

File No. AERA/20010/MYTP/AAI/Varanasi/CP-I/2016-17

Order No. 59/2020-21



AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

IN THE MATTER OF

**DETERMINATION OF AERONAUTICAL TARIFF FOR
LAL BAHADUR SHASTRI INTERNATIONAL AIRPORT (VNS),
VARANASI FOR THE FIRST CONTROL PERIOD**

(01.04.2019– 31.03.2024)

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**AERA BUILDING
ADMINISTRATIVE COMPLEX
SAFDARJUNG AIRPORT
NEW DELHI– 110003**



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List of Abbreviations

Abbreviation	Full Form
AAI	Airports Authority of India
AAICLAS	AAI Cargo Logistics and Allied Services
AERA	Airports Economic Regulatory Authority
ALCMS	Airfield Lighting Control & Monitoring System
ANS	Air Navigation Services
ARR	Annual Revenue Requirement
ATM	Aircraft Traffic Movement
AUCC	Airport Users Consultative Committee
AVDGS	Advanced Visual Docking Guidance System
C&AG	Comptroller and Auditor General of India
CAGR	Compounded Annual Growth Rate
CFT	Crash Fire Tender
CHQ	Central Headquarter
CISF	Central Industrial Security Force
CP	Consultation Paper
DGCA	Directorate General of Civil Aviation
DLP	Defect Liability Period
E&M	Electrical & Mechanical
EB	Electricity Board
FIA	Federation of Indian Airlines
FIDS	Flight Information Display System
FRoR	Fair Rate of Return
GAL	GMR Airports Limited
Gol	Government of India
GST	Goods and Services Tax
HR	Human Resources
IATA	International Air Transport Association
IDC	Interest During Construction
ILCMS	Individual Lamp Control Monitoring System
MoCA	Ministry of Civil Aviation
MPPA	Million Passenger per Annum
MYTP	Multi-Year Tariff Proposal
NAR	Non-Aeronautical Revenue
PBB	Passenger Boarding Bridge
PIB	Project Investment Board
PMC	Project Management Consultancy
PPP	Public Private Partnership
PSF	Passenger Service Fee
PSF(F)	Passenger Service Fee (Facilitation)
PTB	Passenger Terminal Building
P&L	Profit & Loss
RAB	Regulatory Asset Base
RHQ	Regional Headquarter
SITC	Supply, Installation, Testing & Commissioning
UDF	User Development Fees
YPP	Yield Per Passenger



CHAPTER 1. INTRODUCTION

1.1 Profile of the Airport

1.1.1 Lal Bahadur Shastri International Airport (VNS), located in the city of Varanasi is the 20th busiest airport¹ in India. DGCA granted commercial license to AAI to operate Varanasi Airport on May 25, 2007, which has been renewed every 2 year thereafter. The license was last renewed on November 25, 2019 and is valid up to November 24, 2021.

1.1.2 Technical and terminal building details of Varanasi Airport are provided in the table below:

Table 1: Technical details and terminal building details

Technical Details of ATQ	
Particulars	Details
Total airport area	774 Acre
Runway orientation and length	09-27 and 2.45 km
No. of taxi tracks	04
No. of apron bays	09
Operational hours	24 hours
Terminal building details (Domestic plus International)	
Particulars	Details
Terminal building area	26823 sq. meters - Aeronautical Area: 25,232 sq. meters - Non-Aeronautical Area: 1,591 sq. meters
Arrival conveyors	02
Terminal building capacity	2.5 MPPA
Peak hour passenger capacity	1050 (750 Domestic + 300 International)
No. of check-in counters	21
Total area of car parking	8799 sq. meters

1.2 Background of the Tariff Determination Exercise

1.2.1 As per the AERA (Amendment) Act 2019, the annual passenger handling threshold definition of Major Airport was revised from 1.5 million to 3.5 million. Varanasi, with a throughput of 3.01 million passenger traffic for FY 2019-20, doesn't qualify as "Major Airport" as per the new definition. However, Ministry of Civil Aviation vide letter no. AV-24011/141/2015-AD (Vol. V) dated October 1, 2019 asked AERA to determine the tariff for the Varanasi airport as AAI has proposed to include the Varanasi airport in the next round of PPP leasing in order to provide a transparent view to various bidders. AERA vide letter no. AERA/20010/MoCA-Reference/2018-19/Vol-III/13092 dated October 14, 2019 clarified that the tariff determination shall be done on the basis of AAI's financial statements including capital expenditure incurred by AAI as on the date of determination and capital expenditure projections for the Control Period along with the capital structure and cost of funds of AAI. AERA clarified to the Ministry that these underlying factors may change substantially once the Airport is handed over to the prospective bidder and accordingly the tariff determined may not remain reflective of the changed situation. Further, AERA requested MoCA to issue notification/circular declaring Varanasi Airport as a "Major Airport", if it so desired,

¹ As per the data on top 50 busiest airports for FY 2019-20, published by AAI



to enable the Authority to determine its tariff in the current state. Accordingly, MoCA notified Varanasi Airport as "Major Airport" in the Gazette of India, Extraordinary, Part II, Section 3, Sub-Section (ii) vide letter No. AV-24011/141/2015-AD (Vol. V) dated October 10, 2019.

- 1.2.2 As discussed above, once the airport is handed over to the prospective bidder, the inputs for tariff determination such as capital expenditure projections for the Control Period, capital structure, cost of funds etc. may change. ***Accordingly, the Authority will direct the Concessionaire, once the privatization takes place, to submit a fresh application for tariff determination based on their financials, within a year of handing over the airport, failing which the applicable tariffs (Landing charges, Parking charges and UDF) shall be reduced by 10% till fresh application for tariff determination is submitted by the Concessionaire.***

1.3 Steps involved in determination of tariff for Varanasi Airport

- 1.3.1 AAI submitted its Multi-Year Tariff Proposal dated December 3, 2019 to the Authority for determination of aeronautical tariff for the 1st Control Period. Based on this MYTP, the Authority reviewed submissions made by AAI with respect to various building blocks.
- 1.3.2 The Authority vide Consultation Paper No. 05/2020-21 dated June 1, 2020 proposed aeronautical tariff in respect of Varanasi Airport for the 1st control period (01/04/2019 to 31/03/2024) and invited comments from stakeholders for the proposed tariffs.
- 1.3.3 A Stakeholders' Consultation Meeting was convened by the Authority on June 30, 2020 to invite the views of the Stakeholders on the Consultation Paper and the impact of the ongoing COVID-19 pandemic.
- 1.3.4 AAI presented the Multi Year Tariff Proposal submitted to AERA for determination of tariffs for the 1st Control Period covering the features of the existing airport, historical and earlier projections for passenger traffic and ATM movements along with the revised projections of passenger traffic and ATM movements, revised non-aeronautical revenue and revised date of capitalization for proposed capital expenditure along with the revised tariff proposal for the Control Period in the light of COVID-19 pandemic.
- 1.3.5 Some of the Stakeholders raised the issue of impact of revised submission on the aeronautical tariff and requested the Authority to come up with a fresh consultation paper or issue an Addendum to the existing Consultation Paper.
- 1.3.6 The Authority received the written comments from the following Stakeholders on the Consultation Paper:
- a) Airport Authority of India (AAI)
 - b) InterGlobe Aviation (Indigo)
 - c) GMR Airports Limited (GAL)
- 1.3.7 The comments from AAI were received on July 9, 2020. The counter comments from AAI on the comments by other Stakeholders were received on August 11, 2020.
- 1.3.8 The Authority carefully read and analyzed the Stakeholders' comments. After a thoughtful consideration of these comments followed by discussions with Stakeholders and given the new proposals and revised numbers submitted by AAI due to ongoing COVID-19 pandemic, the Authority believed that the impact of revised submission of AAI on aeronautical tariff would be material, and, accordingly, the Authority issued an Addendum to the Consultation Paper No.



05/2020-21 on November 24, 2020, for inviting fresh comments from various stakeholders.

- 1.3.9 In the Addendum, the Authority had proposed to revise the date of implementation of the proposed tariffs to April 1, 2021.
- 1.3.10 The Authority had invited comments from all Stakeholders post publication of the above-mentioned Addendum to Consultation Paper. The Authority has received comments from following Stakeholders:
- a) Airport Authority of India (AAI)
 - b) Federation of Indian Airlines (FIA)
- 1.3.11 The comments from AAI were received on December 8, 2020. Further, the Authority received counter comments from AAI on the comments by FIA on December 21, 2020.
- 1.3.12 The Authority has examined the submissions of AAI and the comments of various stakeholders and after considering all the relevant aspects, has finalized this Tariff Order.
- 1.3.13 The Authority had appointed an Independent Consultant i.e. M/s PwC to assess the MYTP of AAI Varanasi Airport. Accordingly, M/s PwC had assessed the MYTP with reference to the Certified Books of Accounts (Audited Financials, Asset Register etc.) of AAI Varanasi Airport.
- 1.3.14 The Tariff Order is structured in a manner wherein under each regulatory building block, the initial submission made by AAI in the MYTP is listed out, followed by the Authority's examination at the Consultation Stage and proposals for the First Control Period. The same is followed by the comments and counter comments by the various stakeholders on the Consultation Paper and Addendum to the Consultation Paper, followed by the Authority's examination and its final decision on the subject matter.



CHAPTER 2. TARIFF SETTING PRINCIPLES

2.1 Background

- 2.1.1 The Authority vide its Order No. 13/2010-11 dated January 12, 2011 (“Airport Order”) and Direction No. 5/2010-11 dated February 28, 2011 (“Airport Guidelines”), had issued guidelines to determine tariffs at Major Airports based on Single Till mechanism. Subsequently, the Authority has amended guidelines vide its Order No. 14, 2016-17 dated January 12, 2017 to determine the future tariffs using Hybrid Till Methodology in line with the policy of the Government of India.
- 2.1.2 The Authority has decided the 1st Control Period for the airport to be the five-year period from FY 2019-20 till FY 2023-24. The tariff determination process consists of determination of regulatory building blocks for the 1st Control Period under Hybrid Till.

2.2 Methodology for Determining Annual Revenue Requirement

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

$$ARR = \sum_{t=1}^5 ARR_t$$
$$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - \alpha \times NAR_t$$

Where,

t is the tariff year in the Control Period, ranging from 1 to 5

ARR_t is the Aggregate Revenue Requirement for tariff year ‘t’

FRoR is the Fair Rate of Return for the Control Period

RAB_t is the Aeronautical Regulatory Asset Base for tariff year ‘t’

D_t is the Depreciation corresponding to the Regulatory Asset Base for tariff year ‘t’

O_t is the Aeronautical Operation and Maintenance expenditure for the tariff year ‘t’

T_t is the Aeronautical Taxation expense for the tariff year ‘t’

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

NAR_t is the Non-Aeronautical Revenue in tariff year ‘t’.

- 2.2.2 Based on ARR, Yield Per Passenger (Y) is calculated as per the formula given below:

$$Yield\ Per\ Passenger(Y) = \frac{\sum_{t=1}^5 PV(ARR_t)}{\sum_{t=1}^5 VEt}$$

Where,

PV (ARR_t) is the Present Value of ARR for all the tariff years. All cash flows are assumed to occur at the end of the year. Further, the date considered by the Authority for discounting of cash flows is



one year from the start of the Control Period, i.e., April 1, 2019.

VE_t is the passenger traffic in year 't'.

2.2.3 All the figures presented in this Tariff Order have been rounded off up to two decimals.

2.3 Stakeholders' Comments on CP regarding Tariff Setting Principles for the First Control Period

Indigo's comments on Tariff Setting Principles for the First Control Period:

2.3.1 IndiGo submits that as per para 2.2 of the Consultation Paper, it is stated that AERA shall determine tariff for Varanasi Airport using the Hybrid Till model. It is to be noted that IndiGo has from time to time advocated the application of a Single Till model across the airports in India. IndiGo submitted that AERA should adopt Single Till basis the following legal framework being:

"In the AERA Order No. 13/2010-11 dated 12 January 2011 (Single Till Order), AERA has strongly made a case in favor of the determination of tariff on the basis of 'Single Till'. It is noteworthy that AERA has in its Single Till Order, inter alia:

- (i) Comprehensively evaluated the economic model and realities of the airport - both capital and revenue elements.
- (ii) Taken into account the legislative intent behind Section 13(1)(a)(v) of the AERA Act.
- (iii) Concluded that the Single Till is the most appropriate for the economic regulation of Major Airports in India.
- (iv) The criteria for determining tariff after taking into account standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO.

Further, AERA in its (Terms and Conditions for determination of tariff for airport operator) Guidelines, 2011 has followed the Single Till approach while laying down the procedure for determination of ARR for Regulated Services.

The fundamental reasoning behind the 'Single Till' approach is that if the consumers/passengers are offered cheaper airfares on account of lower airport charges, the volume of passengers is bound to increase leading to more footfall and probability of higher Non-aeronautical revenue. The benefit of such Non-aeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower Aeronautical charges. Thus, the above productive chain reaction needs to be taken into account by AERA".

2.4 AAI's counter comments and response to stakeholders' comments on CP regarding Tariff Setting Principles for the First Control Period

2.4.1 AAI has requested the Authority to offer its views on the tariff methodology.

2.5 Authority's examination regarding Tariff Setting Principles at Addendum to CP stage

2.5.1 The Authority, as per the recommendations of the National Civil Aviation Policy 2016 (NCAP



2016) of GoI, has amended tariff guidelines vide its Order No. 14/2016-17 dated January 12, 2017 to determine the future tariffs using Hybrid Till. The Authority has provided detailed reasoning and adequately responded to the stakeholders' comments on the adoption of Hybrid Till in the above order. The excerpt from the same has been provided below:

"(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."

2.5.2 Therefore, the Hybrid Till approach has been followed to determine the aeronautical tariff.

2.6 Stakeholders' Comments on Addendum to CP regarding Tariff Setting Principles for the First Control Period

2.6.1 No comments were received from the stakeholders.

2.7 Authority's Decisions regarding Tariff Setting Principles for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

2.7.1 The Authority decides to adopt the "Hybrid Till" approach for determination of aeronautical tariff for the first control period in respect of the Varanasi Airport.



