	12.76	53.47
Upfront Non-Refundable Premium	1.96	1.96	0.34	0.00	0.00	4.27
Common Area Maintenance	0.04	0.05	0.05	0.05	0.05	0.24
Forex services Revenue (c)	**10.91**	**11.64**	**10.96**	**11.66**	**12.81**	**57.98**
Plaza Lounge						
License Fee	4.37	4.37	4.37	5.03	5.03	23.16
Escalation year	3.00	4.00	5.00	6.00	7.00	
Revenue Share - Plaza & Airport Lodge	1.97	2.28	2.65	3.08	3.57	13.55
Plaza Lounge Revenue (d)	**6.34**	**6.65**	**7.02**	**8.10**	**8.60**	**36.71**
Retail Income						
Retail MAG Income	19.16	20.12	21.13	22.18	23.29	105.88
Retail Revenue Share	11.19	12.95	15.04	17.46	20.28	76.92
Retail Revenue (e)	**30.35**	**33.07**	**36.16**	**39.64**	**43.57**	**182.80**
Food & Beverage						
Food & Beverage Revenue (f)	**24.60**	**28.48**	**33.06**	**38.39**	**44.58**	**169.12**
Rentals						
From non-Airport land	0.00	0.00	0.00	0.00	0.00	0.00

From Others	44.95	47.20	52.71	58.65	65.06	268.57
Rentals from additional space post-expansion	0.00	3.00	3.15	3.31	3.47	12.93
Revenue from Rentals (g)	**44.95**	**50.20**	**55.86**	**61.96**	**68.53**	**281.50**
Advertisement & Promotions						
Revenue Share	31.93	36.95	42.90	49.82	57.85	219.45
Promotions	0.13	0.15	0.17	0.20	0.23	0.86
Advertisement Revenue (h)	**32.05**	**37.10**	**43.07**	**50.01**	**58.07**	**220.31**
Radio Taxi						
Radio Taxi (i)	9.48	10.98	12.74	14.80	17.18	65.18
Car Parking charges						
Car Parking charges (j)	38.91	45.03	52.29	60.71	70.50	267.44
Public Admission Fee						
Public Admission Fee (k)	10.80	12.14	13.85	15.81	18.04	70.65
Miscellaneous Income						
Miscellaneous Income (l)	9.11	9.11	9.11	9.11	9.11	45.55
Incidental Income						
Non-Revenue from NOB (m)	1.47	1.54	1.62	1.70	1.79	8.12
Revenue from project site (n)	1.54	1.62	1.70	1.79	1.88	8.53
Interest & Dividend from Duty Free Subsidiary (o)	2.64	2.64	2.64	2.64	2.64	13.19
Employee Township (p)	0.22	0.23	0.24	0.26	0.27	1.22
Total Non-aeronautical Revenue (a+b+c+d+e+f+g+h+i+j+k+l+m+n+o+p)	**254.95**	**287.10**	**323.39**	**366.94**	**416.30**	**1648.67**

C) Stakeholder comments on issues pertaining to Non-aeronautical revenues

9.70. As part of the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No. 30/2017-18 dated 19.12.2017. Stakeholders have also commented on issues pertaining to non-aeronautical revenues in respect of RGI Airport, Hyderabad. These comments are presented below:

9.71. On the subject of treatment of ground handling, cargo, fuel and other related revenues, IATA stated as follows,

> "…Fully support considering Ground Handling, cargo, and fuel as part of the revenues from regulated charges. Also support the same treatment for CUSS, CUTEW & BRS IT …"

9.72. In relation to the assumptions underpinning Table 39 vide Consultation Paper No. 30/2017-18 dated 19.12.2017, IATA made the following comments,

"Support the treatment of including inflation in the non-aeronautical projections.

We note that the additional terminal space should have a considerable impact on certain non-aeronautical activities, which should also be reflected in the forecasts. We note that the authority proposes to true-up non-aeronautical revenues due to this effect. However, it may be prudent to put a "floor" or minimum expected revenues in order to appropriately incentivize the company to maximize the non-aeronautical revenues.

On forex, while exchange rates may vary, the main source of revenue comes from the commission that customers are charged per transaction. As such, an inflationary component should also be considered.

On the remaining growth-related streams, we broadly agree with the assumptions. However, the Authority may need to take into account the following:

> *Additional number of passengers allow for economies of scope (more specialized retail outlets, which increases the amount spent per passenger)*
>
> *The Authority may need to compare the average non-aeronautical income from other regulated airports in India and then take a view whether HIAL has the potential to better managed revenues from such activities.*

For those components that are fixed (or subject to minimum payments), the Authority should consider where the terminal expansion would affect those revenues (additional retail areas, F&B, duty free, etc)."

9.73. On the subject of truing up revenues, IATA stated that

"Given the capex involved during the period, there may be a need to true up revenues. However, we urge the authority to be cautions when truing up since it removes incentives to outperform and could also validate inefficiency."

9.74. Additionally, IATA has expressed agreement with the Authority's assumptions and proposals on non-aeronautical revenues.

9.75. On the subject of determination of Fuel Throughput Charges, Indian Oil Corporation Ltd. stated that the fuel throughput charge of Rs. 2170 per KL (excluding service tax) is significantly higher than the charges at other open access airports. Both Indian Oil Corporation Ltd. and Bharat Petroleum Corporation Limited (BPCL) submitted that the charges need to be brought down and such revision should be done on prospective basis. IOCL's submission on the matter has been reproduced below,

"It is observed that the Fuel throughput charges proposed is similar to the earlier rate ie, Rs 2170/- per KL excluding service tax, which will remain constant till 31.03.2021. The proposed throughput fee is much higher as compared to fuel throughput charges at other open access airport.

We would like to submit that continuation of charging such high throughput rate will attract criticism from the airlines and hence request you to kindly review the same and brought down to a rational level.

We would also request you that revision in the throughput charges if any, may only be done on prospective basis."

Treatment of income from real estate development

9.76. Responding to the Authority's proposed treatment of considering income from real estate development as non-aeronautical revenue as given in the Consultation Paper No. 30/2017-18 dated 19.12.2017, both BIAL and APAO maintained that HIAL was granted unrestricted right to determine charges pertaining to activities other than for which Regulated Charges are to be levied as mentioned in Schedule 6 of the Concession Agreement. The two stakeholders further pointed that Schedule 3 (Part 2) of the Concession Agreement provides a list of activities that is to be considered as Non-airport activities. APAO held that, "We are of the strong opinion that there is no provision w.r.t cross-subsidizing the aero revenue using the revenues from Non-Airport Activities/income from real estate." According to APAO, therefore, the Authority's proposal goes against the provisions of its concessions.

9.77. BIAL opined that, "As per the provisions of the AERA Act 2008, AERA is authorised to determine charges pertaining to the aeronautical service charges at the Airport. To consider the land earmarked for Non-Airport activities for determination of Airport Charges is beyond the jurisdiction of AERA."

9.78. APAO further observed that given the risky nature of airport operations, land was provided for commercial purposes to airport operators to tap into additional sources of revenue to ensure sufficient returns on the capital employed for the airport project. Further, BIAL submitted that the land offered to BIAL and HIAL in excess of airport land required "considerable investment and entrepreneurial ability" given the remote location of the airport and limited socio-economic development in the vicinity. BIAL further submitted that the lack of network infrastructure and commercial development in the vicinity of the airport has made land development more capital intensive and also fraught with risks. BIAL observed that commercial development of an area depends on increased investment and robust business sense and thus, merely having an airport in the surrounding area would not suffice. APAO stated that such a treatment would "significantly affect the feasibility of the Non-Airport activity component of the project", while BIAL commented that it "goes against the spirit of entrepreneurship".

9.79. APAO also pointed to past precedence of the Authority keeping income generated from real estate development outside its regulatory purview based on concessions granted to the airport operator.

9.80. In addition, BIAL referred to the Authority's response to the GoAP in HIAL's Order No. 38/2013-14 for 1st Control Period, wherein the Authority had not agreed to GoAP's request of creating a sinking fund to match the timelines of refund of security deposits collected from Non-Airport/Real Estate activities on the ground that it would go beyond the regulatory ambit. The Authority had held that the repayment obligation of the security deposit solely depends on HIAL. Pointing towards this inconsistency in regulatory approach, BIAL stated that, *"While, on one hand, AERA is considering non- airport activity revenue for cross-subsidizing, on the other hand, it states that issues pertaining to real estate does not fall within regulatory ambit. Hence, as AERA concurred does not fall within its ambit, it would be prudent to exclude the Real Estate business from its purview , so as to not expose the airport passengers to the risks and rewards of Real Estate business."*

9.81. BIAL finally contended that given the absence of any correlation/ dependence between development of real estate activities and airport activities, the former need to be "ring-fenced" and not be used for cross subsidization for airport charges.

D) HIAL's response to Stakeholder Comments on issues pertaining to Non-Aeronautical Revenue

9.82. Subsequent to the receipt of comments from the Stakeholders on the Consultation Paper No. 30/2017-18, the Authority forwarded these comments to HIAL seeking its response to these comments. HIAL has provided responses to the Stakeholders' comments, which are presented below:

9.83. In response to IATA's comment on treatment of ground handling, cargo, fuel and other related revenues, HIAL submitted

"We have submitted our views on treatment of CGF and ICT charges in our response to the Consultation Paper No 30 for the Authority's kind consideration which is in line with our concession provisions."

9.84. In response to IATA's comment on including inflation in the non-aeronautical projections, HIAL submitted,

"It has been observed that historically our non-aero revenue growth has been tad lower than the passenger growth plus inflation. If we consider the traffic based revenue then since inception traffic at GHIAL has grown at a CAGR of 10.49% however traffic linked revenue grown in the range of 6%-8%."

9.85. In response to IATA's comment on the impact of additional terminal space on certain non-aeronautical activities, HIAL stated that each non-aero revenue stream is linked to drivers like ATMs, passengers, contractual escalation, floor plates available etc. and based on each driver they have projected non-aero revenues. HIAL further submitted,

"....As far as minimum floor is concerned, the, Non aero revenues is also dependent on purchasing power, passenger profile and other related factors and considering the passenger profile, non-aero revenue realized at GHIAL is at efficient levels. Further, non-aero revenue is outside regulation hence it cannot be regulated and accordingly no minimum cap should be specified.

We are agreeable to Authority's proposal for 100% true up of these revenues in the next control period"

9.86. In response to IATA's comment on growth, HIAL submitted,

"We have submitted the justification for not considering inflationary growth over traffic growth for projection of non aero revenues for the Authority's kind consideration."

9.87. In response to IATA's comment on the possibility of inefficiencies in case of truing up revenues. HIAL submitted as given below,

"Fundamentally, the 30% Hybrid Till motivates the airport operator to focus more on non-aero revenue streams. Airport operators therefore, in its own interest will strive for developing the non-aero revenues streams to the maximum. Hence, apprehension of inefficiency and underperformance in building up non aero revenues is misplaced."

9.88. In response to IOCL's comment on the fuel throughput charges being high, HIAL submitted,

"As per section 13 (1) (a) (vi) of the AERA Act, Authority has to take into consideration the existing concession offered by the central government in any agreement or memorandum of understanding or otherwise."

9.89. Further responding to comments from IOCL and BPCL on prospective revision of fuel throughput charges, HIAL submitted,

"In this regard, we would like to state that the tariffs for the services of fuel, cargo and ground handling services are not part of the Regulated Charges under the Concession of GHIAL and hence, are outside the purview of the Authority In terms of concession awarded to GHIAL by the Government

Further, the charges levied at RGIA are commensurate with investment made and volume off take at the airport. The present rate proposed by GHIAL is effective from airport opening date and OMCs should appreciate that we have not made any upward revision in throughput charges, not even inflationary, despite there has been a significant increase in O&M cost.

We have not proposed any increase in fuel throughput charges at present and hence no revision for this effect is required."

Treatment of income from real estate development

9.90. HIAL is in agreement with the comments submitted by APAO and BIAL on treatment of income from real estate development.

E) HIAL's own comments on issues pertaining to non-aeronautical revenues

9.91. With respect to the Authority's proposal of treating revenues from CGF as aeronautical, as described in chapter 9, para 9.45 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL reiterated its submission that according to Section 13(1)(a)(vi) of AERA Act mandates the Authority to take into consideration the concessions granted to HIAL while determining the revenue from regulated charges. HIAL submitted that as the list of Regulated Charges provided in its Concession Agreement did not include revenue generated from CGF services, revenue from the same should also be treated as non-aeronautical revenues. Further, HIAL also cited the treatment meted out by the Authority in the case of DIAL and MIAL, wherein CGF services were treated in accordance with their Concession Agreement.

9.92. In the context of treating vehicle fuelling services as aeronautical services given in chapter 9, para 9.46 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL reiterated its submission that the said service, which had been given to a third party concessionaire, is not core to airport operations and accordingly requested the Authority to treat the same as a non-aeronautical service.

9.93. Responding to the Authority's treatment of considering revenues from CUTE, CUSS and BRS IT as aeronautical revenues, as given in chapter 9, para 9.47 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL stated that these are a part of ground handling services. Contending that the Concession Agreement provides for non-regulation of revenues from ground handling services, HIAL requested the Authority to reconsider its proposal.

9.94. On the Authority's proposal of projecting non-aeronautical revenues based on an inflationary increase of 3.9% year-on-year, as given in chapter 9, para 9.48 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that growth of non-aeronautical revenues is not in proportion to traffic growth and in fact, typically, lags behind as is also clear from the submissions made by other airports. HIAL stated that,

"We have earlier submitted a communication to the Authority stating the non-aero revenue growth actually trails passenger growth by a significant margin. The table below shows the passenger growth vis-à-vis non-aero revenue growth in last 3 years at RGIA;

Particulars	*Passenger in Million*	*Non-aero commercial Revenue (excluding CGF, Misc Income & Rental) – Rs. Crores*
FY14	*8.73*	*114.12*
FY17	*15.10*	*179.49*
3-Year CAGR	*20.05%*	*16.29%*

As can be seen from the table above, the non-aero revenues don't grow in tandem with the passenger growth."

9.95. HIAL further submitted that LCCs, which cater to passengers with lower propensity to spend, remained the main reason behind the recent growth trends in passenger traffic. In addition, HIAL also submitted that,

"...passengers flying out of Hyderabad are price sensitive due to destination profile of international passengers and hence nonaero revenue would always trail by few percentile points over passenger growth."

9.96. Given the above reasons, HIAL has requested the Authority not to consider inflationary growth over passenger growth for projecting non-aeronautical revenue.

Passenger traffic growth linked revenue streams

In-Flight Kitchen ("IFK") Revenue

9.97. In response to the Authority's treatment pertaining to projection of revenue share from in-flight kitchen services based on the growth rate of domestic passenger traffic along with inflation as given in chapter 9, para 9.52 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that since the commencement of airport till FY 2016, the CAGR of in-flight kitchen has only been 6.31% as compared to a 10.58% increase in domestic traffic. HIAL contended that *"adding inflationary factor would overstate the IFK revenue significantly."* Reiterating its rationale provided in its MYTP submission for slow pace of growth of IFK, HIAL requested the Authority to consider the projected revenue as considered by it.

Advertising revenue share

9.98. Responding to the Authority's treatment of adding an inflationary increase over and above the projections submitted by HIAL in the case of advertisement revenue share as given in chapter 9, para 9.63 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted the following,

> *"It may be noted that the CAGR of advertisement revenue since inception till FY16 is 7.71% whereas the domestic traffic growth for the same period is 10.58%. Further adding inflationary factor would overstate the advertisement revenue significantly."*

9.99. Based on the rationale provided by HIAL in its MYTP submission for low growth of advertisement, it has requested the Authority to consider the projected revenue as provided by it.

International passenger traffic growth linked revenue streams

Duty Free revenue share

9.100. In the context of the Authority's treatment in chapter 9, para 9.65 of the Consultation Paper No. 30/2017-18 dated 19.12.2017 for considering an inflationary increase over and above the projections of duty free revenues submitted by HIAL, HIAL contended that since commencement of airport operations, duty free revenues grew at par with growth in international traffic and hence adding an inflationary increase would only lead to exaggeration of duty free revenue. HIAL submitted that,

> *"It may be noted that the CAGR of duty free revenue since inception till FY16 is 10.36% whereas the international traffic growth for the same period is 10.22%... Further adding inflationary factor would overstate the duty free revenue significantly. In our communication with the Authority we have given the detailed rationale of subdued growth of duty free revenue as the international passenger growth is tapering off in last 2 financial years (~8.25%). We would also like to highlight that applying domestic inflation factor for projection of USD denominated revenue is not appropriate. Hence we request the Authority to consider our submission."*

Contractual revenue streams

Rental Income

9.101. Pertaining to the Authority's treatment of considering select rental income as aeronautical as given in chapter 9, paras 9.71 to 9.73 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL quoted the following from the ICAO 9082 document,

> *"Revenues from non-aeronautical sources- Any revenues received by an airport in consideration for the various commercial arrangements it makes in relation to the granting of concessions, the rental or leasing of premises and land, and "free-zone" operations, even though such arrangements may in fact apply to activities that may themselves be considered to be of an aeronautical character (for example, concessions granted to oil companies to supply aviation fuel and lubricants and the rental of terminal building space or premises to aircraft operators). Also intended to be included are the gross revenues, less any sales tax or other taxes, earned by shops or services operated by the airport itself."*

On account of the above mentioned definition. HIAL requested the Authority to consider rental income as non-aeronautical irrespective of the service being provided as it is a commercial consideration.

9.102. In addition, HIAL also submitted that the Concession Agreement granted it the right to treat rental income arising out of Non-Airport activities as outside the regulatory purview.

Other adjustments to Non-aero revenues

9.103. Responding to the Authority's stance of treating dividend and interest income received from cargo subsidiary as aeronautical revenues and the same as non-aeronautical revenues in the case of duty free subsidiary as mentioned in chapter 9, para 9.81 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that the Authority was going against its own decision of not including such income in the tariff determination of HIAL for the 1st Control Period. HIAL quoted the following extracts from Tariff Order for the 1st Control Period,

> *"For the purposes of calculation of ARR, the Authority has taken into consideration only the RAB in the books of accounts of HIAL and has accordingly not reckoned the assets of Hyderabad Menzies Air Cargo Private Ltd. in RAB for the purposes of tariff determination. The dividend received by HIAL from HMACPL is likewise not included in the ARR calculations for HIAL."*

9.104. Accordingly, HIAL requested the Authority to maintain consistency with its approach undertaken in the 1st Control Period and exclude such income from regulatory purview.

9.105. On the Authority's treatment of allocation of income from sale of SFIS scrips between aeronautical and non-aeronautical based on the allocation of income that resulted in earning these SFIS scrips as given in chapter 9, para 9.87 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL responded that income generated from derivative activities of the company including sale of SFIS scrips should be treated at par with income from non-airport activities and not be considered for tariff determination.

9.106. With respect to the Authority's proposal of treating loss on revaluation of inventory as aeronautical income given in chapter 9, para 9.88 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL submitted that the loss amounting to Rs 3.23 crores was accounted as an expense in FY2008-09 and had not been considered for true up by the Authority on account of it having been incurred in the period prior to AERA's existence. HIAL further pointed that on the other hand, income arising out of reversal of the same loss due to revaluation of inventory has been considered as an aeronautical revenue in FY10. As per HIAL's submission,

> *"This is an incorrect calculations and should be relooked by the Authority as since this it was not recognised as expenses on one hand, its reversal also should not be considered as income for cross subsidisation."*

9.107. In the context of the Authority proposing to allow HIAL to recover forex losses to the extent that the effective cost of borrowing in foreign currency net of forex gains, is not higher than the cost of RTLs as mentioned in chapter 9, para 9.89 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL's response has been provided below,

> *"We would like to reiterate the Authority's treatment of exchange loss in line with AS11.If the Authority is inclined to treat the exchange loss as revenue*

expenses and allow such loss, we request the Authority to consider capping it with the permissible Rupee borrowing cost of 12.5% on cover period basis."

Treatment of income from real estate development

9.108. With respect to the Authority's proposed guiding principle of treating income from real estate development as non-aeronautical revenues as given in chapter 2, para 2.20 of the Consultation Paper No. 30/2017-18 dated 19.12.2017, HIAL, referring to Clause 10.3 of the Concession Agreement, stated that it had been granted the right to determine charges for those facilities and services provided at the airport or on the site for which Regulated Charges are not levied. It also clarified that while Part 1 of Schedule 3 of the Concession Agreement listed out 'Airport Activities' comprising both aeronautical and non-aeronautical activities, Part 2 enlisted 'Other than Airport Activities' which can only be provided outside the airport on the 'landside' and do not fall within aeronautical or non-aeronautical services.