CHAPTER 3. AAI'S MULTI-YEAR TARIFF PROPOSAL (MYTP) OF VARANASI AIRPORT FOR THE FIRST CONTROL PERIOD

3.1 Background

- 3.1.1 AAI made submissions dated December 3, 2019 to the Authority for determination of tariffs for the 1st Control Period (01/04/19 to 31/03/24) on the basis of Hybrid Till. Subsequently, AAI revised the tariff proposal considering the impact of COVID-19 pandemic in the first control period.
- 3.1.2 AAI provides Air Navigation Services (ANS) in addition to landing, parking and other aeronautical services at Varanasi Airport. AAI submitted that the tariff proposal does not consider revenues, expenditure and assets on account of ANS. This order discusses the determination of tariffs for aeronautical services at the airport excluding ANS.
- 3.1.3 AAI has further submitted that all cargo operations have been transferred to AAI Cargo Logistics and Allied Services (AAICLAS), its wholly owned subsidiary and the tariff proposal does not consider revenues, expenditure and assets on account of cargo operations. AAI has considered a revenue share of 30% from AAICLAS as part of the aeronautical revenue as per AAI's internal agreement with AAICLAS. Accordingly, this order has been issued for the determination of tariffs for aeronautical services at the airport excluding Cargo Operations. The tariffs for cargo operations will be determined separately since the operations are carried out by a separate entity.
- 3.1.4 AAI has informed that accounts of AAI are audited by Comptroller and Auditor General ("CAG") of India as mandated by AAI Act. The CAG's resident audit party audits the financial records and statements of AAI airports, regional and field offices. However, the CAG issues the final audit certificate for AAI as a whole and only Trial Balance is available for Varanasi Airport. The Authority has utilized these documents as submitted by AAI for determination of tariffs.

3.2 Stakeholders' Comments on CP regarding MYTP for the First Control Period

IndiGo's comments on MYTP for the First Control Period:

- 3.2.1 In respect of para 3.2.3.3 of the Consultation Paper in the matter of revenue from air navigation services and cargo services. IndiGo submitted that as per section 2 (a) of Airports Economic Regulatory Authority of India Act, 2008 (AERA Act),

"Aeronautical services means any services provided-

- (i) For navigation, surveillance and supportive communication thereto for air traffic management....
- (ii) for the cargo facility at an airport..."

IndiGo submitted that considering the above provisions of the AERA Act, revenue from Air Navigation Services and Cargo services (100% revenue accruing to AAICLAS) should form part of Aeronautical revenues and accordingly Authority should take into account of the corresponding revenues from such services and re-compute the Aggregate Revenue Requirement (ARR) and further revise the tariff card accordingly.



3.3 AAI's counter comments and response to stakeholders' comments on CP regarding the MYTP for the First Control Period

- 3.3.1 AAICLAS is a separate entity and Cargo revenue is to be considered by AAICLAS for the determination of Cargo Tariff. As per agreement, AAICLAS has to pay 30% of revenue from operation as revenue share to AAI and the same has been considered for the determination of aeronautical tariff. Regarding Air Navigation Service (ANS), the revenue from ANS is considered while determining the tariff proposal for ANS charges (RNFC, TNLC and overflying) on all India basis and the expenditure/capex of ANS have not been considered in the tariff proposal of Varanasi Airport.

3.4 Authority's examination regarding MYTP for the First Control Period at Addendum to CP stage

- 3.4.1 **Revenue from AAICLAS:** The Authority carries out a separate exercise for determination of tariff for cargo handling services, wherever these services are provided by Independent Service Providers (ISP) other than the Airport Operator. The Authority considers expenses, revenues, and assets pertaining to these services separately while determining tariff for these services. Under the current exercise of determination of aeronautical tariff for the airport operations, the Authority has considered the earnings accruing to AAI by way of revenue share (which is 30% of revenue from AAICLAS) and rent from these service providers.
- 3.4.2 **Revenue from ANS:** Tariff for ANS is presently regulated by the Ministry of Civil Aviation. All the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining tariff for ANS services. Further, the tariff for ANS services is determined at the Central level by the Ministry of Civil Aviation to ensure uniformity across the Airports in the Country. Hence, AERA determines tariff for Aeronautical services of the Airport Operator, by excluding the revenues from ANS.

3.5 Stakeholders' Comments on Addendum to CP regarding MYTP for the First Control Period

- 3.5.1 No comments were received from the stakeholders.

3.6 Authority's Decisions regarding MYTP for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

- 3.6.1 The Authority decides not to consider the revenues from AAICLAS (except 30% royalty as revenue share from AAICLAS) and ANS while determining Aeronautical tariff for the Varanasi Airport.



CHAPTER 4. TRAFFIC FORECAST FOR THE FIRST CONTROL PERIOD

4.1 AAI's submission regarding Traffic Forecast for the First Control Period

4.1.1 The historical traffic² at the airport has been shown in the table below:

Table 2: Historical passenger and ATM traffic at Varanasi Airport

Year	Domestic passengers	International passengers	Domestic ATM	International ATM
2006-07	317449	32563	4137	518
2007-08	401114	47749	5570	703
2008-09	355703	45072	4974	803
2009-10	431962	48975	4958	854
2010-11	500670	56181	5036	844
2011-12	683356	64455	6579	842
2012-13	738506	71442	6672	982
2013-14	735553	90729	6880	1160
2014-15	960388	59730	7926	875
2015-16	1314046	69916	10827	837
2016-17	1811617	104837	14019	1016
2017-18	1936616	150965	14323	1335
2018-19	2586311	198704	19984	1834
Past 10 years CAGR	21.94%	15.99%	14.92%	8.61%
Past 5 years CAGR	28.59%	16.97%	23.77%	9.59%
Past 3 years CAGR	25.32%	41.65%	22.67%	29.88%

4.1.2 The traffic growth rates as submitted by AAI for the 1st Control Period are as follows:

Table 3: Traffic growth rates proposed by AAI as per initial submission

Year	Passenger			ATM		
	Domestic	International	Combined	Domestic	International	Combined
Growth rates						
2019-20	25%	15%	24.3%	25%	12%	23.9%
2020-21	12%	10%	11.9%	11%	9%	10.8%
2021-22	12%	10%	11.9%	11%	9%	10.9%
2022-23	12%	10%	11.9%	11%	9%	10.9%
2023-24	10%	10%	10.0%	9%	9%	9.0%
Traffic						
2019-20	32,32,889	2,28,510	34,613,98	24,980	2054	27,034
2020-21	36,20,835	2,51,361	38,721,96	27,728	2239	29,967
2021-22	40,55,336	2,76,497	43,318,32	30,778	2440	33,218
2022-23	45,41,976	3,04,146	48,461,22	34,163	2660	36,823

² Source: Traffic News from AAI website



Year	Passenger			ATM		
	Domestic	International	Combined	Domestic	International	Combined
2023-24	49,961,73	3,34,561	53,307,34	37,238	2899	40,137

- 4.1.3 AAI submitted that the passenger traffic and aircraft movement projections are based on past trends, econometric and regression analysis, and various economic factors including policy framework.
- 4.1.4 AAI submitted the growth rate of 25% and 15% for Domestic and International Passenger Traffic respectively in FY 2019-20 and the growth rate of 25% and 12% for Domestic and International Aircraft Traffic Movement (ATM) in FY 2019-20.

4.2 Authority's examination regarding Traffic Forecast for the First Control period at Consultation stage

- 4.2.1 The Authority verified the growth rate of actual Passenger Traffic of initial nine months of FY 2019-20 vis-à-vis initial nine months of FY 2018-19 and found it to be 12.86%. Similarly, the Authority verified the growth rate of actual Aircraft Traffic Movement of initial nine months of FY 2019-20 vis-à-vis initial nine months of FY 2018-19 and found it to be 10.98%
- 4.2.2 The Authority analyzed the trend of proportion of actual initial nine months passenger traffic data i.e. April - December over the whole years' traffic data for last three years i.e. FY 2016-17 to FY 2018-19 as shown in table below:

Table 4: Passenger traffic data for last three years (FY 2016-17 to FY 2018-19)

Financial Year	Domestic Passenger Traffic Data			International Passenger Traffic Data		
	Apr - Dec	Apr - Mar	Proportion	Apr - Dec	Apr - Mar	Proportion
FY 2018-19	1,869,646	2,586,311	72.29%	124,950	198,704	62.88%
FY 2017-18	1,339,246	1,936,616	69.15%	109,492	150,965	72.53%
FY 2016-17	1,316,873	1,811,617	72.69%	72,730	104,837	69.37%
Average Ratio (FY 2018-19 to FY 2016-17)			71.38%			68.26%

* Proportion = (Data for Apr-Dec)/(Data for Apr-Mar)

- 4.2.3 In line with above analysis, the Authority also analyzed the trend of proportion of actual initial nine months ATM data i.e. April - December over the whole years' ATM data for last three years i.e. FY 2016-17 to FY 2018-19 as shown in table below:

Table 5: ATM data for last three years (FY 2016-17 to FY 2018-19)

Financial Year	Domestic ATM Data			International ATM Data		
	Apr - Dec	Apr - Mar	Proportion	Apr - Dec	Apr - Mar	Proportion
FY 2018-19	14,620	19,984	73.16%	1,160	1,834	63.25%
FY 2017-18	9,880	14,323	68.98%	949	1,335	71.09%
FY 2016-17	10,386	14,019	74.09%	723	1,016	71.16%
Average Ratio (FY 2018-19 to FY 2016-17)			72.07%			68.50%

* Proportion = (Data for Apr-Dec)/(Data for Apr-Mar)

- 4.2.4 Based on above analysis, the Authority proposed to compute the passenger traffic for FY 2019-20 by grossing up the actual initial nine months traffic data for FY 2019-20 with the average ratio as determined above. The Authority determined the Domestic and International passenger traffic as 2,902,772 and 262,427 respectively for FY 2019-20. Similarly, the Authority determined the



Domestic and International ATM as 22,149 and 2,260 respectively for FY 2019-20.

- 4.2.5 The Authority duly examined the submissions from AAI. As part of its examination of AAI's forecast of traffic at Varanasi Airport, the Authority calculated Compounded Annual Growth Rate, or CAGR, for passenger traffic and ATM from FY 2008-09 to FY 2018-19 (10-year CAGR), FY 2013-14 to FY 2018-19 (5 year CAGR) and FY 2015-16 to 2018-19 (3-year CAGR).
- 4.2.6 Further, the Authority computed the revised 10-year CAGR, 5-year CAGR and 3-year CAGR upto FY 2019-20, using the above calculated traffic data for FY 2019-20.
- 4.2.7 The details are given in the table below:

Table 6: Revised CAGR for Passenger Traffic and ATM as per Authority

Particulars	10 year CAGR	5 year CAGR	3 year CAGR
Passengers:			
Domestic	21.94%	28.59%	25.32%
International	15.99%	16.97%	41.65%
ATM:			
Domestic	14.92%	23.77%	22.67%
International	8.61%	9.59%	29.88%
After considering actuals of FY 2019-20*:			
Passengers:			
Domestic	20.99%	24.76%	17.02%
International	18.28%	34.45%	35.78%
Total Passenger Traffic	20.73%	25.42%	18.20%
ATM:			
Domestic	16.15%	22.82%	16.47%
International	10.22%	20.90%	30.54%
Total ATM	15.43%	22.63%	17.53%

*Based on actuals up to Dec 2019 with linear extrapolation up to March 2020

- 4.2.8 The Authority noted the wide variation in traffic in the recent past, which causes CAGR for 5-year period to be the highest for Domestic passenger profile and CAGR for 3-year period to be the highest for International passenger profile.
- 4.2.9 The Authority proposed to use revised 10-year CAGR, i.e. 20.99% for Domestic passenger traffic growth for the 2nd year of the Control Period and onwards; and revised 5-year CAGR, i.e. 34.45% for International passenger traffic growth for the 2nd year of the Control Period and onwards.
- 4.2.10 With respect to ATM (2nd year of the Control Period and onwards), the Authority proposed the growth rates in line with revised 3-year CAGR, i.e. 16.47% for Domestic ATM and revised 5-year CAGR i.e., 20.90% for International ATM.
- 4.2.11 The traffic growth rates and the corresponding traffic for Passengers and ATM as considered by the Authority at consultation stage for the 1st Control Period is given in the table below:



Table 7: Traffic forecast as considered by the Authority at consultation stage

Year	Passenger Traffic			ATM		
	Domestic	International	Combined	Domestic	International	Combined
Growth rates						
2019-20	12.24%	32.07%	13.65%	10.84%	23.22%	11.88%
2020-21	20.99%	34.45%	22.10%	16.47%	20.90%	16.88%
2021-22	20.99%	34.45%	22.22%	16.47%	20.90%	16.89%
2022-23	20.99%	34.45%	22.34%	16.47%	20.90%	16.91%
2023-24	20.99%	34.45%	22.47%	16.47%	20.90%	16.92%
Traffic in numbers						
2019-20	2,902,772	262,427	3,165,199	22,149	2,260	24,409
2020-21	3,511,961	52,835	3,864,796	25,797	2,732	28,529
2021-22	4,248,996	474,389	4,723,386	30,046	3,303	33,349
2022-23	5,140,710	637,820	5,778,530	34,995	3,993	38,988
2023-24	6,219,562	857,554	7,077,116	40,758	4,828	45,586

4.2.12 The Authority proposed to true-up the traffic as per actual growth achieved during the 1st Control Period at the time of determination of tariff for the 2nd Control Period.

4.3 Stakeholders' Comments on CP regarding Traffic Forecasts for the First Control Period

AAI's comments on Traffic Forecasts for the First Control Period

4.3.1 AAI proposed the revised traffic projections as the aviation sector is going through a turbulent phase due to ongoing COVID-19 pandemic. The revised traffic growth rates as submitted by AAI for the 1st Control Period are as follows:

Table 8: Revised Traffic forecast as proposed by the AAI

Year	Passenger Traffic			ATM		
	Domestic	International	Combined	Domestic	International	Combined
Growth rates						
2019-20	7.45%	16.62%	8.10%	10.02%	12.81%	10.26%
2020-21	-35.23%	-61.16%	-37.22%	-31.78%	-56.50%	-33.90%
2021-22	20.00%	80.00%	22.86%	18.00%	75.00%	21.23%
2022-23	15.00%	25.00%	15.70%	14.00%	22.00%	14.65%
2023-24	15.00%	25.00%	15.75%	14.00%	22.00%	14.70%
Traffic						
2019-20	2,778,972	231,730	3,010,702	21,987	2,069	24,056
2020-21	1,800,000	90,000	1,890,000	15,000	900	15,900
2021-22	2,160,000	162,000	2,322,000	17,700	1,575	19,275
2022-23	2,484,000	202,500	2,686,500	20,178	1,922	22,100
2023-24	2,856,600	253,125	3,109,725	23,003	2,344	25,347

Indigo's comments on Traffic Forecasts for the First Control Period

4.3.2 Indigo has submitted that AAI has not disclosed the details of traffic forecast including comparison with any other forecast with industry forums like IATA etc. in accordance with the Clause A5.6 of the AERA (Terms and Conditions for Airport Operators) Guidelines, 2011 (AERA Guidelines). Further, Indigo has requested the Authority to conduct an independent study for the traffic projections, particularly due to the ongoing COVID-19 pandemic.