9.109. HIAL submitted that revenues from real estate development cannot be treated as non-aeronautical income as has been proposed by the Authority, as these revenues accrue on account of activities provided on the landside and fall within Part 2 of Schedule 3 of the Concession Agreement. HIAL also contended that the Authority's treatment went against the provisions of the land lease agreement executed by the State Government, which stated that the acquired land was for both construction of the airport and for undertaking commercial/non-airport activities. Therefore, linking the two activities of commercial development (outside airport activities) and airport construction and treating them likewise is not justified.

9.110. In this regard, HIAL also referred to the opinion of the AG, wherein it was recommended that non-airport activities be kept outside the regulatory purview. The AG opined that the Authority is in place to regulate airports and therefore, any activities being undertaken outside the airport would fall outside its ambit. The AG's opinion has been reproduced below,

"Logically, non-airport activities should be outside the purview of AERA since AERA is related to only regulation of airports and what is outside the precincts should not be in the jurisdiction of AERA. The preamble of the Act and its provisions show that only airports are within the sweep of the Act."

9.111. Additionally, HIAL also submitted that the right to development of real estate and treatment of income from such non-airport activities had been granted to it as a concession and was integral to the competitive bidding process. HIAL stated that the Authority's proposal to take such a right away would be arbitrary and requested the Authority to reconsider its stance.

9.112. Further, referring to the then GoAP note on the draft guidelines on economic regulation of services provided by Airport Operators dated 03.03.2011, HIAL pointed that establishment of an airport would boost socio-economic development of the region and any adjustment as proposed by the Authority would defeat such an objective. HIAL submitted that,

"Setting up the airport in the Greenfield location of Shamshabad was with the intention of socio-economic development of the region and also overall development of tourism and industrial development of the state. Considering these objectives, the land of 5500 acres was leased to the GHIAL for development of airport as well as non-airport activities to suitably incentivize the airport operator without any reference to target equity IRR. Hence any

adjustment proposed by AERA would not serve the purpose for which the land was leased out to GHIAL..."

9.113. HIAL also cited the GoAP's view in its letter dated 01.03.2011, wherein the GoAP observed that Article 10.3 of the Concession Agreement granted HIAL the right to determine charges for non-airport activities and facilities. In fact, on the Authority's reliance on the GoAP's opinion presented in letter no 331/ Airports(A1)/2013 issued subsequently on 12.02.2014 wherein it had recommended the consideration of income from real estate development as non-aeronautical income, HIAL contended that the same was not "reflective of the concession" granted to it and that state government had not examined the provisions of the Concession Agreement, Land lease Agreement and its own previous letter.

9.114. Further, HIAL also referred to the opinion provided by Justice R C Lahoti, who held that given the disconnect between airport and landside (i.e. non-airport) activities as provided by the Concession Agreement, revenues generated though the latter cannot be considered for reducing cost for determining Regulated Charges. He also added that since value of the land allocated for landside activities cannot be included in or deducted from the RAB, revenue generated from the same cannot be used to offset costs for determining aeronautical tariff.

9.115. HIAL also clarified that the Cargo Satellite Building (CSB), which serves as both a warehousing space and as an office area for freight consolidators/forwarders or agents, is to be categorised as a Non-airport facility as the same is located outside the airport precincts and therefore should be kept outside regulatory purview. HIAL pointed that the CSB is being used for storing transit cargo moving through ICDs along with cargo meant for domestic distribution via road transport, which are Non-airport activities in nature. As such, there is no earmarked space within the CSB for storing air cargo. Further, HIAL also submitted that the CSB was also being used as an office space by various companies including those not related to the air cargo industry. In light of these reasons, HIAL requested that,

"...Authority to treat Cargo Satellite Office Building (CSB), which is primarily leased out to freight consolidators/ forwarders or agent for their administrative work as well as for non-bonded warehousing purposes and not exclusive or restricted to cargo related operations alone, outside regulatory till."

F) Authority's examination of stakeholder comments on issues pertaining to non-aeronautical revenue

9.116. The Authority has carefully examined the comments made by the stakeholders as well as HIAL in respect of non-aeronautical revenues in the tariff determination for the current Control Period.

9.117. The Authority has observed IOCL and BPCL's comment on fuel throughput charges being high and the need to reduce them and to do this revision on prospective basis. However, as per the letter issued by Ministry of Civil Aviation addressed to Chairperson AERA dated 8th January, 2020, fuel throughput charges have been discontinued from all airports, airstrips and heliports across India to uphold affordability and sustainability of air passenger and air cargo transportation. Therefore, the Authority has decided that fuel throughput charges will not be considered while determining aeronautical tariff for HIAL.

9.118. The Authority has noted the arguments made by IATA and HIAL, on treating revenues from cargo, ground handling and fuel farm assets as aeronautical and non-aeronautical respectively. It is observed by the Authority in chapter 5, para 5.153, that it is not possible to ensure regulatory consistency between HIAL and DIAL/MIAL. This is because while tariff is determined for the latter based on the principles in the SSA entered into between the Government of India and the respective airport operators, the former is regulated by the AERA Act, 2008 which clearly allocates CGF services as aeronautical as given in chapter 5, para 5.154. Accordingly, the Authority maintains its stance on considering these revenues as aeronautical.

9.119. The Authority has noted the comments made by HIAL requesting allocation of vehicle fuelling services as non-aeronautical. However, given that fuelling of vehicles is critical for supporting aircraft operations, cargo and passenger services, emergency services, and maintenance of the airport, as observed in chapter 5, para 5.45, the Authority maintains its stance on treating such services as aeronautical.

9.120. The Authority has duly analysed the submissions made by IATA and HIAL requesting allocation of CUTE, CUSS and BRS (IT) as non-aeronautical. However, on account of these services being part of the ground handling activity as admitted by HIAL, which itself has been treated as an aeronautical activity by the Authority, the Authority has decided to maintain its stance on treating CUTE, CUSS and BRS (IT) as aeronautical, as explained in chapter 5, para 5.46.

9.121. The Authority has observed the submissions made by IATA and HIAL on including inflation in the non-aeronautical revenue projections, especially on advertisement and duty free revenues. The Authority has also noted HIAL's response to the Authority stating that due to lower spending propensity of passengers and international departing passengers being sensitive to price, non-aeronautical revenues at the airport don't grow in the same proportion as the traffic. However, on analyzing historical results of the aggregate non-aeronautical revenues, the Authority observed that the CAGR for non-aeronautical revenues for the last control period (4 year CAGR) was 15% as compared to that of traffic growth which was 10%. The same is illustrated below:

Particulars	Passenger (in Million)	Non- Aero revenue (in INR crore)
FY 12	8.60	127.74
FY 16	12.49	222.82
4 Year CAGR	~10%	~15%

9.122. Therefore, the Authority does not see any reason to reconsider adding an inflationary growth of 3.96% over and above the traffic growth rate for projecting non-aeronautical revenue. In case HIAL is unable to recover revenues as projected by the Authority, the Authority would true-up the aggregate non-aeronautical revenues while determining tariffs for the 3rd Control Period.

9.123. The Authority has examined the comments made by IATA and HIAL on maintaining caution while truing up non-aeronautical revenues and putting a "floor" on the amount of non-aeronautical revenues that should be trued up in the next control period. The Authority believes that it is in the interest of the airport operator to maximise its non-aeronautical revenues therefore, the Authority maintains its stance of truing up non-aeronautical revenues without a floor.

9.124. The Authority has observed IATA and HIAL's comment on incorporating the impact of the terminal expansion into non-aeronautical revenue projections. The Authority agrees with HIAL's response that each non-aeronautical revenue is linked with drivers like passengers, floor plates, ATMs etc. which will inherently consider the effect of terminal expansion in the projections. Therefore, the Authority has decided to maintain its initial stance and not make any modifications in this effect.

In-Flight Kitchen ("IFK") Revenue

9.125. The Authority has examined HIAL's response to projecting revenue share from in-fight catering services at the rate of domestic passenger traffic growth plus inflation over HIAL's proposal of 5% below domestic passenger traffic growth. However, the Authority would like to continue with its decision of considering domestic passenger traffic growth plus inflation for projecting revenues from in-fight catering services and true-up the cross subsidy on account of IFK at the time of tariff determination of the 3rd Control Period, as given in para 9.36.

Other adjustments to Non-aero revenues

9.126. The Authority has observed comments made by HIAL on keeping income from SFIS scrips outside the purview of the Authority. As has been observed by the Authority in para 9.59, HIAL earned foreign income from certain aeronautical or non-aeronautical activities part of the airport operations, which in turn made it eligible for earning the SFIS scrips. Accordingly, the Authority has decided to maintain its position to allocate the realized income from SFIS scrips between aeronautical and non-aeronautical based on the allocation of income that resulted in earning these SFIS scrips.

9.127. The Authority has duly noted HIAL's comment on the treatment of income arising out of the reversal of loss on revaluation of inventory. However, the Authority has decided to maintain its stance of considering this income as aeronautical, as the expense pertaining to the loss was treated as aeronautical during the 1st Control Period and therefore, excluding the income from reversal of this loss from the tariff determination exercise in the 2nd Control Period would be logically incorrect, as has been explained in para 9.60.

9.128. The Authority has examined HIAL's comment on the treatment of all rental income as non-aeronautical revenue, while the Authority has considered select rentals as aeronautical. The Authority would like to highlight that it has considered rentals from ATC facilities, based on the nature of activity and as per HIAL's own submission. Further, as the capital expenditure on employee township has been split between aeronautical and non-aeronautical capex, corresponding revenues from employee township ought to be treated in a similar manner. Accordingly, the Authority does not see any reason to deviate from its proposed position as mentioned in para 9.64. Further, the Authority also notes HIAL's comment on treating rental income from non-airport activities as non-airport revenue. However, as per the AERA's Regulatory Guidelines the revenues arising out of airport business is either treated as aeronautical or non-aeronautical. Therefore, the Authority has decided to treat this revenue as either aeronautical or non-aeronautical depending upon the nature of its service.

Treatment of income from real estate development

9.129. The Authority has carefully examined the comments from the stakeholders including HIAL arguing that it should be treated as non-airport and the Authority's analysis is presented in the following paragraphs.