- 4.3.3 Indigo requested the Authority to clarify on the rationale behind adopting different periods for estimating the CAGR domestic and international traffic and ATM projections.

4.4 AAI's counter comments and response to stakeholders' comments on CP regarding traffic forecast for the First Control Period

- 4.4.1 In response to Indigo's comments, AAI has requested the Authority to offer its views on the traffic projections

4.5 Authority's examination regarding Traffic Forecast for the First Control Period at Addendum to CP stage

- 4.5.1 The Authority considered the balanced view while proposing the traffic growth rates and proposed the median growth rates among the 3-year CAGR, 5-year CAGR and 10-year CAGR for domestic and international passenger projections over the control period. However, the Authority proposed to revise the traffic projections considering the impact of COVID-19, which will subsequently be trued up as per actuals at the time of tariff determination for next control period.
- 4.5.2 The Authority had sought the views of various stakeholders at the time stakeholder's consultation. Based on the suggestions received, the Authority considered the ICAO study, IATA survey, and sector updates for the traffic projections for the control period. The traffic decline was proposed to be in the range of 40%-50% in the first year and 20%-30% in the second year while regaining the existing levels of FY 2019-20 by the end of FY 2022-23. For FY 2023-24, the hike of 20% has been considered in line with the recovery expected during those years.
- 4.5.3 Accordingly, the Authority proposed the revised traffic projections as shown in table below:

Table 9: Revised Traffic forecast as proposed by the Authority at Addendum to CP stage

Year	Passenger Traffic			ATM		
	Domestic	International	Combined	Domestic	International	Combined
Growth rates						
2019-20	7.45%	16.62%	8.10%	10.02%	12.81%	10.26%
2020-21	-35.23%	-61.16%	-37.22%	-31.78%	-56.50%	-33.90%
2021-22	20.00%	80.00%	22.86%	18.00%	75.00%	21.23%
2022-23	28.66%	43.04%	29.66%	24.22%	31.37%	24.80%
2023-24	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
Traffic in numbers						
2019-20	2,778,972	231,730	3,010,702	21,987	2,069	24,056
2020-21	1,800,000	90,000	1,890,000	15,000	900	15,900
2021-22	2,160,000	162,000	2,322,000	17,700	1,575	19,275
2022-23	2,778,972	231,730	3,010,702	21,987	2,069	24,056
2023-24	3,334,766	278,076	3,612,842	26,384	2,483	28,867

4.6 Stakeholders' Comments on Addendum to CP regarding Traffic Forecasts for the First Control Period

AAI's comments on Traffic Forecasts for the First Control Period

- 4.6.1 AAI has submitted that IATA had revised down their passenger forecast over the next five-year period. In new forecasts, IATA expects RPKs to decline by a little more than 60% in 2020 compared to 2019, with a return to pre-COVID-19 levels not occurring before 2024.



4.6.2 The revised traffic growth rates as submitted by AAI for the 1st Control Period are as follows:

Table 10: Revised Traffic forecast as proposed by the AAI

Year	Passenger Traffic			ATM		
	Domestic	International	Combined	Domestic	International	Combined
Growth rates						
2019-20	7.45%	16.62%	8.10%	10.02%	12.81%	10.26%
2020-21	-35.23%	-61.16%	-37.22%	-31.78%	-56.50%	-33.90%
2021-22	20.00%	80.00%	22.86%	18.00%	75.00%	21.23%
2022-23	15.00%	25.00%	15.70%	14.00%	22.00%	14.65%
2023-24	15.00%	25.00%	15.75%	14.00%	22.00%	14.70%
Traffic						
2019-20	2,778,972	231,730	3,010,702	21,987	2,069	24,056
2020-21	1,800,000	90,000	1,890,000	15,000	900	15,900
2021-22	2,160,000	162,000	2,322,000	17,700	1,575	19,275
2022-23	2,484,000	202,500	2,686,500	20,178	1,922	22,100
2023-24	2,856,600	253,125	3,109,725	23,003	2,344	25,347

FIA's comments on Traffic Forecasts for the First Control Period

4.6.3 FIA has submitted that AERA should consider conducting an independent study for traffic projections for the first control period while considering the proposed increase in flight capacity to 80% as per Ministry for Civil Aviation's Order No. 11/2020 dated December 3, 2020, and gradual easing of travel restrictions by state governments and robust movement of air traffic under 'Vande Bharat Mission' and 'Transport Bubble/Air Travel Arrangement'.

4.7 AAI's counter comments and response to stakeholders' comments on Addendum to CP regarding traffic forecast for the First Control Period

4.7.1 In response to FIA's comments, AAI has submitted that IATA has revised the traffic forecasts for next five years and expects the passenger traffic to reach pre-COVID-19 levels by 2024. AAI has requested the Authority to revise the traffic projections as per their submission in the counter comments.

4.8 Authority's examination and decisions regarding Traffic Forecast for the First Control Period

4.8.1 The Authority has carefully analyzed the submissions from FIA and AAI, and presented its views in the ensuing paragraphs.

4.8.2 AAI has made a revised submission highlighting that IATA has revised the traffic forecasts for next five years and expects the passenger traffic to reach pre-COVID-19 levels by 2024.

4.8.3 The IATA study suggests decline in the revenue per passenger per kilometre, which depends on multiple factors apart from passenger traffic such as conservative pricing by the airlines to ensure full capacity utilization, restrictions on international travel imposed by the various Governments etc. These factors may be vital for international passenger traffic projections; however, the domestic passenger traffic growth will be governed largely by the gradual easing of the nation-wide travel restrictions imposed by the Government of India.

4.8.4 The airlines operations were suspended in March 2020 due to country wide lockdowns imposed by the Government of India. The lockdown restrictions on airline operations were relaxed in May 2020,



however, the airlines were allowed to operate not more than 33% of their pre-COVID-19 domestic flights. The flight cap was increased to 45% on June 26 and to 60% on September 2, 2020.

- 4.8.5 In November 2020, the Ministry of Civil Aviation (MoCA) vide Order No. 10/2020 proposed to increase the airline capacity to 70% of the pre-COVID levels. Recently, MoCA vide circular dated December 3, 2020 allowed the airlines to operate with the flight capacity up to 80% of the pre-COVID-19 levels. Therefore, it may be safely assumed that airlines may be allowed to operate with 100% of the capacity by March 2021.
- 4.8.6 Considering the above factors, the Authority believes that the domestic and international passenger traffic shall reach the pre-COVID-19 levels somewhere in FY 2022-23. Since the traffic projections proposed by AAI in revised submission is in the suggested range, the Authority proposes to consider the passenger traffic and ATM movement as per AAI's projections for FY 2020-21 and FY 2021-22. Further, the passenger traffic and ATM movement have been considered in line with the pre-COVID-19 levels for FY 2022-23, and a 20% hike has been proposed on it for FY 2023-24. However, the Authority will consider the passenger traffic as per actuals at the time of true-up in Next Control Period.
- 4.8.7 As discussed in the above paragraphs of this chapter, the Authority decides to consider the revised traffic projections as shown in table below:

Table 11: Revised Traffic as approved by the Authority for the first control period

Year	Passenger Traffic			ATM		
	Domestic	International	Combined	Domestic	International	Combined
Growth rates						
2019-20	7.45%	16.62%	8.10%	10.02%	12.81%	10.26%
2020-21	-35.23%	-61.16%	-37.22%	-31.78%	-56.50%	-33.90%
2021-22	20.00%	80.00%	22.86%	18.00%	75.00%	21.23%
2022-23	28.66%	43.09%	29.66%	24.29%	33.33%	25.03%
2023-24	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
Traffic in numbers						
2019-20	2,778,972	231,730	3,010,702	21,987	2,069	24,056
2020-21	1,800,000	90,000	1,890,000	15,000	900	15,900
2021-22	2,160,000	162,000	2,322,000	17,700	1,575	19,275
2022-23*	2,779,000	231,800	3,010,800	22,000	2,100	24,100
2023-24	3,334,800	278,160	3,612,960	26,400	2,520	28,920

* The traffic figures have been rounded up to the nearest hundreds.

4.9 Authority's Decision Regarding Traffic Forecast for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

- 4.9.1 The Authority decides to consider the ATM and passenger traffic for the 1st Control Period for Varanasi Airport as per Table 11.
- 4.9.2 The Authority decides that subject to the terms and conditions of the privatization of Varanasi Airport, it will consider to true-up the traffic volume (ATM and Passengers) on the basis of actual traffic in 1st Control Period while determining tariffs for the 2nd Control Period.



CHAPTER 5. ALLOCATION OF ASSETS BETWEEN AERONAUTICAL AND NON-AERONAUTICAL

5.1 AAI's submission regarding Allocation of Assets for the First Control Period

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

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

- Terminal Area Ratio:** This is a ratio of aeronautical area to non-aeronautical area and is applied for all terminal related common assets.
- Employee Ratio:** This is a ratio of number of staff providing non-aeronautical services (i.e. commercial and land management) to number of staff providing aeronautical services, excluding ANS and Cargo.
- Quarter ratio:** This is a ratio based on number of non-aeronautical staff to aeronautical staff residing at the residential quarters at the airport. It is applied to assets pertaining to such residential quarters.

5.1.3 The table below provides the details of these ratios used for allocation:

Table 12: Ratios used by AAI for allocation of assets into aeronautical and non-aeronautical

Particulars	Ratio (FY 2017-18)
Terminal Area Ratio	5.93%
Employee Ratio	3:95
Quarter ratio	1:74

5.1.4 The allocation of gross block of assets as on April 1, 2017 between aeronautical and non-aeronautical services as submitted by AAI is given in the table below:



Table 13: Allocation of opening gross block of assets for FY 2017-18 between aeronautical and non-aeronautical as per AAI (INR crores)

S. No.	Asset category	Total assets	Pure Aero assets	Common Assets	Common Assets		Total Aero Assets	% Aero
					Aero	Non-Aero		
1.	Leasehold Land	0.31	0.31	0.00	0.00	0.00	0.31	100.0%
2.	Runways, Aprons and Taxiways	44.74	44.74	0.00	0.00	0.00	44.74	100.0%
3.	Road, Bridges & Culverts	2.69	2.69	0.00	0.00	0.00	2.69	100.0%
4.	Building-Others	3.51	3.05	0.47	0.46	0.01	3.51	99.82%
5.	Building – Terminal	88.28	0.62	87.66	82.46	5.20	83.08	94.11%
6.	Building – Temporary	1.18	1.18	0.00	0.00	0.00	1.18	100.0%
7.	Building- Residential	0.46	0.11	0.36	0.35	0.01	0.46	98.96%
8.	Security Fencing-Temp	0.11	0.11	0.00	0.00	0.00	0.11	100%
9.	Boundary Wall – Operational	2.21	2.21	0.00	0.00	0.00	2.21	100.0%
10.	Boundary Wall – Residential	0.08	0.00	0.09	0.08	0.01	0.08	98.65%
11.	Computer - End user	1.03	1.03	0.00	0.00	0.00	1.03	100%
12.	Intangible Assets – Software	1.02	1.01	0.01	0.01	0.0	1.01	99.79%
13.	Plant & Machinery	23.94	23.35	0.22	0.21	0.01	23.56	98.37%
14.	Tools & Equipment	4.00	3.22	0.78	0.73	0.05	3.95	98.85%
15.	Furniture & Fixtures: Other Than Trolley	1.75	1.74	0.01	0.01	0.00	1.75	99.99%
16.	Furniture & Fixtures: Trolley	0.36	0.36	0.00	0.00	0.00	0.36	100.0%
17.	Vehicles	1.15	1.15	0.00	0.00	0.00	1.15	100.0%
18.	Electrical Installations	43.46	7.91	35.55	33.45	2.10	41.36	95.16%
19.	Other Office Equipment	0.48	0.48	0.00	0.00	0.00	0.48	100.0%
20.	X Ray Baggage System	5.62	5.62	0.00	0.00	0.00	5.62	100.0%
21.	CFT/Fire Fighting Equipment	19.06	19.06	0.00	0.00	0.00	19.06	100.0%
	Total	245.44	119.95	125.12	117.75	7.37	237.70	96.84%

5.2 Authority's examination regarding Allocation of Assets for the First Control period at Consultation stage

5.2.1 AAI submitted the Initial RAB as on April 1, 2017 considering that Varanasi airport became "Major Airport" in FY 2017-18 as defined in Section 2(i) of Airports Economic Regulatory Authority of India (AERA, the Authority) Act. However, the threshold for the definition of Major Airports was revised to 3.5 million passengers per annum as per AERA (Amendment) Act, 2019.

5.2.2 As discussed in Chapter 1, MoCA directed AERA to determine the aeronautical tariff for Varanasi Airport while declaring it as a "Major Airport" vide letter AV-24011/141/2015-AD (Vol. V) dated October 30, 2019 as it is proposed to be privatized in next round of PPP leasing by AAI. Accordingly, the Authority determined the Initial RAB as on April 1, 2019, considering the first Control Period to be from FY 2019-20 to FY 2023-24.

5.2.3 AAI submitted the details of common assets and their allocation between aeronautical assets and non-aeronautical assets as on April 1, 2017. The Authority for the purpose of calculating



the gross Aero assets as on April 1, 2019, proposed to determine gross opening Aero assets as on April 1, 2017 as per AAI submissions and has considered the addition in aeronautical assets and net depreciation for FY 2017-18 and FY 2018-19 to compute the Initial RAB as on April 1, 2019. The depreciation for FY 2017-18 and FY 2018-19 has been computed considering the depreciation rates as per AAI's internal accounting policies, which shall be discussed in subsequent sections.

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

Table 14: Terminal Area Ratio

S. No.	Category	Area (Sq. meters)
1	Commercial Entities- Restaurant / Snack Bars	269.03
2	Commercial Entities- Retail Facility	559.48
3	Duty Free Shop	0.00
4	Building Non-Residential	715.29
5	Admission Tickets	3.00
6	AAI Commercial office	45.00
	Total non-aeronautical area (1)	1591.80
	Total area of terminal (2)	26822.79
	Terminal area ratio (1/2)	5.93%

- 5.2.5 The Authority observed that 9,030 sq. ft. or 838.91 sq. mt. of area was used for advertising purposes. However, this area does not occupy any floor space and has therefore, not been considered while calculating Terminal Area Ratio.

- 5.2.6 The Authority verified the above working, with details of exact area given to various entities – commercial, airlines, and regulatory and allied agencies. However, the Authority believes that AAI should put in more efforts to increase the share of non-aeronautical activities in the terminal building. Considering that the passenger profile at Varanasi Airport is dominated by tourists, the Authority proposed to consider the terminal building ratio as 10%, in line with the optimum terminal building ratio of 8%-12% as approved for similar airports.

- 5.2.7 The Authority verified the workings provided by AAI for employee ratio. AAI has considered the employee ratio without deducting the cargo employees and ANS share of employees in Finance and HR. The Authority has computed the employee ratio based on above observations as 3/86. **Accordingly, the Authority proposed to consider the ratio as 3/86.**

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

Table 15: Allocation of common assets as per Authority

S. No.	Asset category	Common Assets (INR cr.)	Aero Assets (INR cr.)	Non-Aero Assets (INR cr.)	Ratio used for allocation of common assets	Remarks
1.	Building – Terminal	88.28	79.45	8.83	Terminal Building ratio – 10%	All common assets of INR 87.66 crore as per Table 13 have been allocated as per

S. No.	Asset category	Common Assets (INR cr.)	Aero Assets (INR cr.)	Non-Aero Assets (INR cr.)	Ratio used for allocation of common assets	Remarks
						the Terminal Building ratio of 10%. AAI allocated the balance assets as 100% aeronautical. The Authority proposes to allocate these on the basis of Terminal Building Ratio.
2.	Other Buildings	0.46	0.45	0.01	Quarter ratio- 1:74	All common assets of INR 0.46 crore have been appropriately allocated as per the Quarter ratio.
3.	Building – Residential	0.36	0.35	0.01	Quarter ratio- 1:74	All common assets of INR 0.36 crore have been appropriately allocated as per the Quarter ratio.
4.	Boundary wall residential	0.085	0.084	0.001	Quarter ratio- 1:74	All common assets of INR 0.085 crore have been appropriately allocated as per the Quarter ratio.
5.	Tools & Equipment	0.78	0.70	0.08	Terminal Building ratio – 10%	These assets pertain to lifts and hand dryers and has been allotted based on terminal building ratio.
6.	Electrical Installations	35.55	32.00	3.55	Terminal Area Ratio- 10%	The total common assets of INR 35.55 crore as per Table 13 have been allocated on the basis of terminal area ratio.
7.	Other Office Equipment	0.48	0.46	0.02	Employee Ratio: 3:86	AAI proposed an allocation of 100% aeronautical for these assets. However, because these assets pertain to office equipment used by the employees; the Authority proposes to allocate these on the basis of Employee Ratio.

5.2.9 On the basis of above observations, the Authority proposed the allocation of gross block of assets in accordance with the table below:



Table 16: Allocation of assets proposed by the Authority at consultation stage (Gross Block as on 1st April 2017) (INR crores)

S. No.	Asset category	Total assets	Pure Aero	Common Assets	Common Asset		Aero assets	% Aero
					Aero	Non-Aero		
1.	Leasehold Land	0.31	0.31	0.00	0.00	0.00	0.31	100.0%
2.	Runways, Aprons and Taxiways	44.74	44.74	0.00	0.00	0.00	44.74	100.0%
3.	Road, Bridges & Culverts	2.69	2.69	0.00	0.00	0.00	2.69	100.0%
4.	Building-Others	3.51	3.05	0.47	0.46	0.01	3.51	99.82%
5.	Building – Terminal	88.28	0.00	88.28	79.45	8.83	79.45	90.00%
6.	Building – Temporary	1.18	1.18	0.00	0.00	0.00	1.18	100.0%
7.	Building- Residential	0.46	0.11	0.36	0.35	0.01	0.46	98.96%
8.	Security Fencing-Temp	0.11	0.11	0.00	0.00	0.00	0.11	100.0%
9.	Boundary Wall – Operational	2.21	2.21	0.00	0.00	0.00	2.21	100.0%
10.	Boundary Wall – Residential	0.08	0.00	0.09	0.08	0.01	0.08	98.65%
11.	Computer - End user	1.03	1.03	0.00	0.00	0.00	1.03	100.0%
12.	Intangible Assets – Software	1.02	1.01	0.01	0.01	0.0	1.01	99.79%
13.	Plant & Machinery	23.94	23.35	0.22	0.20	0.02	23.55	98.37%
14.	Tools & Equipment	4.00	3.22	0.78	0.70	0.08	3.92	98.85%
15.	Furniture & Fixtures: Other Than Trolley	1.75	1.74	0.01	0.01	0.00	1.75	99.99%
16.	Furniture & Fixtures: Trolley	0.36	0.36	0.00	0.00	0.00	0.36	100.0%
17.	Vehicles	1.15	1.15	0.00	0.00	0.00	1.15	100.0%
18.	Electrical Installations	43.46	7.91	35.55	32.00	3.55	39.91	91.83%
19.	Other Office Equipment	0.48	0.00	0.48	0.46	0.02	0.46	96.51%
20.	X Ray Baggage System	5.62	5.62	0.00	0.00	0.00	5.62	100.0%
21.	CFT/Fire Fighting Equipment	19.06	19.06	0.00	0.00	0.00	19.06	100.0%
	Total	245.44	118.85	126.22	113.72	12.51	232.57	94.76%

5.3 Stakeholders' Comments on CP regarding Allocation of Assets for the First Control Period

AAI's comments on Allocation of Assets for the First Control Period

5.3.1 AAI has requested to consider the following allocation ratios:

Table 17: Revised Allocation Ratios proposed by AAI

Particulars	Ratio (FY 2017-18)
Terminal Building Ratio	5.93%
Employee Ratio	3:91
Quarter Ratio	1:73



- 5.3.2 For Terminal Building ratio, AAI has submitted that the proposed allocation ratio of 5.93% as the terminal building has already saturated in FY 2018-19 and has no additional space to award for the Concessionaires. Therefore, AAI has requested to consider the terminal building ratio of 5.93%.
- 5.3.3 For employee ratio, AAI has submitted that AERA has not considered the portion of finance and HR allocated to ANS. AAI has requested to include the portion of finance and HR allocated to ANS as the airport is proposed for privatization in next round of PPP leasing and only aeronautical portion of such common assets shall be paid to AAI while all these assets will be physically handed over to the concessionaire.
- 5.3.4 AAI submitted that allocation of assets is done on the basis of actual utilization for the facility provided for services like Navigation/ Airport Services/ Non-aero activities.

Indigo's comments on Allocation of Assets for the First Control Period

- 5.3.5 Indigo submitted that AERA's proposal to bifurcate assets between aeronautical assets and non- aeronautical assets is based on information received from AAI and no detailed technical evaluation of the same or an independent study has been done by AERA.
- 5.3.6 Further, Indigo highlighted that allocation of the assets between Aeronautical or Non-Aeronautical categories is critical under Hybrid Till approach, hence the same should be carried out based on independent study as per the AERA Act.
- 5.3.7 With prejudice to the above, Indigo requested AERA to clarify regarding the assumption for the splitting of terminal building cost between civil works and electrical installation and basis for splitting such expenditure as this ratio will have a significant impact on depreciation considering the depreciation rate of electrical installation is higher than building.

GMR Airport Limited's comments on Allocation of Assets for the First Control Period

- 5.3.8 GMR Airport Limited (GAL) submitted that that the terminal area allocation would be based on specific characteristics of the airport terminal and therefore, the terminal area allocation should be based on actual area utilization, rather than on normative percentages.

5.4 AAI's counter comments and response to stakeholder comments on CP regarding Allocation of Assets for the First Control Period

- 5.4.1 In response to Indigo's comments, AAI has submitted that the allocation of assets between Aeronautical and Non-aeronautical have been done on the actual usage of the facility for aeronautical and non-aeronautical purposes. Further, AAI has submitted that split ratio of 65% for Civil works and 35% for Electrical Installations has been considered based on a reasonable estimate.
- 5.4.2 In response to GMR Airports Limited (GAL) comments, AAI has shown agreement with their views.



5.5 Authority's examination regarding Allocation of Assets for the First Control Period at Addendum to CP Stage

- 5.5.1 The Authority carefully analyzed the submissions from Indigo, GAL and AAI, and presented its views, as below.
- 5.5.2 The allocation ratio must be based on the potential of the non-aeronautical services at the airport. The IATA has recommended the ideal Terminal Building ratio of 8%-12% at any airport. Given the dominance of religious tourism at the airport under consideration, the practical TB ratio must be higher than the ratio as proposed by AAI and the efforts must be made by AAI to achieve the suggested Terminal Building ratio. Further, the split ratio of 65% for Civil works and 35% for Electrical Installations has been considered in line with the Authority's proposal for other AAI airports in the past.
- 5.5.3 For employee ratio, the Authority proposed to consider the ratio as proposed in the Consultation Paper since presently there is no clarity regarding the terms and conditions of privatization or when it will be privatized.
- 5.5.4 The Authority has considered AAI's submission regarding the quarter ratio and accordingly, proposes to revise the allocation of common assets between aeronautical and non-aeronautical assets.
- 5.5.5 As discussed in the above paragraphs of this chapter, the Authority proposed revised allocation ratio as shown in table below:

Table 18: Revised Allocation Ratios proposed by the Authority in the Addendum to CP

Particulars	Ratio (FY 2017-18)
Terminal Area Ratio	10%
Employee Ratio	3:86
Quarter ratio	1:73

- 5.5.6 On the basis of above observations, the Authority proposed the allocation of gross block of assets in accordance with the table below:

Table 19: Allocation of assets considered by the Authority at Addendum to CP stage (Gross Block as on 1st April 2017) (INR crores)

S. No.	Asset category	Total assets	Pure Aero Assets	Common Assets	Common Asset		Aero assets	% Aero
					Aero	Non-Aero		
1.	Leasehold Land	0.31	0.31	0.00	0.00	0.00	0.31	100.0%
2.	Runways, Aprons and Taxiways	44.74	44.74	0.00	0.00	0.00	44.74	100.0%
3.	Road, Bridges & Culverts	2.69	2.69	0.00	0.00	0.00	2.69	100.0%
4.	Building-Others	3.51	3.05	0.47	0.46	0.01	3.51	99.82%
5.	Building – Terminal	88.28	0.00	88.28	79.45	8.83	79.45	90.00%
6.	Building – Temporary	1.18	1.18	0.00	0.00	0.00	1.18	100.0%
7.	Building- Residential	0.46	0.11	0.36	0.35	0.01	0.46	98.95%
8.	Security Fencing-Temp	0.11	0.11	0.00	0.00	0.00	0.11	100.0%

S. No.	Asset category	Total assets	Pure Aero Assets	Common Assets	Common Asset		Aero assets	% Aero
					Aero	Non-Aero		
9.	Boundary Wall – Operational	2.21	2.21	0.00	0.00	0.00	2.21	100.0%
10.	Boundary Wall – Residential	0.09	0.00	0.09	0.08	0.01	0.08	98.63%
11.	Computer - End user	1.03	1.03	0.00	0.00	0.00	1.03	100.0%
12.	Intangible Assets – Software	1.02	1.01	0.01	0.01	0.0	1.01	99.79%
13.	Plant & Machinery	23.57	23.35	0.22	0.20	0.02	23.55	98.34%
14.	Tools & Equipment	4.00	3.22	0.78	0.70	0.08	3.92	98.05%
15.	Furniture & Fixtures: Other Than Trolley	1.74	1.73	0.01	0.01	0.00	1.74	99.99%
16.	Furniture & Fixtures: Trolley	0.36	0.36	0.00	0.00	0.00	0.36	100.0%
17.	Vehicles	1.15	1.15	0.00	0.00	0.00	1.15	100.0%
18.	Electrical Installations	43.46	7.91	35.55	32.00	3.55	39.90	91.82%
19.	Other Office Equipment	0.48	0.00	0.48	0.46	0.02	0.46	96.51%
20.	X Ray Baggage System	5.62	5.62	0.00	0.00	0.00	5.62	100.0%
21.	CFT/Fire Fighting Equipment	19.06	19.06	0.00	0.00	0.00	19.06	100.0%
	Total	245.07*	118.84*	126.25*	113.72	12.53	232.54	94.89%

* Sum of Pure Aero assets and Common assets may differ from the total Assets due to rounding off

5.6 Stakeholders' Comments on Addendum to CP regarding Allocation of Assets for the First Control Period

AAI's comments on Allocation of Assets for the First Control Period

5.6.1 AAI has requested to consider the following allocation ratios:

Table 20: Revised Allocation Ratios proposed by AAI

Particulars	Ratio (FY 2017-18)
Terminal Building Ratio	5.93%
Employee Ratio	3:91
Quarter Ratio	1:73

5.6.2 For Terminal Building ratio, AAI has requested to consider the allocation ratio as per actual utilization i.e. 5.93%. The terminal building has a designated capacity of 2.5 MPPA, however, the actual pax up to FY 2018-19 is 2.78 million. Further, AAI has submitted that space for passengers and smooth operations is their first priority and the terminal area allocation must depend on the specific characteristic of the airport terminal and should be based on actual area utilization. Therefore, it is requested to consider the terminal building ratio of 10%.

5.6.3 For employee ratio, AAI has submitted that AERA has not considered the portion of Finance and HR allocated to ANS. AAI has requested to include the portion of Finance and HR allocated to ANS as the airport is proposed for privatization in next round of PPP leasing and only aeronautical portion of such common assets shall be paid to AAI while all these assets



will be physically handed over to the concessionaire.