9.130. The Authority would like to point out that it had considered the provisions in the Land Lease Agreement dated 30.09.2003, entered in to between the GoAP and HIAL during the tariff determination of the airport for the 1st Control Period. In its Order No. 38/2013-14, the Authority had noted that, in the Land Lease Agreement, Recital 'B' referred to the "Airport" as defined hereafter on a build, own and operate basis ("Project"). Further, it was observed by the Authority that Recital 'C' pointed to the project being "of prime importance to the State of Andhra Pradesh" and referred to the policy of the lessor (State of Andhra Pradesh) to encourage and provide industrial development, tourism, passengers, cargo movement and general economic and social development of the State of Andhra Pradesh. The Recital also mentioned regarding the provision of financial support to the lessee to assist the Project. In addition, Recital 'E' clarified that, "the project is feasible only with State Support of the lessor". Based on a reading of the Land Lease Agreement, the Authority noted that "Airport" was defined as,

> *"the Greenfield international airport to be constructed and operated by the lessee at Shamshabad near Hyderabad and includes all buildings, equipments, facilities and systems, aeronautical and non-aeronautical and airport-centric activities and includes without limit, where the circumstances so required, any expansion of the airport from time to time."*

The Authority, based on its reading of the Land Lease Agreement, observed that the land given to HIAL was to ensure feasibility of the airport project. It pointed that making the airport project feasible would automatically boost the overall socio-economic development of the state and therefore, the land given for the airport project was related to the feasibility of the project.

9.131. Accordingly, the Authority had in the Consultation Paper No. 09/2013-14 dated 21.05.2013 proposed the mechanism to subtract the market value of such commercial activities generally outside the terminal building (except what clearly are aeronautical services) from the RAB, as it would help "establish the nexus between the purpose of grant of land (to make the project feasible) and lowering the charges on the passengers" It may be pointed out that the subtraction of value of land from RAB would be possible only in the single till mechanism, while under shared till, it will anyways fall outside aeronautical RAB. The income from real estate development would be considered as non-aeronautical due to the following reasons:-

9.131.1. Land was provided by GoAP to ensure feasibility of the project and therefore any revenues earned through commercialization of land over and above the airport requirements should be ploughed back into the project;

9.131.2. Under normal circumstances, land acquired for a 'public purpose' cannot be given for pure commercial or residential activities such as development of hotels, resorts, commercial and residential complexes, industrial facilities, unless revenue generated from such activities was utilized in the interest of the public at large;

9.131.3. In the extant tariff determination regime and as per the Concession Agreement, the Authority was mandated to ensure that the airport operator was able to generate a fair rate of return on investments and so any support from the State over and above the same would be suitably accounted for during the process of tariff determination for the airport.

9.131.4. The lessor charged a uniform rental of 2% of the land, even for commercial development, which would have otherwise been much higher. This was done taking into consideration public purpose of the land and feasibility of the airport project.

9.132. The Authority further clarified that the Land Lease Agreement stated the importance of the airport project in achieving overall social development of the state and therefore, land was granted with the intention of making the airport project feasible.

9.133. Further, in para 10.38 of Order No. 38/2013-14, the Authority detailed out the recommendations received from the GoAP in its letter no 331/ Airports(A1)/2013 dated 12.02.2014, wherein it recommended that income from commercial activities inside the terminal building along with income generated from development of real-estate on the airport land be treated as non-aeronautical revenue. The relevant extract of the GoAP letter is reproduced below:

> *"ii. Based on the experience gathered at Delhi, Mumbai Banglore and Hyderabad Airports, an appropriate formula may be worked out to indicate as to what percentage of non-aeronautical revenue should be allowed for cross-subsidizing the aero charges under the "Hybrid Till" model. The non-aeronautical revenue would include the revenue generated through commercial activities inside the terminal building as well as through the development of real-estate on the airport land."*

9.134. Further, given the GoAP's recommendation of recognising income from real estate development as non-aeronautical, the Authority had observed that the GoAP was suitably placed to indicate the amount of receipts (both capital and revenue nature) generated annually through development of real estate on the land leased to HIAL be treated as cross-subsidy for the purposes of aeronautical tariff determination of HIAL airport. In view of all the above factors, the Authority has decided to continue with its existing stand to treat real estate development as a non-aeronautical activity.

Decision No. 9. Regarding non-aeronautical revenue

Based on the material before it and its analysis, the Authority decides:

9.a. To consider non-aeronautical revenues as per Authority's assumptions and as summarized in Table 34.

9.b. To true-up the non-aeronautical revenue for HIAL for the 2nd Control Period during the review period.

9.c. To consider revenues from cargo, ground handling and fuel farm; CUTE, CUSS and BRS (IT); and vehicle fueling services as aeronautical as discussed in paras 9.118 to 9.120.

9.d. To consider inflation in the projections of non-aeronautical revenues over and above the increase in real terms for select non-aeronautical revenue streams as highlighted in paras 9.121 and 9.122. The WPI of 3.9% will be considered by the Authority for calculations (as per latest RBI forecasts) for applicable non-aeronautical revenue streams.

9.e. To consider incidental income from renting out of new office building and project site office building as non-aeronautical revenue, refer para 9.63.

10. TRAFFIC FORECAST

A) HIAL submission on traffic forecast

10.1. As per its initial MYTP submission dated 25.03.2016 and revised submission dated 05.12.2016, HIAL stated that it has assumed the traffic growth rate for the 2nd Control Period based on an ICF (SH&E) study concluded in January 2015.

10.2. However, on 28.01.2017, HIAL submitted a revised tariff financial model with the actual traffic, ATMs and cargo volumes for FY 2015-16. Accordingly, these actual traffic numbers have been used as the base upon which growth rates estimated in the ICF (SH&E) study have been applied to make projections for the 2nd Control Period. The projections made by HIAL have been provided below:

"...

Passenger Traffic	*2017*	*2018*	*2019*	*2020*	*2021*
Domestic					
Base Case Growth (%)	*11.10%*	*10.40%*	*9.70%*	*9.30%*	*8.60%*
Passengers (MPPA)	*10.44*	*11.53*	*12.64*	*13.82*	*15.01*
International					
Base Case Growth (%)	*10.90%*	*10.30%*	*9.70%*	*9.40%*	*8.80%*
Passengers (MPPA)	*3.43*	*3.79*	*4.16*	*4.55*	*4.95*

Air Traffic Movements	*2017*	*2018*	*2019*	*2020*	*2021*
Domestic					
Base Case Growth (%)	*9.90%*	*9.40%*	*8.80%*	*8.40%*	*7.70%*
ATMs ('000s)	*97.3*	*106.4*	*115.8*	*125.6*	*135.2*
International					
Base Case Growth (%)	*10.70%*	*10.10%*	*9.50%*	*9.20%*	*8.60%*
ATMs ('000s)	*19.6*	*21.6*	*23.7*	*25.8*	*28.1*

Cargo Traffic	*2017*	*2018*	*2019*	*2020*	*2021*
Overall Volume Growth (%)	*9.40%*	*9.00%*	*8.60%*	*8.40%*	*8.00%*
Overall throughput (in '000 metric tonnes)	*124*	*135*	*146*	*159*	*171*

..."

10.3. Regarding the detailed approach and methodology followed for traffic forecast, the Authority notes HIAL's submission of the Traffic Study conducted by ICF. The study has projected independent traffic forecasts for the Hyderabad Airport for the period 2015-2038, which have been conducted based on multiple approaches explained below,

10.3.1 The short-term forecasts were based on immediate trends in traffic drivers identified, such as known fleet and network plans of the airlines serving the airport, regional development expectations, the current global economic environment and ICF's expectations of future recovery. Further, ICF undertook an analysis on how air traffic markets recover from shocks (economic or otherwise). This analysis was used to estimate the extent of short-term passenger declines and the length, timing, and magnitude of the anticipated recovery.

10.3.2 Further, the ICF study makes long-term forecasts using econometric analysis of the historical relationship between domestic and international passengers at Hyderabad and the country's GDP. The study revealed the existence of a strong correlation between these variables, with an R^2 of 0.83 for domestic and 0.95 for international traffic when measured during the period from 2004 to 2014. However, the study also mentions that an econometric approach is useful for quantifying the importance of the underlying econometric factors influencing aviation demand, however it has its own limitations. As per the study, the limitations of the approach include *"the lack of historical data, inability to quantify all of the factors influencing air traffic levels and the unavailability of objective forecasts for certain explanatory factors."* Also, the study acknowledges that an econometric relationship between historical passenger volumes and various explanatory factors cannot remain constant over the forecast period. For instance, often in the case of rapidly growing air travel markets, income elasticities reduce over time.

10.3.3 In addition, ICF has also applied a judgmental approach to modify the output of the econometric models. According to the study, the use of judgment becomes important when the forecast is to be made over a long duration and a constant elasticity model, which is solely calibrated to historical data, is likely to overestimate the level of traffic growth in the future. Hence, ICF in the study has tapered the elasticity values estimated by regression analysis to values representing a mature market as the 30-year forecast period progresses. The study, based on observations at numerous markets across the world, assumes that both domestic and international multipliers will trend towards mature levels in the 2020s.

10.3.4 Finally, ICF has stated that it has once again used an econometric approach to make the cargo forecasts, similar to that for passengers, after establishing a strong correlation between Indian GDP and the total and segment cargo volumes. Additionally, the study also made use of the latest available data from HIAL, as well as guidance from HIAL's management regarding the near term and medium term outlook.

10.4. The Authority further notes that HIAL has also submitted the sensitivity analysis for capturing the uncertainties inherent in any forecast studies which may result in a lower than or higher than projected rate of traffic growth. Accordingly, HIAL has also submitted as part of the study the low and high case passenger traffic forecasts.

B) Authority's Examination of HIAL submissions on traffic forecast

10.5. The Authority observed that forecasts for the passenger, ATM and cargo numbers submitted by HIAL in its tariff financial model dated 28.01.2017 have been made based on the auditor certified volumes for FY 2015-16. Projections have been made by applying growth rates estimated in the ICF study on the abovementioned base volumes.

10.6. However, the Authority noted that the traffic, ATM and cargo volumes for the period from FY 2008-09 to FY 2015-16 provided in HIAL's auditor certificates did not reconcile with the traffic data released by the Airports Authority of India. The Authority also notes that traffic at the Hyderabad Airport has grown at a rate faster than that projected in the study submitted by HIAL.