5.7 Authority's examination and decisions regarding Allocation of Assets for the First Control Period

- 5.7.1 The Authority has carefully analyzed the submissions from AAI, and presents its views, as below.
- 5.7.2 The allocation ratio must be based on the potential of the non-aeronautical services at the airport. The IATA has recommended the ideal Terminal Building ratio of 8%-12% at any airport. Given the dominance of religious tourism at the airports under consideration, the practical TB ratio must be higher than the ratio as proposed by AAI and the efforts must be made by AAI to achieve the suggested Terminal Building ratio. Further, the split ratio of 65% for Civil works and 35% for Electrical Installations has been considered in line with the Authority's proposal for other AAI airports in the past.
- 5.7.3 For employee ratio, the Authority decides to consider the ratio as proposed in the Consultation Paper since presently there is no clarity regarding the terms and conditions of privatization or when it will be privatized.
- 5.7.4 As discussed in the above paragraphs of this chapter, the Authority decides to consider the allocation ratio as shown in table below:

Table 21: Revised Allocation Ratios Considered by the Authority for FCP

Particulars	Ratio (FY 2017-18)
Terminal Area Ratio	10%
Employee Ratio	3:86
Quarter ratio	1:73

- 5.7.5 On the basis of above ratios, the Authority decides to allocate gross block of assets as on 01.04.2017 in accordance with the table below:

**Table 22: Allocation of assets approved by the Authority (Gross Block as on 1st April 2017)
(INR crores)**

S. No.	Asset category	Total assets	Pure Aero Assets	Common Assets	Common Asset		Aero assets	% Aero
					Aero	Non-Aero		
1.	Leasehold Land	0.31	0.31	0.00	0.00	0.00	0.31	100.0%
2.	Runways, Aprons and Taxiways	44.74	44.74	0.00	0.00	0.00	44.74	100.0%
3.	Road, Bridges & Culverts	2.69	2.69	0.00	0.00	0.00	2.69	100.0%
4.	Building-Others	3.51	3.05	0.47	0.46	0.01	3.51	99.82%
5.	Building – Terminal	88.28	0.00	88.28	79.45	8.83	79.45	90.00%
6.	Building – Temporary	1.18	1.18	0.00	0.00	0.00	1.18	100.0%
7.	Building- Residential	0.46	0.11	0.36	0.35	0.01	0.46	98.95%
8.	Security Fencing- Temp	0.11	0.11	0.00	0.00	0.00	0.11	100.0%
9.	Boundary Wall – Operational	2.21	2.21	0.00	0.00	0.00	2.21	100.0%
10.	Boundary Wall –	0.09	0.00	0.09	0.08	0.01	0.08	98.63%

S. No.	Asset category	Total assets	Pure Aero Assets	Common Assets	Common Asset		Aero assets	% Aero
					Aero	Non-Aero		
	Residential							
11.	Computer - End user	1.03	1.03	0.00	0.00	0.00	1.03	100.0%
12.	Intangible Assets – Software	1.02	1.01	0.01	0.01	0.0	1.01	99.79%
13.	Plant & Machinery	23.57	23.35	0.22	0.20	0.02	23.55	98.34%
14.	Tools & Equipment	4.00	3.22	0.78	0.70	0.08	3.92	98.05%
15.	Furniture & Fixtures: Other Than Trolley	1.74	1.73	0.01	0.01	0.00	1.74	99.99%
16.	Furniture & Fixtures: Trolley	0.36	0.36	0.00	0.00	0.00	0.36	100.0%
17.	Vehicles	1.15	1.15	0.00	0.00	0.00	1.15	100.0%
18.	Electrical Installations	43.46	7.91	35.55	32.00	3.55	39.90	91.82%
19.	Other Office Equipment	0.48	0.00	0.48	0.46	0.02	0.46	96.51%
20.	X Ray Baggage System	5.62	5.62	0.00	0.00	0.00	5.62	100.0%
21.	CFT/Fire Fighting Equipment	19.06	19.06	0.00	0.00	0.00	19.06	100.0%
	Total	245.07*	118.84*	126.25*	113.72	12.53	232.54	94.89%

* Sum of Pure Aero assets and Common assets may differ from the total Assets due to rounding off

5.8 Authority's Decision regarding Allocation of Assets between Aeronautical and Non-Aeronautical

Based on the material before it and its analysis, the Authority has decided the following:

- 5.8.1 The Authority decides to consider the allocation of gross block of assets as on April 1, 2017 between aeronautical and non-aeronautical assets as detailed in Table 22.



CHAPTER 6. INITIAL REGULATORY ASSET BASE

6.1 AAI's submission regarding Initial Regulatory Asset Base for the First Control Period

- 6.1.1 As per AAI's submission, the Initial RAB as on 31/03/17 amounted to INR 74.45 crores. AAI submitted the following working for the computation of Initial RAB.

Table 23: Initial RAB on 1st April 2017 as per AAI's submission (INR crores)

Asset Category	Opening Gross Block	Accumulated Depreciation	Opening Net Block
Leasehold Land	0.00	0.00	0.00
Runways, Aprons and Taxiways	44.74	42.80	1.94
Road, Bridges & Culverts	2.69	2.13	0.56
Building-Others	3.51	1.59	1.92
Building – Terminal	83.08	46.35	36.73
Building – Temporary	1.18	1.18	0.00
Building- Residential	0.46	0.37	0.09
Security Fencing-Temp	0.11	0.11	0.00
Boundary Wall – Operational	2.21	2.03	0.19
Boundary Wall – Residential	0.08	0.05	0.03
Computer - End user	1.03	1.02	0.00
Intangible Assets – Software	1.01	1.01	0.01
Plant & Machinery	23.56	19.63	3.92
Tools & Equipment	3.95	2.14	1.80
Furniture & Fixtures: Other Than	1.75	1.72	0.03
Furniture & Fixtures: Trolley	0.36	0.22	0.14
Vehicles	1.15	0.90	0.25
Electrical Installations	41.36	29.67	11.69
Other Office Equipment	0.48	0.39	0.09
X Ray Baggage System	5.62	3.24	2.38
CFT/Fire Fighting Equipment	19.06	6.38	12.68
Total	237.39	162.93	74.45

6.2 Authority's examination regarding Initial Regulatory Asset Base for the First Control period at Consultation stage

- 6.2.1 AAI has worked out depreciation for FY 2017-18 and FY 2018-19 using rates as per Authority's Order No. 35/2017-18, which is applicable for Major Airports within the economic regulatory ambit of AERA. However, MoCA has directed AERA to determine the aeronautical tariff for Varanasi Airport, while declaring it as a Major Airport, only on October 30, 2019. Accordingly, the depreciation rates as per Authority's Order No. 35/2017-18 may not be applicable for the periods FY 2017-18 and FY 2018-19. Therefore, the Authority proposed to use the depreciation rates applicable as per AAI's internal accounting policies for computing the net block of Initial RAB.

- 6.2.2 As discussed in para 5.2.1, the Initial RAB as on April 1, 2019 has been computed based on



opening value of Aeronautical Assets as on April 1, 2017, addition in assets and net depreciation for FY 2017-18 and FY 2018-19. The depreciation methodology used for FY 2017-18 and FY 2018-19 has been discussed in Chapter 8 on Depreciation.

6.2.3 The Authority revised the Initial RAB mainly on account of change in Terminal Building ratio, employee ratio and depreciation rates, as presented in the following table:

Table 24: Initial RAB on 1st April 2019 as proposed by Authority at Consultation stage (INR crores)

Asset Category	Opening Gross Block on Apr' 17	Acc. Depreciation	Opening Net Block on Apr'17	Addition for FY 2017-18	Net Depreciation FY 2017-18	Addition for FY 2018-19	Net Depreciation FY 2018-19	Opening Net Block on Apr'19
Leasehold Land	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Runways, Aprons and Taxiways	44.74	42.80	1.94	0.00	1.94	0.57	0.04	0.53
Road, Bridges & Culverts	2.69	2.13	0.56	0.00	0.23	0.00	0.07	0.26
Building-Others	3.51	1.59	1.92	2.79	0.37	0.63	0.50	4.47
Building – Terminal	79.45	44.32	35.13	2.08	6.42	0.26	6.52	24.53
Building – Temporary	1.18	1.18	0.00	0.00	0.00	0.00	0.00	0.00
Building-Residential	0.46	0.37	0.09	0.00	0.02	0.00	0.02	0.05
Security Fencing-Temp	0.11	0.11	0.00	0.00	0.00	0.00	0.00	0.00
Boundary Wall – Operational	2.21	2.03	0.19	0.00	0.05	0.00	0.05	0.09
Boundary Wall – Residential	0.08	0.05	0.03	0.00	0.00	0.63	0.00	0.02
Computer - End user	1.03	1.02	0.00	0.22	0.02	0.09	0.05	0.23
Intangible Assets – Software	1.01	1.01	0.01	0.00	0.00	0.00	0.00	0.00
Plant & Machinery	23.55	19.63	3.92	1.94	1.85	8.07	2.40	9.68
Tools & Equipment	3.92	2.14	1.78	1.58	0.90	9.06	1.95	9.58
Furniture & Fixtures: Other Than Trolley	1.75	1.72	0.03	0.18	0.02	0.09	0.04	0.25
Furniture & Fixtures: Trolley	0.36	0.22	0.14	0.01	0.02	0.41	0.08	0.46
Vehicles	1.15	0.90	0.25	0.42	0.10	0.00	0.09	0.49
Electrical Installations	39.91	28.68	11.23	1.22	3.49	2.69	4.22	7.43
Other Office Equipment	0.46	0.38	0.09	0.00	0.06	0.03	0.03	0.03
X Ray Baggage System	5.62	3.24	2.38	0.00	0.19	0.04	0.31	1.92
CFT/Fire Fighting Equipment	19.06	6.38	12.68	0.00	0.97	5.30	2.24	14.77
Total	232.25	159.58	72.66	10.45	16.64	27.24	18.61	74.80

6.3 Stakeholders' Comments on CP regarding Initial Regulatory Asset Base for the First Control period

6.3.1 No comments were received from the Stakeholders.

6.4 Authority's examination regarding Initial Regulatory Asset Base for the First Control period at Addendum to CP stage

6.4.1 On account of change in the aeronautical capitalisation, the Authority revised the initial RAB once again during the addendum to CP stage as presented in the following table:

Table 25: Initial RAB on 1st April 2019 as proposed by the Authority at Addendum to CP stage (INR crores)

Asset category	Opening gross block on Apr' 17	Accumulated depreciation	Opening net block on Apr'17	Addition for FY 2017-18	Net Depreciation FY 2017-18	Addition for FY 2018-19	Net Depreciation on FY 2018-19	Opening net block on Apr'19
Leasehold Land	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Runways, Aprons	44.74	42.80	1.94	0.00	1.94	0.57	0.04	0.53
Road, Bridges & Culverts	2.69	2.13	0.56	0.00	0.23	0.00	0.07	0.26
Building-Others	3.51	1.59	1.92	2.79	0.37	0.63	0.50	4.47
Building – Terminal	79.45	44.32	35.13	2.08	6.42	0.26	6.52	24.53
Building – Temporary	1.18	1.18	0.00	0.00	0.00	0.00	0.00	0.00
Building-Residential	0.46	0.37	0.09	0.00	0.02	0.00	0.02	0.05
Security Fencing-	0.11	0.11	0.00	0.00	0.00	0.00	0.00	0.00
Boundary Wall – Operational	2.21	2.03	0.19	0.00	0.05	0.00	0.05	0.09
Boundary Wall – Residential	0.08	0.05	0.03	0.00	0.00	0.63	0.00	0.02
Computer - End	1.03	1.02	0.00	0.22	0.02	0.09	0.05	0.23
Intangible Assets	1.01	1.01	0.01	0.00	0.00	0.00	0.00	0.00
Plant &	23.55	19.63	3.92	1.94	1.85	8.07	2.40	9.68
Tools & Equipment	3.92	2.14	1.78	1.58	0.90	9.06	1.95	9.58
Furniture & Fixtures: Other Than Trolley	1.74	1.72	0.03	0.18	0.02	0.09	0.04	0.25
Furniture & Fixtures: Trolley	0.36	0.22	0.14	0.01	0.02	0.41	0.08	0.46
Vehicles	1.15	0.90	0.25	0.42	0.10	0.00	0.09	0.49
Electrical	39.90	28.68	11.23	1.22	3.49	2.69	4.22	7.43
Other Office	0.46	0.38	0.09	0.00	0.06	0.03	0.03	0.03
X Ray Baggage	5.62	3.24	2.38	0.00	0.19	0.04	0.31	1.92
CFT/Fire Fighting	19.06	6.38	12.68	0.00	0.97	5.30	2.24	14.77
Total	232.23	159.89	72.36*	10.45	16.64	27.24	18.61	74.80

* Opening net block on April 2017 is at variance from the actual difference between Opening gross block on April 2017 and Accumulated Depreciation due to rounding off;



6.5 Stakeholders' Comments on Addendum to CP regarding Initial Regulatory Asset Base for the First Control period

6.5.1 No comments were received from the stakeholders.

6.6 Authority's examination and decisions regarding Initial Regulatory Asset Base for the First Control period

6.6.1 AAI has worked out depreciation for FY 2017-18 and FY 2018-19 using rates as per Authority's Order No. 35/2017-18, which is applicable for Major Airports within the economic regulatory ambit of AERA. However, MoCA has directed AERA to determine the aeronautical tariff for Varanasi Airport, while declaring it as a Major Airport, only on October 30, 2019. Accordingly, the depreciation rates as per Authority's Order No. 35/2017-18 may not be applicable for the periods FY 2017-18 and FY 2018-19. Therefore, the Authority has decided to use the depreciation rates applicable as per AAI's internal accounting policies for computing the net block of Initial RAB.

6.6.2 The Initial RAB as on April 1, 2019 has been computed based on opening value of Aeronautical Assets as on April 1, 2017, addition in assets and net depreciation for FY 2017-18 and FY 2018-19. The depreciation methodology used for FY 2017-18 and FY 2018-19 has been discussed in Chapter 8 on Depreciation.

6.6.3 The Initial RAB has been revised mainly on account of change in Terminal Building ratio, employee ratio and depreciation rates, as presented in the following table:

Table 26: Initial RAB on 1st April 2019 as approved by the Authority (INR crores)

Asset category	Opening gross block on Apr' 17	Accumulated depreciation	Opening net block on Apr'17	Addition for FY 2017-18	Net Depreciation FY 2017-18	Addition for FY 2018-19	Net Depreciation on FY 2018-19	Opening net block on Apr'19
Leasehold Land	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Runways, Aprons	44.74	42.80	1.94	0.00	1.94	0.57	0.04	0.53
Road, Bridges & Culverts	2.69	2.13	0.56	0.00	0.23	0.00	0.07	0.26
Building-Others	3.51	1.59	1.92	2.79	0.37	0.63	0.50	4.47
Building – Terminal	79.45	44.32	35.13	2.08	6.42	0.26	6.52	24.53
Building – Temporary	1.18	1.18	0.00	0.00	0.00	0.00	0.00	0.00
Building-Residential	0.46	0.37	0.09	0.00	0.02	0.00	0.02	0.05
Security Fencing-	0.11	0.11	0.00	0.00	0.00	0.00	0.00	0.00
Boundary Wall – Operational	2.21	2.03	0.19	0.00	0.05	0.00	0.05	0.09
Boundary Wall – Residential	0.08	0.05	0.03	0.00	0.00	0.63	0.00	0.02
Computer - End	1.03	1.02	0.00	0.22	0.02	0.09	0.05	0.23
Intangible Assets	1.01	1.01	0.01	0.00	0.00	0.00	0.00	0.00
Plant &	23.55	19.63	3.92	1.94	1.85	8.07	2.40	9.68



Asset category	Opening gross block on Apr' 17	Accumulated depreciation	Opening net block on Apr'17	Addition for FY 2017-18	Net Depreciation FY 2017-18	Addition for FY 2018-19	Net Depreciation on FY 2018-19	Opening net block on Apr'19
Tools & Equipment	3.92	2.14	1.78	1.58	0.90	9.06	1.95	9.58
Furniture & Fixtures: Other Than Trolley	1.74	1.72	0.03	0.18	0.02	0.09	0.04	0.25
Furniture & Fixtures: Trolley	0.36	0.22	0.14	0.01	0.02	0.41	0.08	0.46
Vehicles	1.15	0.90	0.25	0.42	0.10	0.00	0.09	0.49
Electrical	39.90	28.68	11.23	1.22	3.49	2.69	4.22	7.43
Other Office	0.46	0.38	0.09	0.00	0.06	0.03	0.03	0.03
X Ray Baggage	5.62	3.24	2.38	0.00	0.19	0.04	0.31	1.92
CFT/Fire Fighting	19.06	6.38	12.68	0.00	0.97	5.30	2.24	14.77
Total	232.23	159.89	72.36*	10.45	16.64	27.24	18.61	74.80

* Opening net block on April 2017 is at variance from the actual difference between Opening gross block on April 2017 and Accumulated Depreciation due to rounding off;

6.7 Authority's Decision regarding Initial RAB for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

- 6.7.1 The Authority decides to consider the initial regulatory asset base for the 1st Control Period for Varanasi Airport as INR 74.80 crores in accordance with Table 26.



AERA

CHAPTER 7. CAPITAL EXPENDITURE FOR THE FIRST CONTROL PERIOD

7.1 AAI's submission regarding Capital Expenditure for the First Control Period

7.1.1 AAI has proposed the total expenditure of INR 1223.93 crores for the 1st Control Period. The item wise capex phasing, physical and financial progress as submitted by AAI has been shown in table below:

Table 27: Capital Expenditure as proposed by AAI for 1st Control period (INR crores)

Component	Aero Cost	Total Cost	Aero Portion (%)	PDC	Phasing of Capital Expenditure					Physical Progress (In %)	Financial Progress
					2019-20	2020-21	2021-22	2022-23	2023-24		
Construction of New Terminal Building	830.45	948.00	87.60	Apr-23	0.00	150.00	300.00	300.00	198	-	-
Modification of Existing Terminal Building including consultancy work	23.52	25.00	94.07	2021-22	0.00	5.00	20.00	0.00	0.00	-	-
Construction of Residential Quarters	32.03	74.00	58.134	2021-22	0.00	4.00	70.00	0.00	0.00	-	-
Construction of Additional Parking Bays	9.50	9.50		2022-23	0.00	0.00	5.00	4.50	0.00	-	-
Surface Grading of entire operational area, construction of drainage system and construction of rain-water harvesting system	14.60	14.60		2020-21	0.00	12.00	2.60	0.00	0.00	-	-
Provision of 2 nos of Passenger Boarding Bridge (PBB)	2.23	2.23		2020-21	2.00	0.23	0.00	0.00	0.00	50%	0.93
Renovation of washrooms and construction of New toilets in International Arrival before Immigration including Electrical PA system i/c renovation of VIP lounge (both)	4.50	4.50		2020-21	0.50	4.00	0.00	0.00	0.00	11%	0.22
Construction of New Fire Station & Medical Centre	11.85	11.85		2020-21	0.00	10.00	1.85	0.00	0.00	-	-
Construction of localizer and glide path building hut and antenna platform	3.67	3.67		2020-21	1.00	2.67	0.00	0.00	0.00	10%	-
Extension of existing 2nos arrival carousal	1.31	1.31		2020-21	0.00	1.31	0.00	0.00	0.00	-	-
Provision of one no. additional arrival carousal	3.71	3.71		2020-21	0.00	2.50	1.21	0.00	0.00	-	-



Component	Aero Cost	Total Cost	Aero Portion (%)	PDC	Phasing of Capital Expenditure					Physical Progress (In %)	Financial Progress
					2019-20	2020-21	2021-22	2022-23	2023-24		
Runway Mechanical Sweeper	7.30	7.30		2020-21	0.00	7.30	0.00	0.00	0.00	-	-
CFT 1 nos	4.50	4.50		2020-21	0.00	4.50	0.00	0.00	0.00	-	-
Construction of R/way End Safety Area (RESA) at both ends of Runway	1.81	1.81		2019-20	1.81	0.00	0.00	0.00	0.00	86%	1.56
Expansion of Apron for 2 nos .4C type of aircraft	7.94	7.94		2019-20	7.50	0.44	0.00	0.00	0.00	80%	5.77
Vertical Extension of CISF Barrack i/c Quarter Guard	2.20	2.20		2020-21	1.50	0.70	0.00	0.00	0.00	38%	0.77
Construction of Administrative Block for AAI Staff	9.62	25.41	95/251	2021-22	0.00	10.00	15.41	0.00	0.00	-	-
Purchase of PBB and AVDGS (2 nos)	4.08	4.08		2020-21	2.00	2.08	0.00	0.00	0.00	70%	-
Provision of way finding signages	1.49	1.49		2019-20	1.58	0.00	0.00	0.00	0.00	100%	1.58
Supply of Passenger Baggage Trolley	2.02	2.02		2020-21	0.00	2.02	0.00	0.00	0.00	-	-
Provision of UPS and GLF System	1.08	1.08		2020-21	0.00	1.08	0.00	0.00	0.00	10%	-
Modification of domestic BHS system for inline X-BIS	3.35	3.35		2019-20	3.35	0.00	0.00	0.00	0.00	100%	3.99
Provision of Inline X-BIS	19.00	19.00		2019-20	19.00	0.00	0.00	0.00	0.00	100%	...
IDC on new PTB	40.01	40.01			0.00	0.00	0.00	0.00	40.01	-	-
Others	5.38	5.38			5.38	0.00	0.00	0.00	0.00	-	-
Total	1047.14	1223.93			45.53	219.83	416.07	304.50	238.01		

7.1.2 AAI has proposed aeronautical capitalization expenditure of INR 1047.14 crores for the 1st Control Period. This has been shown in the table below:

Table 28: Aeronautical Capitalization proposed by AAI for 1st Control Period (INR crores)

Asset category	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Runways, Aprons and Taxiways	10.00	24.10	0.00	0.00	0.00	34.10
Road, Bridges & Culverts	0.82	1.74	0.00	0.00	0.00	2.56
Building – Terminal	0.85	2.92	23.52	0.00	565.80*	593.09
Building – Residential	0.00	0.00	20.82	0.00	0.00	20.82
Boundary Wall – Operational	0.52	0.00	0.00	0.00	0.00	0.52

Asset category	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Other Building – Unclassified	12.63	12.77	0.00	0.00	0.00	25.40
Plant & Machinery	7.00	12.32	0.00	0.00	0.00	19.31
Electrical Installations	1.72	4.80	11.21	0.00	304.66*	322.39
CFT/Fire Fighting Equipment	22.37	4.50	0.00	0.00	0.00	26.87
Furnitures and Fixtures- Other than trolley	0.05	0.00	0.00	0.00	0.00	0.05
Furnitures and Fixtures – Trolley	2.02	0.00	0.00	0.00	0.00	2.02
Total	57.98	63.15	55.55	0.00	870.46	1047.14

*Includes IDC as per capital structure of 60:40 Debt to Equity

7.1.3 AAI submitted that the existing capacity of the airport is 2.5 million passengers while the airport served 2.7 million passengers in FY 2018-19 and it is expected to grow further in future. To accommodate the growing traffic, AAI proposed to build a new terminal building. AAI benchmarked the Varanasi Airport traffic ratio with the Jaipur Airport traffic ratio, both being tourist cities. The peak hour to average day traffic ratio at Varanasi airport is assumed as 0.17.

7.1.4 The proposed new terminal building shall be in integration with existing terminal (area=24,000 sqm) and will span across an area of 52,000 sqm along with 15,000 sqm of basement area.

7.1.5 AAI proposed the capital structure with debt to equity of 60%-40% for financing the new PTB and has proposed a one-time 'interest during construction' (IDC) of INR 40.01 crores in FY 2023-24

7.2 Authority's examination regarding Capital Expenditure for the First Control period at Consultation stage

7.2.1 The Authority examined the proposed capital expenditure including its rationale, detailed line item wise breakup, current progress including procurement steps and future planning.

7.2.2 The Authority analyzed the new Passenger Terminal Building being proposed including the need and objectives, proposed capital expenditure, timelines, scope of work and PMC letter of award. Accordingly, the key takeaways are as below.

- As per AAI's submissions, the new PTB shall be spread across an area of 66,970 sqm (Ground Level – 52,000 sqm and Basement – 15,000 sqm) with a cost estimate of INR 948 crore as per PMC consultancy award letter dated February 19, 2019. The unit area cost for new terminal building worked out to INR 141,492 lakhs per sqm.
- The Authority adopted the 'normative approach' towards determination of cost of terminal building and has considered a normative cost of INR 100,000 per sq. meters in line with previous tariff orders pertaining to other airports such as Guwahati, Lucknow, Chennai and Patna. The Authority conducted a study of few major airports for determining the reasonableness of the capital expenditures for their respective terminal buildings. As per these studies, the cost worked out to be in the range of 0.95 to 1.25

lakhs per sqm. Accordingly, the Authority decides to adopt INR 100,000 per sqm for terminal buildings of this design and specifications.

- AAI also proposed a Utility Building which shall span across an area of 4,800 sqm. The above study allows the cost of utility building separately from the terminal building at the benchmarked cost.
- Therefore, as per the above benchmarks, the cost of the new terminal building along with utility building works out to INR 717.70 crores. The Authority has considered AAI's original allocation of 65% for Civil and 35% for E&M works for working out the breakup of PTB cost. Accordingly, the breakup cost of new terminal building would be INR 435.5 for civil work and INR 234.5 crores for E&M installations/works.
- The Authority also sought item wise cost breakup for the proposed new terminal building from AAI. As per the item wise cost breakup, the Authority proposes following items to be allowed separately considering these were not the part of benchmarking study:

Table 29: Additional cost proposed by Authority for new terminal building (INR crores)

S. No.	Particulars	Value
1.	Deposit to state EB for power	11.92
2.	Solar Plant	6.44
3.	Total	18.36
4.	Benchmarked cost for proposed new PTB along with Utility Building	717.70
5.	Proposed cost for new PTB	736.06

- Thus, the Authority proposed the capital expenditure of INR 736.06 crores for the proposed new terminal building. Considering AAI's original allocation of 65% for Civil and 35% for E&M works, the civil cost works out to INR 478.44 crores and the E&M cost works out to INR 257.62 crores.
- AAI submitted that 12.40% of the new terminal building will be used for non-aeronautical operations, which is in line with the TB ratio proposed by Authority for similar airports. Therefore, the Authority proposed TB ratio of 12.40% for new terminal building. Accordingly, the aero portion of new PTB capital expenditure works out to INR 644.79 crores.
- AAI proposed the date of capitalization to be April 2023 for new PTB. The Authority analyzed the PMC consultancy award letter and found that the total project completion time shall be 60 months including 6 months for pre-award activities including PIB clearance, 30 months for execution, and, 24 months for defect liability. However, AAI has proposed capital expenditure as follows:

Table 30: Capital Expenditure phasing for new Terminal building as proposed by AAI (INR Crore)

Asset category	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Building – Terminal		150	300	300	198	948
Capex phasing (approx. %)		16%	32%	32%	20%	100%

- Authority noted from the PMC consultancy award letter that DLP of the PTB shall be for 24 months and an amount of INR 67 Crore (equivalent of 10% of total cost) shall be withheld for a period of 24 months post the proposed COD in April 2023. Therefore, the Authority proposed to change the capital expenditure phasing as follows:

Table 31: Capital Expenditure phasing for new Terminal building as proposed by Authority (INR Crore)

Asset category	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total – Control Period	FY ending March 31, 2026	Total
Building – Terminal (%)	15%	30%	30%	15%	90%	10%	100%

- Authority also noted that AAI has proposed a capital structure with debt to equity of 60%-40% for financing the new PTB, in line with Authority's previous directions. Accordingly, AAI has proposed a one-time capitalization of interest during construction (IDC) amounting to INR 40.01 Crore as an aero expenditure. AAI assumed an interest rate of 8.03% but has not proposed any drawl schedule for working out the IDC.
- Therefore, Authority proposed to work out the drawl schedule for INR 441.64 Crore (60%) in line with capital expenditure phasing and the benchmarked cost as follows: -

Table 32: Loan drawl schedule for New Terminal Building (INR crore)

Particulars	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	FY ending March 31, 2026
Total Capex Phasing	110.41	220.82	220.82	110.41	73.61
Debt – Opening	0.00	66.25	198.74	331.23	397.47
Addition during the year	66.25	132.49	132.49	66.25	44.16
Debt – Closing	66.25	198.74	331.23	397.47	441.64
Average Debt	33.12	132.49	264.98	364.35	419.55
Interest During Construction – Total Capex	2.66	10.64	21.28	2.44*	NIL

* IDC is for one month only as proposed date of capitalization is April 2023

- Accordingly, using the terminal ratio, the IDC for aeronautical portion works out to INR 29.51 Crore with phasing as follows:

Table 33: Interest during construction for New Terminal Building (INR crore)

Particulars	FY ending March 31,	FY ending March 31,	FY ending March 31,	FY ending March 31,
Interest During Construction – Aero Capex	2.33	9.32	18.64	2.14

- Based on the benchmark capital expenditure, revised capital expenditure phasing and IDC calculations, the new PTB aeronautical capital expenditure and capitalization proposed to be as follows:



Table 34: Capitalization for New Terminal Building including IDC (INR crore)

Asset category	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total – Control Period	FY ending March 31, 2026	Total
New PTB - Total (including IDC)	113.07	231.46	242.10	112.85	699.47	73.61	773.07
New PTB – Capex (Aero, including IDC)	99.05	202.76	212.08	98.85	612.73	64.48	677.21
New PTB – Capitalization (Aero, including IDC)				612.73		64.48	

- The Authority notes that should AAI fail to commission the same by the proposed date, the same shall be trued up along with the carrying cost. Also, the amount of 10% withheld for Defect Liability Period of 24 months shall be capitalized in the next Control Period, without any IDC being allowed on this amount.