10.7. The Authority observes the CAGR since 2009 till 2018 for different categories of traffic has been as follows:

Table 35: CAGR of traffic at Hyderabad Airport as computed by the Authority

Particulars	**5 year CAGR (2013 to 2018)**	**9 year CAGR (2009 to 2018)**
Domestic Passenger CAGR	16.45%	12.27%
International Passenger CAGR	11.17%	9.84%
Domestic ATMs CAGR	8.72%	5.88%
International ATMs CAGR	9.30%	8.20%
Cargo Traffic CAGR	10.84%	9.78%

10.8. The Authority, having looked at both numbers, is of the view that a longer term horizon would be more realistic to consider given that 5 year CAGR numbers are more influenced by recent spurts in traffic, which may not be sustainable. It thus proposed to use the 9-year CAGR value to project traffic over the 2nd Control Period. The Authority notes that actual traffic of FY 2016-17 and that for 5 months ending 31.08.2017 is available on the website of AAI. The Authority computed the projected traffic of FY 2017-18 by annualizing the actual traffic during the first five months of the financial year. The projected traffic considered for the purpose of tariff determination is as given below,

Table 36: The projected passenger traffic to be considered by the Authority for tariff determination for 2nd Control Period

Passenger Traffic	**2017**	**2018**	**2019**	**2020**	**2021**
Domestic Passenger volumes (MPPA)	11.73	13.18	14.79	16.61	18.65
International Passenger volumes (MPPA)	3.37	3.65	4.00	4.40	4.83

Table 37: The projected ATMs to be considered by the Authority for tariff determination for 2nd Control Period

Air Traffic Movements ('000s)	**2017**	**2018**	**2019**	**2020**	**2021**
Domestic ATMs ('000s)	108.45	116.64	123.50	130.76	138.44
International ATMs ('000s)	22.26	23.34	25.25	27.32	29.56

Table 38: The projected Cargo volumes to be considered by the Authority for tariff determination for 2nd Control Period

Cargo Traffic (in '000 metric tonnes)	2017	2018	2019	2020	2021
Overall throughput	122	133	146	160	175

C) Stakeholder comments on issues pertaining to Traffic Forecasts

10.9. As part of the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No. 30/2017-18 dated 19.12.2017. Stakeholders have also commented on issues pertaining to traffic forecast in respect of RGI Airport, Hyderabad. These comments are presented below:

10.10. On the usage of most recent data, IATA stated that,

> *"Agree that the most recent available data should be used for establishing the base line (particularly, if there are large changes in each year)"*

10.11. On the subject of using historic average growth to forecast the future traffic, IATA believes that a more detailed analysis on traffic forecasts should be done and some provision for truing up should also be made. With respect to this IATA stated,

> *"While it is appealing to use historic average growth to forecast the future, we do believe that traffic forecasts should be based on a combination of top-down analysis (i.e. econometric model, which usually links economic development with growth) and bottom-up analysis (i.e. individual airline expectations). Therefore, AERA may wish to undertake a more in-depth analysis on traffic forecast. In any case, given the large scale variations in traffic, there may be merit in some form of truing up (though taking into account that truing up reduces the risk for an airport, and therefore that lower risk should be reflected via a lower cost of capital)."*

10.12. On the subject of investment requirements, IATA suggested that traffic forecasts can act as appropriate demand triggers for investments and to validate the requirements for capital projects. IATA stated that,

> *"The link between infrastructure planning and traffic forecasting is also a critical one to determine the appropriate demand triggers for investment. HIAL have indicated there are terminal capacity bottlenecks resulting in the need to develop new facilities, however we would like much more thorough consultation and demonstration on the phasing and timing of when specific investments are required to balance capacity and demand. In this respect, regular consultation regarding traffic forecasts is requested on an annual basis to specifically review the timing and requirements for specific capital projects."*

D) HIAL's response to Stakeholder Comments on issues pertaining to Traffic Forecast

10.13. Subsequent to the receipt of comments from the Stakeholders on the Consultation Paper No. 30/2017-18 dated 19.12.2017, the Authority forwarded these comments to HIAL seeking its response to these comments. HIAL has provided responses to the Stakeholders' comments, which are presented below:

10.14. In response to IATA's comment on using a more in-depth analysis on traffic forecast, HIAL submitted,

> *"This comments appear to be in the nature of suggestions and not in relation to the present consultation process.*
>
> *However, we welcome the suggestion and agree that traffic projection being very complex matter, the Authority should rely on traffic study carried out by reputed consultant. Hence we have submitted our traffic projection based on ICF study, an internationally acclaimed firm having core competence in the given domain."*

10.15. In response to IATA's comment on linkage between infrastructure planning and traffic forecasting, HIAL submitted,

> *"Infrastructure planning is based on the forecast of key operational variables by experts and infrastructure built out is the outcome of such study. There is no short term view and hence any annual consultation regarding traffic forecast would be just optics without any substantive outcome.*
>
> *Also, the expansion projects have long construction period and as per concession we have to review our master plan periodically and have to be ready well in advance to meet the future needs."*

E) HIAL's own comments on issues pertaining to traffic forecast

10.16. In the context of the Authority's proposal on traffic projections, HIAL requested the Authority to allow true up of traffic based on actual traffic volumes catered to each year, while determining tariff for the 3rd Control Period.

F) Authority's examination of stakeholder comments on issues pertaining to traffic forecast

10.17. The Authority notes IATA's comment that IATA believes that traffic forecasts should be based on a combination of top-down analysis through an econometric model, which links economic development with growth and bottom-up analysis using individual airline expectations. In future, the Authority is open to examining the results of traffic projections submitted by IATA, in a manner similar to that which is usually submitted by the airport operators, and considering it if it is found to be a robust forecast. Furthermore, the Authority believes that a traffic forecast based on the above approach proposed by IATA would still be subjective, as a result of the inputs used in the econometric model. Accordingly, the Authority's Guidelines have a provision to true-up aeronautical revenues which mitigates the risk of forecast error and ensures that both airport users and the operator are indifferent.

10.18. The Authority notes HIAL's submission requesting the Authority to allow true up of traffic based on actual traffic volumes catered to each year, while determining tariff for the 3rd Control Period. The Authority is principally in line on allowing such a true-up and has decided to true-up the actual aeronautical revenues earned by HIAL during the 2nd Control Period, which is a derivative of the actual traffic of the RGI Airport, Hyderabad.

Decision No. 10. Regarding Traffic Forecast

Based on the material before it and its analysis, the Authority decides:

10.a. **To consider the traffic numbers as compiled in Table 36, Table 37 and Table 38 given in para 10.8.**

10.b. **To consider the CAGR from FY 2008-09 to FY 2017-18 (annualized) as presented in Table 35 for projecting traffic for the 2nd Control Period.**

11. INFLATION

A) HIAL Submission on Inflation

11.1. HIAL vide its original MYTP submission dated 25.03.2016 and revised MYTP submission dated 05.12.2016, has requested the Authority to provide for an allowance towards WPI inflation to be considered over and above the target revenues submitted by HIAL for the 2nd Control Period. HIAL further requested the Authority for an inflationary allowance of 6.12% over the YPP in its MYTP submissions.

B) Authority's Examination of HIAL Submissions on Inflation

11.2. The Authority took note of HIAL's submissions including HIAL's request for allowances towards inflation over and above the target revenue for the 2nd Control Period. The Authority however, constructed HIAL's tariff determination financial model on a nominal basis; i.e. all projections were adjusted for inflation. Hence, the Authority proposed not to consider any separate adjustment / allowance to the target revenues as the same would result in double counting of inflation. Also, the use of inflation for projecting YPP over the 2nd Control Period has been discussed in chapter 13, para 13.7.

11.3. The Authority proposed to consider inflation forecasts as per the quarterly survey conducted by the RBI in January 2017. As per the 'Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 44', the median percentage change in WPI over the succeeding five years was projected at 3.9% p.a.

11.4. In view of the abovementioned report, the Authority proposed to consider the forecast of WPI inflation at 3.9% p.a. for determination of aeronautical tariffs for the 2nd Control Period of HIAL.

C) Stakeholder comments on issues pertaining to Inflation

11.5. As part of the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No. 30/2017-18 dated 19.12.2017. Stakeholders have also commented on issues pertaining to inflation in respect of RGI Airport, Hyderabad. These comments are presented below:

11.6. On the usage of inflation rate, IATA expressed agreement with the Authority's proposal, an extract of which is as given below,

"Agree with proposals for setting inflation at 3.9% p.a."

D) HIAL's response to Stakeholder Comments on issues pertaining to Inflation

11.7. Subsequent to the receipt of comments from the Stakeholders on the Consultation Paper No. 30/2017-18 dated 19.12.2017, the Authority forwarded these comments to HIAL seeking its response to these comments. HIAL has provided responses to the Stakeholders' comments, which are presented below:

11.8. In response to IATA's comment on the usage of inflation rate, HIAL submitted,

"The growth momentum in the economy is coming back. Hence projected inflation of 3.9% in the coming years wouldn't hold good. The Authority in its

recent order of Kolkata Airport and Goa Airport considered inflation of 4.2%. Hence we request the Authority to align inflation projection at least @ 4.20%."

E) HIAL's own comments on issues pertaining to inflation

11.9. In response to the Authority's proposal on considering WPI at 3.9%, HIAL pointed that in the case of Kolkata and Goa airports, the Authority had considered inflationary allowance of 4.2% in its tariff orders. HIAL further submitted that, "economic growth and fiscal deficit together with gradual increase in oil prices are pointing towards higher inflation in coming years." Further HIAL highlighted that the RBI's Survey of Professional Forecasters on Macroeconomic Indicators – Results of the 49th Round pointed towards an economic upturn. The Survey had forecast the real GDP to grow by 6.7% and real GVA to grow by 6.5% in 2017-18 and also noted that these would further increase by 80-90 basis points in the subsequent year owing to growing private consumption and investment demand. Accordingly, HIAL has requested the Authority to consider inflationary allowance at 4.2% at par with the rate considered in recent tariff orders of other airports.