7.2.3 The Authority sought the total area of the proposed Apron from AAI. As per the details received from AAI, the Apron shall span across an area of 10850 sqm. The cost breakup includes the demolition and earth work of around INR 0.33 crores, the Authority finds it appropriate to allow the cost in addition to the normative cost as they were not included in the benchmark cost of the Apron as per the Study. For the purpose of prudence check, the Authority has computed the normative cost of the apron as INR 6.53 crores (including the demolition work), as against INR 7.94 crores proposed by AAI. Therefore, the Authority proposed to revise the cost of these assets to INR 6.53 crores. The computation of normative cost has been shown below:

Table 35: Benchmarked cost for proposed Apron

Particulars	Value
Area	10,850
Cost per sqm as on 1st April 2016 (INR)	4,700
Inflation % assumed	5%
Number of years of inflation	4
Inflation factor	1.26
Normative cost (INR crores) [without demolition cost]	6.20
Normative cost (INR crores) [including demolition cost]	6.53
Cost proposed by AAI (INR crores)	7.94
Cost proposed by Authority (INR crores)	6.53

7.2.4 The Authority also examined the other capital expenditure proposed by AAI considering the current procurement stage such as Administrative Approval, Expenditure Sanction, status of tendering, Letters of Award and physical and financial progress of capital expenditure already under execution, as applicable. The specific observations as follows:

- Surface Grading of entire operational area – As per AAI submission, the current procurement stage for the project is e-NIT called and the time required to complete the work shall be 12 months as per history sheet. Considering the current status, the Authority proposed to change the proposed date of capitalization to FY 2021-22.



- Construction of New Fire Station & Medical Centre – As per AAI submission, the administrative approval and expenditure sanction has already been accorded. Considering the completion time of 12 months, the Authority proposed to change the proposed date of capitalization to FY 2021-22
- Provision of an additional arrival carousal - As per AAI submission, the administrative approval and expenditure sanction has already been accorded. Considering the completion time of 12 months, the Authority proposed to change the proposed date of capitalization to FY 2021-22
- Provision of Inline X-BIS – As per AAI submission, 100% physical progress is achieved, but no financial progress is done. The Authority proposed to change the proposed date of capitalization to FY 2020-21

7.2.5 AAI had conducted AUCC meeting on November 25, 2019. As per the 'minutes' of that meeting, the Authority observed that, the discussion was around the growth rate consideration and proposal of new terminal building in order to increase the passenger capacity from existing 2.5 MPPA to 7 MPPA.

Broadly following issues were discussed in AUCC meeting:

- Consideration of 10%-12% growth in passenger traffic
- Justification for proposing huge and expensive new terminal building
- Reasons for higher construction cost vis-à-vis construction cost of Vizag Airport
- Airside capacity enhancement plan
- Expansion of Air-Cargo Infrastructure
- Shifting of fueling base of oil companies

7.2.6 In accordance with above, the Authority proposed the capital expenditure for the 1st Control Period as per the table below:

Table 36: Capital Expenditure as proposed by the Authority for 1st Control Period at Consultation stage (INR crores)

Component	Aero Cost	Total Cost	Aero Portion (%)	PDC	Phasing of Capital Expenditure					Physical Progress (In %)	Financial Progress
					2019-20	2020-21	2021-22	2022-23	2023-24		
Construction of New Terminal Building (including IDC & amount that shall be capitalized in 1 st control period)	612.73	699.47	87.60	Apr-23	0.00	113.07	231.46	242.10	112.85	-	-
Modification of Existing Terminal Building including consultancy work	22.50	25.00	90	2021-22	0.00	5.00	20.00	0.00	0.00	-	-
Construction of Residential Quarters	32.03	74.00	58/134	2021-22	0.00	4.00	70.00	0.00	0.00	-	-
Construction of Additional Parking Bays	9.50	9.50		2022-23	0.00	0.00	5.00	4.50	0.00	-	-
Surface Grading of entire operational area, construction of drainage system and construction of rainwater harvesting system	14.60	14.60		2021-22	0.00	12.00	2.60	0.00	0.00	-	-

Component	Aero Cost	Total Cost	Aero Portion (%)	PDC	Phasing of Capital Expenditure					Physical Progress (In %)	Financial Progress
					2019-20	2020-21	2021-22	2022-23	2023-24		
Provision of 2 nos of Passenger Boarding Bridge (PBB)	2.23	2.23		2020-21	2.00	0.23	0.00	0.00	0.00	50%	0.93
Renovation of washrooms and construction of New toilets in International Arrival before Immigration including Electrical PA system i/c renovation of VIP lounge (both)	4.50	4.50		2020-21	0.50	4.00	0.00	0.00	0.00	11%	0.22
Construction of New Fire Station & Medical Centre	11.85	11.85		2021-22	0.00	10.00	1.85	0.00	0.00	-	-
Construction of localizer and glide path building hut and antenna platform	3.67	3.67		2020-21	1.00	2.67	0.00	0.00	0.00	10%	-
Extension of existing 2nos arrival carousal	1.31	1.31		2020-21	0.00	1.31	0.00	0.00	0.00	-	-
Provision of one no. additional arrival carousal	3.71	3.71		2021-22	0.00	2.50	1.21	0.00	0.00	-	-
Runway Mechanical Sweeper	7.30	7.30		2020-21	0.00	7.30	0.00	0.00	0.00	-	-
CFT 1 nos	4.50	4.50		2020-21	0.00	4.50	0.00	0.00	0.00	-	-
Construction of R/way End Safety Area (RESA) at both ends of Runway	1.81	1.81		2020-21	1.81	0.00	0.00	0.00	0.00	86%	1.56
Expansion of Apron for 2 nos .4C type of aircraft	6.53	6.53		2020-21	6.09	0.44	0.00	0.00	0.00	80%	5.77
Vertical Extension of CISF Barrack i/c Quarter Guard	2.20	2.20		2020-21	1.50	0.70	0.00	0.00	0.00	38%	0.77
Construction of Administrative Block for AAI Staff	9.62	25.41	95/251	2021-22	0.00	10.00	15.41	0.00	0.00	-	-
Purchase of PBB and AVDGS (2 nos)	4.08	4.08		2020-21	2.00	2.08	0.00	0.00	0.00	70%	-
Provision of way finding signages	1.49	1.49		2019-20	1.58	0.00	0.00	0.00	0.00	100%	1.58
Supply of Passenger Baggage Trolley	2.02	2.02		2020-21	0.00	2.02	0.00	0.00	0.00	-	-
Provision of UPS and GLF System	1.08	1.08		2020-21	0.00	1.08	0.00	0.00	0.00	10%	-
Modification of domestic BHS system for inline X-BIS	3.35	3.35		2019-20	3.35	0.00	0.00	0.00	0.00	100%	3.99
Provision of Inline X-BIS	19.00	19.00		2020-21	19.00	0.00	0.00	0.00	0.00	100%	-
Others	5.37	5.37			5.37	0.00	0.00	0.00	0.00	-	-
Total	786.99	933.99			44.12	182.90	347.53	246.60	112.85		

7.2.7 Accordingly, the Authority proposed the aeronautical capitalization for the 1st Control Period as per the table below:

Table 37: Aeronautical Capitalization as proposed by the Authority at Consultation stage (INR crores)

Asset category	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Runways, Aprons and Taxiways	2.06	16.03	14.60	0.00	0.00	32.68
Road, Bridges & Culverts	0.82	1.74	0.00	0.00	0.00	2.56
Building – Terminal	0.85	2.92	22.50	0.00	398.28	424.55
Building – Residential	0.00	0.00	20.82	0.00	0.00	20.82
Boundary Wall – Operational	0.52	0.00	0.00	0.00	0.00	0.52
Other Building – Unclassified	12.63	2.38	10.39	0.00	0.00	25.40
Plant & Machinery	7.00	8.61	3.71	0.00	0.00	19.31
Electrical Installations	1.72	3.35	12.66	0.00	214.46	232.19
CFT/Fire Fighting Equipment	3.37	23.50	0.00	0.00	0.00	26.87
Furniture and Fixtures- Other than Trolley	0.05	0.00	0.00	0.00	0.00	0.05
Furniture and Fixtures – Trolley	2.02	0.00	0.00	0.00	0.00	2.02
Total	31.04	58.52	84.68	0.00	612.73	786.99

7.3 Stakeholders' Comments on CP regarding Capital Expenditure for the First Control Period

AAI's comments on Capital Expenditure for the First Control Period

- 7.3.1 AAI requested to consider the cost of New Terminal Building and Apron as per original tariff proposal giving the account of the additional cost to be allowed over and above the Authority's proposed capital cost as per Consultation Paper.
- 7.3.2 AAI proposed to revise the proposed date of capitalization of some of the capital expenditure considering the impact of the ongoing COVID-19 pandemic.
- 7.3.3 AAI proposed the revised capitalization of INR 1183.20 crore (excluding IDC of new Terminal Building) for the 1st Control Period. The item wise revised capital expenditure and proposed date of capitalization as submitted by AAI has been shown in table below:

Table 38: Revised Capitalization as proposed by AAI for 1st Control period (INR crores)

Sr. No	Component	Aero Cost (INR Cr)	Total Cost (INR Cr)	Aero Portion (%)	Proposed Date of Capitalization
a)	Construction of new integrated Terminal Building [Assumption: 65% civil and 35% electrical]	830.14	947.65	87.60%	November 2023
b)	Construction of Residential		74.00	58/134	June 2022

Sr. No	Component	Aero Cost (INR Cr)	Total Cost (INR Cr)	Aero Portion (%)	Proposed Date of Capitalization
	Quarters				
c)	Modification of Terminal Building (Existing Building)	23.52	25.00	94.07%	June 2022
d)	Surface of Grading, RCC drainage & rainwater harvesting	14.60	14.60	100.00%	June 2021
e)	Construction of New Fire Station & Medical Centre	11.85	11.85	100.00%	June 2021
f)	Provision of 2 nos. PBB	2.23	2.23	100.00%	July 2020
g)	Expansion of apron for 2 nos. code 4 C type aircraft	7.57	7.57	100.00%	July 2020
h)	Construction of Additional Parking Bays	9.50	9.50	100.00%	June 2023
i)	Renovation of Washroom & construction of New Toilets	4.50	4.50	100.00%	January 2021
j)	Cons. Of RESA both end	1.81	1.81	100.00%	December 2020
k)	CFT 1 no.	4.50	4.50	100.00%	March 2022
l)	Vertical Extension of CISF barrack	2.20	2.20	100.00%	June 2020
m)	Construction of Admin Block	9.62	25.41	95/251	June 2023
n)	S/o Passenger Baggage Trolley	2.02	2.02	100.00%	December 2022
o)	Construction of localizer and glide path building hut and antenna platform	3.67	3.67	100.00%	2020-21
p)	Extension of existing 2nos arrival carousal	1.31	1.31	100.00%	2020-21
q)	Provision of one no. additional arrival carousal	3.71	3.71	100.00%	2021-22
r)	Runway Mechanical Sweeper	7.30	7.30	100.00%	2021-22
s)	Purchase of PBB and AVDGS (2 nos)	4.08	4.08	100.00%	2020-21
t)	Provision of way finding signages	1.49	1.49	100.00%	2019-20
u)	Provision of UPS and GLF System	1.08	1.08	100.00%	2020-21
v)	Modification of domestic BHS system for inline X-BIS	3.35	3.35	100.00%	2019-20
w)	Provision of Inline X-BIS	19.00	19.00	100.00%	2020-21
x)	Others	5.37	5.37	100.00%	
	Total	1006.45	1183.20		

Indigo's comments on Capital Expenditure for the First Control Period

7.3.4 Indigo requested to review the need for new terminal building in light of COVID-19 and proposed privatization of the airport, which may entail fresh assessment, capex requirements



and consequent impact on tariff.

- 7.3.5 Further, Indigo has highlighted that the Authority has considered the normative cost of INR 100,000 per sq. meters for the terminal building in line with the consideration of normative cost for Lucknow, Guwahati, Chennai, Patna etc., however, the Authority as per Order No. 07/2016-17 dated June 13, 2016 has set the ceiling cost as INR 65,000.00 per sqm. Indigo further highlighted that for Vishakhapatnam, the normative cost per sq. meter works out as INR 58,546.60 per sqm and since, the regional dynamics for Varanasi airport is not similar to Lucknow, Guwahati, Chennai or Patna, therefore considering the cost escalations for Varanasi and Amritsar will not be appropriate and the same must be considered within the normative norms prescribed in the Normative Order.

GMR Airport Limited (GAL) comments on Capital Expenditure for the First Control Period

- 7.3.6 GMR Airport Limited (GAL) submitted that the Authority in the past has recognized that each airport is different and therefore, has used airport specific approaches for Capital Expenditure, rather than using the normative approach. Accordingly, GAL has suggested that capital expenditure should be based on actuals.
- 7.3.7 GMR Airport Limited (GAL) has also requested to remove the provision of 1% penalty to be levied in case of delay in implementation of the project envisaged as project capitalization period may overlap with the privatization and it would become difficult to determine the delay and the entitled party.

7.4 AAI's counter comments and response to stakeholder comments on CP regarding Capital Expenditure for the First Control Period

- 7.4.1 In response to Indigo's comments, AAI has submitted that the terminal building is planned to cater passenger growth for next 10-15 years and it takes 30 to 36 months to construct a new terminal building with all the facility. Further, the capacity of existing terminal is 2.5 MPPA, however, the terminal had already handled the passenger traffic of 2.78 MPPA in FY 2019-20 which indicates that the terminal building is already saturated.
- 7.4.2 Regarding privatization of the airport, AAI has submitted that the whole process will take time and up to the handing over of airport to the Concessionaire, they have to facilitate the passengers and needs more space for smooth operations at the airport.
- 7.4.3 In response to GAL's comments, AAI has supported their views.

7.5 Authority's examination regarding Capital Expenditure for the First Control Period at Addendum to CP stage

- 7.5.1 The Authority carefully analyzed the submissions from Indigo, GAL and AAI, and presented its views in the ensuing paragraphs.
- 7.5.2 The Authority noted the concerns of Indigo regarding the need of the new terminal building considering the ongoing COVID19 pandemic. Under normal conditions, the approach followed by AAI for planning of new terminal building can be accepted. However, in light of COVID19, the same needs to be revisited considering the need for the capital expenditure while balancing the consumers' and airport operators' interest. As per the AAI's revised



submission, the traffic projections are proposed at the significant lower level vis-à-vis the terminal capacity at present, however, the traffic projections are bound to cross the capacity of the terminal building by the end of the Control Period.