F) Authority's examination of stakeholder comments on issues pertaining to inflation

11.10. The Authority notes HIAL's submission that the Authority may have considered a higher inflationary allowance in the case of other airports in its recent tariff orders. The Authority acknowledges that these subtle differences in assumptions are inevitable when regulatory documents are issued by the Authority at different points of time. However, given that the Authority proposes to true-up HIAL's non-aeronautical revenues and operating expenses in the near future, an exercise of adjusting the inflation rate and revising the projections may not be necessary. Accordingly, the Authority has decided to maintain its stance of considering inflation at 3.9% p.a. as mentioned in para 11.4 and true-up the operating expenses based on the actual financial results and the Authority's assessment on the efficiency of costs incurred.

Decision No. 11. Regarding Inflation

Based on the material before it and its analysis, the Authority decides:

11.a. To consider WPI inflation for determination of aeronautical tariff at RGI airport as 3.9% for each year of the second control period, as given in para 11.10.

12. QUALITY OF SERVICE

A) HIAL Submission on Quality of Service

12.1. HIAL did not make any submissions related to Quality of Service as part of its MYTP submission dated 25.03.2016 and its revised submission dated 05.12.2016.

B) Authority's Examination of HIAL's submission on Quality of Service

12.2. The Authority had vide its Order No. 38/2013-14, decided that HIAL shall ensure that service quality at RGI Airport, Hyderabad conforms to the performance standards indicated in the Concession Agreement. The Authority noted that the provisions of the Concession Agreement also indicate the consequences of not conforming to the prescribed level of performance standards as stated below,

> *"... GOI shall have right to impose liquidity damages and/or to give directives to the Relevant Authorities participating in the joint coordination committee referred to in Article 8.2 to assist HIAL in improving the rating..."*

12.3. The Authority had decided that due to the presence of service quality related provisions in the concession agreement, there was no need for a separate rebate mechanism as stated in the AERA Guidelines. The scheme of performance standards as indicated in the Concession Agreement would be adequate to keep a check on the performance levels.

12.4. The Authority vide para 12.4 of the Consultation Paper No. 30/2017-18 noted that Section 9 of the Concession Agreement for RGI Airport, Hyderabad lays down the performance standards to be followed in respect of the airport. The criteria used to measure the Airport's performance are the IATA Global Airport Monitor service standards set out in Schedule 9, Part 2 or such criteria as may be mutually agreed upon from time to time.

12.5. As per the ACI website, the Authority noted that in 2004, the new AETRA customer satisfaction survey was launched by Airports Council International (ACI) and the International Air Transport Association (IATA), replacing the 11-year old Global Airport Monitor[3]. The AETRA consumer satisfaction survey was further replaced by the ACI Airport Service Quality (ASQ) program in 2006.

12.6. HIAL started its commercial operations from 23.03.2008. Ideally as stated above, it was incumbent upon HIAL to conduct passenger survey with effect from 2010 (3rd year from the Airport opening), but HIAL proactively became part of ACI-ASQ Passenger Satisfaction Survey Program since FY 2008-09 itself. HIAL was declared as the world's best airport among airports having capacity of 5 to 15 million passengers by Airport Council International (ACI) in 2009[4]. HIAL has also featured among the world's Top 3 Airports for 7th year in a row in ACI-ASQ ranking in Airport Service Quality (ASQ) Award, 2015[5]. Hence, the Authority is of the view that HIAL is meeting the required performance standards and there is no need for any penal provisions to be applied on HIAL.

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[3] http://www.aci.aero/News/Releases/Archives/2004/2004/05/17/AETRA-Customer-Satisfaction-Survey.

[4] http://www.aci.aero/Airport-Service-Quality/ASQ-Awards/Past-Winners/2009

[5] http://www.aci.aero/Airport-Service-Quality/ASQ-Awards/Current-Winners/Best-Airport-By-Size/5-15million

12.7. Similarly, for the 2nd Control period, the Authority proposed that HIAL shall ensure that service quality at RGI Airport, Hyderabad conforms to the performance standards as indicated in the Concession Agreement.

C) Stakeholder comments on issues pertaining to Quality of Service

12.8. As part of the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No. 30/2017-18 dated 19.12.2017. Stakeholders have also commented on the quality of service in respect of RGI Airport, Hyderabad. These comments are presented below:

12.9. IATA disagrees with not levying any penalties on HIAL for conforming to all performance standards detailed in the Concession Agreement. IATA stated,

> *"We strongly disagree with the conclusion that service quality at RGI Airport, Hyderabad solely conforms to the performance standards as indicated in the Concession Agreement over the 2nd Control Period, and further that the Authority proposes not to levy any penalties or rebates against HIAL"*

12.10. IATA justified its above mentioned argument by stating,

> *"The basis of this argument is that ACI's ASQ's standard is qualitative and perception based while completely ignoring quantitative, objective measurement of HIAL's actual performance and the customer (airline Users) – supplier (HIAL) relationship."*

12.11. IATA believes that there is no accountability, cost relatedness or recognition of airline customer's requirements in an ASQ based approach. It stated,

> *"As airports are only built to serve as aviation infrastructure enabling Airlines to operate, Airlines are the primary Users of airports and a major source of revenue for Airport Authorities and Operators, ancillary industries and services. The purpose of any service quality or Airport Service Level Agreement is to provide the Airport (in this case HIAL) with a clear understanding of the levels of service and outcomes required in order to meet Users (typically the Airline Community) expectations, in return for the airport charges they pay. Despite this critical requirement there is no accountability, cost relatedness or recognition of airline customer's requirements in an ASQ based approach resulting in a major failure of the Concession Agreement and current approach."*

12.12. On the subject of performance assessment, IATA believes that the performance can only be truly measured and continuous improvement be supported with regular, structured reviews of airport performance conducted between the airline community and HIAL, such reviews are non-existent, which is a major failure of the current structure.

12.13. On the subject of Airport Service Level Agreements, IATA stated that,

> *"IATA provides best practice industry guidance regarding Airport Service Level Agreements broadly used across best practice airports, and we strongly encourage adoption of our policy in Users and consumers interests*
>
> *https://www.iata.org/policy/infrastructure/Documents/airport-service-level-agreement.pdf"*

D) HIAL's response to Stakeholder Comments on issues pertaining to Quality of Service

12.14. Subsequent to the receipt of comments from the Stakeholders on the Consultation Paper No. 30/2017-18 dated 19.12.2017, the Authority forwarded these comments to HIAL seeking its response to these comments. HIAL has provided responses to the Stakeholders' comments, which are presented below:

12.15. In response to IATA's comment, that it disagrees with not levying any penalties on HIAL for conforming to all performance standards detailed in the Concession Agreement, HIAL submitted,

> *"The notion of ACI's ASQ's standard is qualitative and perception based while completely ignoring quantitative is unfounded as almost all the major airports globally are participating in the ranking process. Further, we are adhering to the quality of service standards as defined in the concession agreement.*
>
> *As per the requirement of concession agreement IATA's global airport monitoring service standards were to be used to measure the airport's performance. it will be pertinent to mention that during the years 2004, IATA global airport monitoring program was replaced by ACI- IATA AETRA Passenger Satisfaction Survey Program which was ultimately been replaced with the existing ACI-ASQ Passenger Satisfaction Survey Program, Since 2009, GHIAL has been participating in the ACI- ASQ Surveys."*

E) HIAL's own comments on issues pertaining to Quality of Service

12.16. HIAL has not submitted any comments on Authority's proposals submitted in the context of Quality of Services vide Consultation Paper No. 30/2017-18 dated 19.12.2017.

F) Authority's examination of stakeholder comments on issues pertaining to Quality of Service

12.17. The Authority notes IATA's comment that it disagrees on the point that HIAL's quality of service conforms to the performance standards as indicated in the Concession Agreement over the 2nd Control Period by arguing that ACI's ASQ is based on qualitative responses and perceptions, and ignores the quantitative, objective measurement of HIAL's actual performance. Additionally, the Authority also notes IATA's suggestion to adopt its policy in the interest of users. The Authority would like to highlight that as mentioned in paras 12.2 to 12.4, the Authority had already linked the requirements under HIAL's Concession Agreement to ACI's Airport Service Quality (ASQ) Program. The Authority therefore, does not currently see any reason to consider IATA's suggestion of switching from the current ASQ based approach to IATA's approach for the 2nd Control Period. Accordingly, the Authority has decided not to levy penalties on HIAL as a result of its quality of service.

Decision No. 12. Regarding Quality of Service

Based on the material before it and its analysis, the Authority decides:

12.a. **HIAL shall ensure that service quality at RGI Airport, Hyderabad is in a manner that conforms to the performance standards as indicated in the Concession Agreement over the 2nd Control Period.**

12.b. **Not to levy any penalties / rebates against HIAL for the 1st Control Period as HIAL has managed to ensure prescribed levels of service quality during the review period.**

13. YPP CALCULATIONS

A) HIAL's submission on YPP Calculations

13.1. In its revised MYTP submission dated 05.12.2016, HIAL submitted that the ARR calculated in the MYTP under shared till is presented below,

"...

REGULATORY BUILDING BLOCKS	*2017*	*2018*	*2019*	*2020*	*2021*
Return on RAB	*266.75*	*275.53*	*324.88*	*451.96*	*512.84*
Operating Expense	*247.87*	*292.40*	*350.08*	*457.80*	*555.31*
Concession Fee	*50.62*	*55.87*	*61.28*	*66.98*	*72.78*
Depreciation	*158.73*	*169.54*	*166.21*	*209.43*	*249.69*
Taxes	*149.66*	*166.05*	*206.48*	*256.89*	*274.10*
Gross Target Revenue (A)	*873.63*	*959.38*	*1108.92*	*1443.06*	*1664.71*
Cross-Subsidization (B)	*101.45*	*108.94*	*115.26*	*122.35*	*129.46*
Aero Revenue Eligibility (C=A-B)	*772.18*	*850.44*	*993.67*	*1320.70*	*1535.24*

..."

13.2. HIAL further submitted that the yield per passenger, for the 2nd Control Period, is as under,

"...

REVENUE DEFICIT FOR TARIFF DETERMINATION	*2017*	*2018*	*2019*	*2020*	*2021*
Aero Revenue Eligibility (C)	*772.18*	*850.44*	*993.67*	*1320.70*	*1535.24*
True-Ups	*1588.90*				
PV of Aero Revenue Eligibility (D)	*2302.09*	*669.75*	*667.26*	*757.19*	*749.21*
Actual/Projected Revenue	*1265.48*	*1396.76*	*1531.97*	*1674.56*	*1819.45*
PV of Actual/Projected Revenue (E)	*1168.80*	*1099.99*	*1028.73*	*960.07*	*887.91*
Yield per Passenger (including arriving, departing and transfer passenger)	*924.01*				

..."

13.3. Accordingly, HIAL has requested the Authority to allow a yield of Rs. 924.47 per passenger to be recovered through aeronautical charges for the 2nd Control Period.

13.4. Subsequent to the MYTP submission dated 05.12.2016, HIAL submitted the revised tariff determination model via response e-mail dated 28.01.2017. In the revised tariff determination financial model the projections were based on the audited financial results of FY 2015-16. The revised YPP thus submitted by HIAL for the tariff determination for the 2nd Control Period was Rs. 912.11.

13.5. HIAL submitted in its original MYTP submission dated 25.03.2016 and revised MYTP submission dated 05.12.2016 that it had computed the Aggregate Revenue Requirement

("ARR") in line with the "AERA guidelines" for Tariff Determination and the Concession Agreement; after taking into account the capital expenditure on major expansion projects and general capex items. HIAL also submitted that the projections for the 2nd Control Period have been made on a real basis i.e. excluding the effect of inflation (CPI and WPI). Accordingly, HIAL requested the Authority to allow for a WPI adjustment of 6.12% over the proposed YPP.

B) Authority's Examination of HIAL's submission on YPP Calculations

13.6. The Authority notes from HIAL's submission dated 05.12.2016 that ARR has been calculated according to the formula given in the AERA Guidelines and a YPP is to be computed based on the prescribed formula. Further, according to the Authority guidelines, the formula for determination of yield for a tariff year includes an inflationary increase to be applied over the yield in the preceding tariff year.

13.7. The Authority observes that HIAL had not considered inflation while projecting YPP over the 2nd Control Period. HIAL on the other hand had requested for a WPI adjustment of 6.12% over the proposed YPP. However, the Authority proposed to consider an inflationary increase on the YPP computed for the first year of the 2nd Control Period while projecting the YPP for subsequent years of the Control Period. The Authority had considered WPI of 3.9% as discussed in chapter 11, paras 11.3 and 11.4 for this purpose.

13.8. The Authority noted that the YPP proposed by HIAL is Rs. 912.11 (per passenger). This YPP was subsequently revised to Rs. 1212 (per passenger) vide HIAL's submission dated 31.08.2017. The Authority analysed HIAL submissions on each of the regulatory building blocks and presented its analysis and proposals in the respective sections. Consequently, the Authority calculated the aggregate revenue requirement under the 30% shared till mechanism, which has been presented below,

Table 39: Aggregate Revenue Requirement Calculation under Shared Till

Yield Per Passenger	2017	2018	2019	2020	2021	Aggregate 2nd CP
Regulatory Building Blocks						
Return on Capital Employed (a) Ref: Table 19, Table 23	157.42	155.47	163.07	222.85	270.96	969.76
Operating Expense (b) Ref: Table 29 (Sans the segregation of common assets)	229.49	238.29	266.88	319.62	373.77	1428.04
Concession Fee (c) Ref: Table 29	33.94	32.41	21.14	23.70	26.68	137.87
Depreciation & Amortization (d) Ref: Table 19	159.48	168.84	149.64	177.14	220.34	875.43
Taxes (e) Ref: Table 31	52.20	46.33	5.63	1.73	0.00	105.88
Gross Target Revenue (f)=(a)+ (b)+ (c)+ (d)+ (e)	632.53	641.34	606.35	745.03	891.74	3516.98
Cross-Subsidization (g)	76.48	86.13	97.02	110.08	124.89	494.60
Aero Revenue Eligibility (h)=(f)-(g)	556.04	555.21	509.33	634.95	766.86	3022.38
True-Ups Ref: Table 11	501.37					
Present Value of Aero Revenue Eligibility (i)	1133.79	569.91	471.85	530.88	578.66	3285.08
Actual/Projected Revenue (j)	848.62	810.20	528.53	592.38	667.00	3446.74
Discounting Factor (k)	0.88	0.97	1.08	1.20	1.33	
Present Value of Actual/Projected Revenue (l)= (j)/(k)	965.19	831.66	489.64	495.29	503.31	3285.08
Deficit (m)=(i)-(l)	0.00	0.00	0.00	0.00	0.00	0.00
Yield per Passenger, as on 01-01-2018	186.04	193.30	200.84	208.67	216.81	

C) Stakeholder comments on issues pertaining to YPP Calculations:

13.9. As part of the stakeholder consultation process, the Authority has received comments/views from various stakeholders in response to the material and the tentative proposals presented by the Authority with respect to various elements of determination of aeronautical tariff in its Consultation Paper No. 30/2017-18 dated 19.12.2017. Stakeholders have also commented on the YPP calculations made in case of RGI Airport, Hyderabad. These comments are presented below:

13.10. IATA believes that it is necessary for the Authority to share its financial model in order to better understand the YPP proposals. IATA is also unclear as to how the tariff card leads to the forecast revenues in Table 47 vide Consultation Paper No. 30/2017-18 dated 19.12.2017.

13.11. On the subject of truing up, IATA stated that,

> *"Truing up needs to be done with great care, as it is fundamental that inefficiencies are not passed on to users via a true-up exercise."*

13.12. With respect to the rate card , IATA stated that there should not be differential charges for international and domestic flights, in particular the landing charges where the utilized assets are exactly the same (any price differential would constitute an unjustified cross subsidy). IATA proposed to eliminate any tariff differentials that are not justified from a cost related point of view.

13.13. Similarly, IATA believes that there should not be tariffs differentials between peak and off-peak hours, as schedules are customer demand driven and peak pricing has proven to be ineffective. IATA proposed to remove any peak pricing differentials.

13.14. On the subject of tariffs for incentivized flights, IATA stated,

> *"It is unclear as to how tariffs for incentivized flights are being funded. Airlines not benefiting from incentives should not paying for rebates they are not benefiting from. We request AERA to ensure that users only pay for the cost of services and facilities they use."*

13.15. Additionally, on the subject of cargo flight tariffs, IATA stated,

> *"We see that cargo flight tariffs are free. All airlines should pay their fair share of the costs."*

D) HIAL's response to Stakeholder Comments on issues pertaining to YPP Calculation

13.16. Subsequent to the receipt of comments from the Stakeholders on the Consultation Paper No. 30/2017-18 dated 19.12.2017, the Authority forwarded these comments to HIAL seeking its response to these comments. HIAL has provided responses to the Stakeholders' comments, which are presented below:

13.17. In response to IATA's comment on differential charges for international and domestic flights, HIAL submitted,

> *"This is not uncommon to have differential pricing on non-discriminatory basis. Further to put things into perspective, the existing landing rates at HIAL are based on rates charged by AAI airport which had a differential rate for domestic and International landing. These difference in charges are broadly comparable with other International Airports too.*
>
> *In the proposed rate card no new differentiation in domestic and international landing charges has been proposed and only an inflationary increase of 3.9% year on year has been considered.*
>
> *Also worthwhile is to mention that there has not been any major increase in landing and parking charges in almost last 10 years (except for a 10% increase in year 2009)."*

13.18. In response to IATA's comment on funding of tariffs for incentivized flights, HIAL submitted,

> *"The tariff plan submitted by the company aims at de-peaking the traffic and thereby ensure optimal utilization of infrastructure and also encourage new*

route development by adding more destinations which will be for the greater good of the passengers as it will improve connectivity to different parts of the country.

The benefit of better utilization of asset will not only support the increase in traffic but also improve satisfaction of the passengers. The major beneficiary of this will be airlines only as from airport operator perspective traffic increase is subject to true up."

13.19. In response to IATA's comment on tariff differentials between peak and off-peak hours, HIAL submitted,

"We would like to state that the peak/non-peak tariffs would clearly help to better utilize the existing airport infrastructure and also to decongest the airport, especially during the time when we are heading towards terminal expansion"

13.20. In response to IATA's comment on cargo flight tariffs being free HIAL submitted,

"At present we do not have significant cargo fleet at RGIA which needs to be augmented to make our airports as regional cargo hub. Hence we proposed incentivizing the cargo fretters for a limited period in order to achieve the vision of the airport.

It has been experienced that the cargo freighters tend to have higher fuel off-take which helps in cross subsidization of aeronautical charges and thereby reduces the UDF levy."

E) <u>HIAL's own comments on issues pertaining to YPP calculation</u>

13.21. With respect to the YPP calculation, HIAL requested the Authority to consider its response and comments to various issues and reiterated that the AERA Act, 2008 mandates the Authority to consider concessions granted to the airport operator while deciding on the treatment of CGF services, Pre-control Period losses and revenue from real estate development. In addition, HIAL submitted that for issues such as treatment of forex losses that have no guiding regulatory principle, the Authority should develop suitable guidelines for the future, while allowing HIAL to recover its forex losses in the current Control Period.

13.22. Finally, HIAL resubmitted that the Authority should ensure regulatory consistency among all regulated airports on the treatment of issues such as recognition of dividend and interest income, real increase in operating expenses and inflationary allowance among others.

F) <u>Authority's Examination of Stakeholder Comments on YPP calculation</u>

13.23. The Authority notes the various submissions made by IATA on the structuring of tariffs in the rate card. However, given that it may not be possible to accurately estimate the aeronautical revenue collections in a variable tariff structure with discounts and exemptions, the Authority has decided to consider a combination of existing charges and Annexure B of HIAL's ATP Submission in response to the Consultation Paper No. 30/2017-18.

13.24. The Authority has noted HIAL's comment requesting the Authority to consider various principles highlighted by HIAL. The Authority would like to mention that all these points have been dealt with in their respective chapters.

13.25. The Authority would like to highlight that the tariff determination process for the 2nd Control Period of HIAL has undergone a lengthy legal process (just as the 1st Control Period Tariff

Order), as a result of which the Authority was not in a position to immediately release the tariff order following the stakeholder consultation process. The Authority is aware that the vacuum led to a significant over-recovery of aeronautical revenue during the first four years of the 2nd Control Period by HIAL, which has continued to charge tariffs at predetermined ad hoc rates. Furthermore, the Authority is aware that undertaking a full-fledged exercise of updating the financial results of HIAL and re-computing HIAL's YPP would be a time-consuming exercise, recourse to which is likely to be infructuous given that there is only one year remaining in the 2nd Control Period. With the immediate priority being ensuring relief to the airport user community, who continue to pay the ad hoc tariffs being charged by HIAL, the Authority has decided to revise HIAL's tariffs based on a combination of existing aeronautical charges and those that were submitted by HIAL as per its ATP submission ("ATP") in response to the Authority's Consultation Paper No. 30/2017-18. The Authority has decided to allow HIAL to recover existing landing and parking charges; however, UDF and ICT charges are revised downward based on HIAL's ATP Submission for FY 2020-21. The charges allowed by the Authority to HIAL have been summarized in para 13.26. Further, the Authority has decided to discontinue fuel throughput charges is discussed in para 13.28.

13.26. Accordingly, the charges to be levied by HIAL for FY 2020-21 are as follows:

Table 40: Tariff to be charged by HIAL for FY 2020-21 as allowed by the Authority

Charges	**ATP for CP- FY21 (in INR)**	
	Domestic	**International**
Landing Rate (<100 MT)	188	251
(>100 MT)	253	337
Parking Rate (<100 MT)	4.10	
(>100 MT)	5.40	
UDF Allowed by AERA	281	393
ICT(CUTE/ CUSS/BRS)	$1.25	

13.27. The Authority acknowledges that levying tariffs as provided above for the remaining one year of the 2nd Control Period is likely to result in an over-recovery made by HIAL in the 2nd Control Period vis-à-vis the yield per passenger (YPP) determined by the Authority in its Consultation Paper No. 30/2017-18. However, given the legal complications involved, the Authority believes that this is the most appropriate interim measure which would provide relief to airport users. Further, the Authority shall re-compute over-recovery based on HIAL's actual financial results for the 2nd Control Period, and adjust the same along with an appropriate carrying cost, while determining tariffs for the 3rd Control Period falling due from 01.04.2021.

13.28. Additionally, HIAL would not be allowed to levy fuel throughput charges as a result of the letter issued by Ministry of Civil Aviation addressed to Chairperson of the Authority dated 8.01.2020, stating that fuel throughput charges have been discontinued from all airports. The Authority feels that any loss of revenue due to abolishing the FTC will be more than adequately compensated by over recovery made by HIAL during 2nd Control Period, and HIAL would not require any additional cash compensation. Accordingly, the Authority will calculate the loss of revenue due to the discontinuation of FTC and adjust it from the over-recovery made in the 2nd Control Period at the time of tariff determination for the 3rd Control Period.

Decision No. 13. Regarding calculation of Yield Per Passenger (YPP)

Based on the material before it and its analysis, the Authority decides:

13.a. To consider the YPP as given in Table 39. The Authority shall implement its principles enshrined in this Order based on the actual financial results provided by HIAL during the tariff determination exercise for the 3rd Control Period. Further, 01.04.2020 is considered as the tariff implementation date.

13.b. To allow HIAL to recover tariffs as given in Table 40. The UDF allowed to be charged by HIAL would be Rs. 281 per departing domestic passenger and Rs. 393 per departing international passenger.

13.c. To true-up the Aggregate Revenue Requirements (and YPP) for HIAL based on truing-up of various building blocks at the end of the 2nd Control Period and to consider its effect in the next Control Period.

14. SUMMARY OF DECISIONS

15. <u>ORDER</u>

15.1. In exercise of powers 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 RGI Airport, Hyderabad for the second control period (01.04.2016 to 31.03.2021) as placed at Annexure 1. These rates will be effective from 01.04.2020.

15.2. In exercise of powers conferred by Section 13 (1) (b) of the AERA Act, 2008, read with Rule 89 of the Aircraft Rules, 1937, the Authority hereby determines the rate of UDF as indicated in the rate cards at Annexure 1 for the current Control Period. The rates will be effective from 01.04.2020.

15.3. The tariffs determined herein are ceiling rates, exclusive of taxes, if any.

15.4. HIAL shall submit its MYTP Submission to the Authority for 3rd Control Period in a timely manner as per the Authority's Regulatory Guidelines, 2011

By the Order and in the name of the Authority

(Ram Krishan)
Director (P & S)

To,

GMR Hyderabad International Airport Limited
Shamshabad, Hyderabad - 500409
(through SGK Kishore, CEO, GMR Hyderabad International Airport Ltd.)

16. ANNEXURE 1: AIRPORT CHARGES

The Authority would like to highlight to the stakeholders that the UDF and tariffs approved for HIAL for the remaining 1 year (FY 2020-21) of 2nd Control Period are ad hoc and may not match exactly with the Aggregate Revenue Requirement (ARR). The Authority shall undertake an appropriate true-up exercise for the 2nd Control Period at the time of tariff determination for the 3rd Control Period.

Rate Card — w.e.f. 01.04.2020

Landing Charges

a. Landing charges levied per landing

Applicable period	***01.04.2020 - 31.03.2021***
International	
International (upto 100 MT)	Rs. 251 per MT
International (above 100 MT)	Rs. 25,100 + Rs. 337 per MT in excess of 100 MT
Domestic	
Domestic (upto 100 MT)	Rs. 188 per MT
Domestic (above 100 MT)	Rs. 18,800 + Rs. 253 per MT in excess of 100 MT

MT – Metric Tonne, MToW-Maximum Take Off Weight

b. Terms and conditions

- The charges set forth herein shall be calculated on the basis of nearest MT i.e. equivalent to 1,000 kilograms. MToW to be as per the Certificate of Airworthiness filed with DGCA.
- A minimum charge of Rs. 4,000/- (up to 21 Metric tonne for Domestic and 16 Metric tonne for International in the case of general aviation aircraft) shall be levied per singe unscheduled landing of Helicopters and General Aviation aircraft. For over the specified tonnage, the charges as per MTOW will be applicable.
- An aircraft with a maximum certified seat capacity of less than 80, as certified by the DGCA, being operated by domestic scheduled operators, are exempted from payment of landing charges.
- Domestic legs of the international routes of Indian Scheduled Operators will be treated as domestic flight as far as airport user charges are concerned irrespective of the number assigned to such flights.

Parking Charges

a. Parking charges shall be levied as below:

Applicable period	*01.04.2020 - 31.03.2021*
Total Weight (MTOW)	**Parking Charges (Rate per Hour)**
Up to 100 MT	Rs. 4.10 / hour / MT
above 100 MT	Rs. 410 + Rs. 5.40 / hour / MT in excess of 100 MT

b. Other terms and conditions

- HIAL shall allow two (2) hours of free parking. The time of 15 minutes shall be added to the free parking time of two hours mentioned herein, on account of time taken between touch down time and actual parking time on the stand for the calculation of free parking period.
- 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 takeoff.
- For calculating chargeable parking time, part of an hour shall be rounded off to the next hour.
- Charges shall be calculated on the basis of nearest MT.
- The Charges for each period parking shall be rounded off to nearest rupee.
- HIAL shall levy parking charges at the in-contact stands as mentioned herein:

Parking hrs	*0-02 hrs*	*02-04 hrs*	*Above 04 hrs*
Rate	Free	Normal parking rates as listed above	Double the normal parking rates

User Development Fee (UDF)

User Development Fee for Domestic and International Passengers shall be payable as follows:

Applicable period	*01.04.2020 - 31.03.2021*
UDF-Domestic Passenger	
Rs. per Departing Domestic Passenger	Rs. 281
UDF- International Passenger	
Rs. per Departing International Passenger	Rs. 393

The revised UDF as above, shall be applicable for the tickets issued on or after 01.04.2020

- The above charges ere exclusive of applicable taxes.

Exemption in User Development Fee

The Ministry of Civil Aviation, Govt. of India vide order no. AV.29012/39/2018-AD dated 10.04.2019 has directed AAI to exempt the following categories of persons from levy and collection of UDF:

- Children (under age of 2 years),
- Holders of Diplomatic Passport,
- 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),
- Persons travelling on official duty on aircraft operated by Indian Armed Forces,

- Persons traveling on official duty for United Nations Peace Keeping Missions,
- 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
- Passengers departing from the Indian airports due to involuntary rerouting i.e. technical problems or weather conditions.

Aviation Security Fee (ASF) would be applicable as prescribed by Ministry of Civil Aviation.

ICT (CUTE/CUSS/BRS) Charge

Applicable period	*01.04.2020 -31.03.2021*
Per Embarking Passenger	USD 1.25

ICT services shall be concessioned out on revenue share model. The charges mentioned above will be collected by Concessionaire from Airlines. HIAL shall collect the charges till such time it is concessioned.

For converting the USD in INR the RBI reference conversion Rate as on the last day of the previous month for tickets issued in 1st fortnight & rate as on 15th of the month tickets issued in the 2nd fortnight shall be adopted.

Fixed Electricity Ground Power ("FEGP") Charges

FEGP services can be availed by the Airlines/Operators to use electric ground power in place of APU (Auxiliary power unit) or a GPU (diesel generator).

Charges for FEGP usage are based on minimum half an hour usage and thereafter every 15 minutes based on the hourly charges.

The following fixed ground power charges will be charged:

Applicable period	*01.04.2020 - 31.03.2021*	
Time Slot	*1 plug (90 kv)*	*2 plugs (180 kv)*
First 30 minutes	Rs. 500	Rs. 875
Every additional 15 mins	Additional Rs. 250	Additional Rs. 437.40

The above FEGP rates are subject to revision if there is any significant change in the prevailing electricity rate.

Taxes

All the above Airport Charges and Fee are net of taxes. Taxes payable shall be extra in addition to the above charges.

Mode of Invoicing and Payment

a. HIAL shall raise invoices for Landing and Parking Charges, Aviation Security Fees (ASF), User Development Fees (UDF), and ICT Charges, on fortnightly basis for the services availed by the Scheduled Operators at the Airport for the preceding fortnight. The credit period will be in respect of airlines having credit arrangement with the company. For other airlines it will be on cash and carry basis.

b. All the invoices will be sent to the Operator in the electronic format followed by hard copy with necessary supporting documents. All the applicable taxes shall be charged to the Airline at prevailing rates in addition to the charges.

c. All unscheduled Operators shall pay in advance / charged on cash & carry basis.

Applicable collection charges, credit terms and payment dates to Scheduled Operators/Airlines.

The collection charges applicable at GMR Hyderabad International Airport shall be as mentioned below subject to the terms and conditions hereunder:

Charges	*Collection charges* *
User Development Fee (UDF)	**Rs. 5** per departing passenger

* On the base amount (Excluding GST)

However, no collection charges will be payable by HIAL to the operator, if the operator fails to make the UDF invoices payment within the applicable credit period.