- 7.5.3 The Authority also enquired about the tendering status of the proposed terminal building from AAI. As per AAI, the Board's approval has already been accorded for forwarding the case to PIB and the project is likely to be awarded by May 2021. Further, AAI has submitted that the construction of new terminal building takes around 30-36 months to complete and therefore, going by the proposed timelines, the Authority believes that AAI may not achieve their proposed date of completion for the construction of new terminal building. Therefore, the Authority vide letter dated October 10, 2020 advised AAI to re-consider the decision for construction of new terminal building, considering the prevailing COVID19 situation which may impact the completion of the project. AAI vide letter dated October 22, 2020 submitted that the airport building is likely to saturate by the year 2023 considering revised traffic projections, therefore, there is a need to take up the project immediately as planning and execution will take around 3 years. Further, in case of privatization, all the contracts will be transferred to PPP Operator and accordingly such conditions will be incorporated in all new contracts. *Therefore, considering AAI's proposal regarding the need of new terminal building and justification thereon that the existing terminal building will saturate by 2023 taking into account the revised traffic projections, the Authority, proposed to consider the construction of new terminal building in the first Control Period.*

- 7.5.4 AAI proposed to revise the capital cost of new terminal building to INR 947.65 crore detailing the difference between the capital cost proposed by AAI in original tariff proposal and the capital cost as proposed by the Authority in the Consultation Paper. The Authority, after analyzing the detailed breakup of the capital cost for the new terminal building as per AAI's revised proposal, proposed to allow the following cost in addition to the cost proposed in the Consultation Paper.

Table 39: Additional cost proposed by Authority for new terminal building (INR crore)

Sr. No	Particulars	Value
1.	Change in tax regime	38.10
2.	Body Scanner	27.69
3.	Canopy	11.04
4.	Total	76.83
5.	Capital Cost proposed in the Consultation Paper	736.06
6.	Proposed Capital cost for new Terminal Building	812.89

- 7.5.5 The Authority considered AAI's original allocation of 65% for Civil and 35% for E&M works for working out the breakup of Passenger Terminal Building (PTB) cost. Accordingly, the breakup cost of new terminal building would be INR 528.38 crore for civil works and INR 284.51 crore for E&M installations/works. Further, the Authority proposed the TB ratio of 12.40% for new terminal building as proposed in the Consultation Paper. Accordingly, the aero portion of new PTB capital expenditure works out to INR 712.09 crore.

- 7.5.6 The Authority considered the debt-equity ratio of 60%:40% and interest on loan (debt rate) as 8.03% as per AAI's original proposal. AAI has submitted that the construction of new terminal building will likely be awarded by May 2021 with the Proposed Date of Capitalization (PDC) of November 2023, however, the Authority did not receive any capex



phasing plan from AAI in the revised tariff proposal. Further, AAI shared the PMC consultancy award letter as part of original tariff proposal, which highlighted that the DLP of the PTB shall be for 24 months, accordingly, 10% of the total cost shall be withheld for a period of 24 months post the proposed COD in November 2023. Therefore, the Authority proposed the following capex expenditure phasing for new terminal building:

Table 40: Capital Expenditure phasing for new Terminal building as proposed by Authority (INR Crore)

Asset category	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total – Control Period	FY ending March 31, 2026	Total
Building – Terminal (%)	30%	30%	30%	90%	10%	100%

7.5.7 Considering the above capex expenditure plan and debt-equity of 60%-40%, the IDC up to the revised PDC has been computed as below:

Particulars	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	FY ending March 31, 2026
Total Capex Phasing	220.82	220.82	110.41	73.61
Debt – Opening	243.87	243.87	243.87	81.29
Addition during the year	0.00	146.32	292.64	438.96
Debt – Closing	146.32	146.32	146.32	48.77
Average Debt	146.32	292.64	438.96	487.73
Rate of Interest	8.03%	8.03%	8.03%	8.03%
Interest During Construction – Total Capex	5.87	17.62	17.13*	NIL
Interest During Construction – Aero Portion	5.15	15.44	15.01	

*IDC for FY 2023-24 is for 7 months as PDC for new terminal building is considered as November 1, 2023

7.5.8 Based on the benchmark capital expenditure, revised capital expenditure phasing and IDC calculations, the new PTB aeronautical capital expenditure and capitalization proposed to be as follows:

Table 41: Capitalization for New Terminal Building including IDC (INR crore)

Asset category	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total – Control Period	FY ending March 31, 2026	Total
New PTB - Total (including IDC)	249.74	261.49	261.00	772.23	81.29	853.52
New PTB – Capex (Aero, including IDC)	218.77	229.07	228.64	676.48	71.21	747.69
New PTB – Capitalization (Aero, including IDC)			676.48		71.21	

7.5.9 The Authority, based on its review of the passenger traffic growth for the airport expects that it would take a long time, beyond the First Control Period to reach the expanded rated capacity of 7.0 MPPA. The Authority expects that the Varanasi PTB would handle only around 50% of its completed capacity at the end of the First Control Period. Accordingly, the



Authority estimated that the actual passenger traffic may reach approximately 3.61 MPPA at the end of the First Control Period (as depicted in Table 11). The proposed new terminal building will enhance the handling capacity of Varanasi Airport to 7.00 MPPA (Existing Terminal - 2.5 MPPA and Proposed New Terminal Building – 4.5 MPPA), which means the capacity utilization of the airport will be only to the extent of 51.57% by the end of the First Control Period.

- 7.5.10 The Authority is of the view that in case the construction of the building is completed, included in the RAB and ~48% of the building remains unutilized, the Passengers and Airlines will have to bear the return on the entire investment made without any utilization of a portion of the building, which will not be fair and reasonable. However, to take an objective view, the reimbursement of PTB capital expenditure must be based on a principle that accommodates the capital commitments made by AAI (the operator), while also not unduly burdening the relatively lesser number of passengers with the full cost of capital spend.
- 7.5.11 In this regard, it can be reasonably expected that any construction project, such as that of the PTB, is intended to not only serve the prevalent operations but to also create headroom for future growth of capacity utilization, beyond the immediate short-term period. Therefore, the Authority decided that a headroom may be provided as allowance for accommodation of such expansion.
- 7.5.12 In view of the above stated facts and objectives, the ongoing progress of passenger terminal building (PTB) construction as well as the unanticipated disruption in passenger traffic growth caused by the Covid-19 pandemic, the Authority proposed to consider the capacity utilization of the terminal up to 75% of the proposed expansion capacity to give a reasonable headway over the estimated traffic figures of 3.61 MPPA likely to be achieved by the end of First Control Period. Accordingly, the Authority proposed reimbursement of capital expenditure equal to 75% of the aeronautical component of PBT project cost as part of RAB for tariff determination.
- 7.5.13 Above decision of the Authority is with the objective that investment made on the portion of building which is likely to put to use/utilized should only be included in the RAB for tariff determination in this (current) Control Period. Following Table provides the details for inclusion of the cost of Terminal Building in the RAB for the purpose of determination of tariff for the First Control Period:

Table 42: Reimbursement of capital expenditure of the New Passenger Terminal Building as proposed by the Authority

Planned Integrated Terminal Expansion	Formula	Unit	Values
Estimated Aeronautical portion of Capital Expenditure	(a)	INR Crores	676.48
Planned Passenger Capacity post-expansion	(b)	million	7.00
Authority's estimation of FY 2023-24 traffic	(c)	million	3.61
Recommended capacity expansion permissible (75% of planned capacity)	(d) = 75% of (b)	million	5.25
Capex reimbursement for tariff determination (75% of the Aero portion of Capex)	(e) = 75% of (a)	INR Crores	507.36
Difference to be adjusted by reducing RAB	(a) - (e)	INR Crores	169.12

- 7.5.14 Thus, the Authority, proposed to exclude/reduce from the RAB, an amount of INR 169.12 Crore, which is equivalent to the cost of unutilized portion of the building (computed using



ratio of 65%:35% that is Civil costs and Electrical Installations costs). However, this balance portion of the RAB, not considered now, should be included in the RAB as and when it is utilized, possibly in the next Control Period. Moreover, in case the actual traffic flow is more than the projected figure of 3.61 MPPA at any time during the Control Period, and, the capacity utilization is more than 51.57%, then the RAB would be suitably adjusted (by considering such proportionate cost of T/B) at the time of true up in the tariff determination process of the next Control Period.

- 7.5.15 Further, AAI requested to revise the capital cost for Apron to INR 7.57 crore due to increase in proposed area for Apron and expenditure pertaining to GSE area as it is not included in the proposed area utilized for normative cost determination. Therefore, the Authority proposed to revise the capital cost for Apron as below:

Table 43: Cost of Apron as approved by the Authority (INR Crore)

Particulars	Value
Area (sqm)	10971.44
Cost per Sqm as on 1st April 2016(INR)	4700
Inflation % assumed	5%
Number of years of inflation	5
Inflation factor	1.28
Normative cost (Without demolition) (INR Crore)	6.58
Cost of Demolition and Earth work (INR Crore)	0.24
Cost of GSE Area (1608 sqm/2840.65 act. area) (INR Crore)	0.75
Total cost of Apron inc, GSE area (INR Crore)	7.57
Cost Proposed by AAI (INR Crore)	7.57

- 7.5.16 The Authority considered AAI's proposal for revision of Proposed Date of Capitalization (PDC) of other Capital Expenditure.
- 7.5.17 Further, the Authority considered the Capital Expenditure for the First Control Period in line with the Authority's proposal in original Consultation Paper and Addendum to Consultation Paper.
- 7.5.18 Accordingly, the Authority proposed to revise Capital Expenditure for the 1st Control Period as shown in table below:

Table 44: Capital Expenditure as proposed by the Authority for 1st Control Period at Addendum to CP stage (INR crores)

S. No.	Component	Aero Cost (INR Cr)	Total Cost (INR Cr)	Aero Portion (%)	Proposed Date of Capitalization
a)	Construction of New Terminal Building (including IDC & amount that shall be capitalized in 1 st Control Period)	507.36	579.18	87.60%	Nov-23
b)	Modification of Existing Terminal Building including consultancy work	22.50	25.00	90.00%	June-22
c)	Construction of Residential Quarters	32.00	74.00	58/134	June-22

S. No.	Component	Aero Cost (INR Cr)	Total Cost (INR Cr)	Aero Portion (%)	Proposed Date of Capitalization
d)	Construction of Additional Parking Bays	9.50	9.50	100.00%	June-23
e)	Surface Grading of entire operational area, construction of drainage system and construction of rainwater harvesting system	14.60	14.60	100.00%	2021-22
f)	Provision of 2 nos of Passenger Boarding Bridge (PBB)	2.23	2.23	100.00%	2020-21
g)	Renovation of washrooms and construction of New toilets in International Arrival before Immigration including Electrical PA system i/c renovation of VIP lounge (both)	4.50	4.50	100.00%	2020-21
h)	Construction of New Fire Station & Medical Centre	11.85	11.85	100.00%	2021-22
i)	Construction of localizer and glide path building hut and antenna platform	3.67	3.67	100.00%	2020-21
j)	Extension of existing 2nos arrival carousal	1.31	1.31	100.00%	2020-21
k)	Provision of one no. additional arrival carousal	3.71	3.71	100.00%	2021-22
l)	Runway Mechanical Sweeper	7.30	7.30	100.00%	2021-22
m)	CFT 1 nos	4.50	4.50	100.00%	March-22
n)	Construction of R/way End Safety Area (RESA) at both ends of Runway	1.81	1.81	100.00%	2020-21
o)	Expansion of Apron for 2 nos .4C type of aircraft	7.57	7.57	100.00%	2020-21
p)	Vertical Extension of CISF Barrack i/c Quarter Guard	2.20	2.20	100.00%	2020-21
q)	Construction of Administrative Block for AAI Staff	9.62	25.41	95/251	June-23
r)	Purchase of PBB and AVDGS (2 nos)	4.08	4.08	100.00%	2020-21
s)	Provision of way finding signages	1.49	1.49	100.00%	2019-20
t)	Supply of Passenger Baggage Trolley	2.02	2.02	100.00%	Dec-22
u)	Provision of UPS and GLF System	1.08	1.08	100.00%	2020-21
v)	Modification of domestic BHS system for inline X-BIS	3.35	3.35	100.00%	2019-20
w)	Provision of Inline X-BIS	19.00	19.00	100.00%	2020-21
x)	Others	5.37	5.37	100.00%	
	Total	682.66	814.73		



7.5.19 Accordingly, the Authority proposed the revised aeronautical capitalization for the 1st Control Period as per the table below:

Table 45: Revised Aeronautical Capitalization as considered by the Authority at Addendum to CP stage (INR crores)

Asset category	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Runways, Aprons and Taxiways	0.25	9.38	14.60	0.00	9.50	33.73
Road, Bridges & Culverts	0.82	1.74	0.00	0.00	0.00	2.56
Building – Terminal	0.85	2.92	0.00	22.50	329.78	356.06
Building- Residential	0.00	0.00	0.00	20.82	0.00	20.82
Boundary Wall - Operational	0.52	0.00	0.00	0.00	0.00	0.52
Other Building – Unclassified	0.81	4.58	10.39	0.00	9.62	25.40
Plant & Machinery	1.42	5.39	11.01	0.00	0.00	17.83
Tools & Equipment	1.49	0.00	0.00	0.00	0.00	1.49
Office Furniture	0.00	0.00	0.00	0.00	0.00	0.00
Vehicles	0.00	0.00	0.00	0.00	0.00	0.00
Electrical Installations	0.64	4.43	1.45	11.21	177.58	195.31
Furniture & Fixtures-Other than Trolley	0.05	0.00	0.00	0.00	0.00	0.05
Furniture & Fixtures- Trolley	0.00	0.00	0.00	2.02	0.00	2.02
X Ray Baggage System	3.35	19.00	0.00	0.00	0.00	22.35
CFT/Fire Fighting Equipment	0.02	0.00	4.50	0.00	0.00	4.52
Total	10.24	47.44	41.95	56.55	526.48	682.66

7.6 Stakeholders' Comments on Addendum to CP regarding Capital Expenditure for the First Control Period

AAI's comments on Capital Expenditure for the First Control Period

7.6.1 Regarding DLP of the PTB for 24 months, AAI has submitted that as per the accounting policy, 100% Capital expenditure for new terminal building will be booked in the FY 23-24 and 10% withheld amount as per PMC will be shown as Liability in the Balance sheet.

7.6.2 AAI further submitted that as per the past experiences, it has been observed that most of the contractors submit the Bank Guarantee as security deposit, resulting not only in loss of cash flow but also return on capex, depreciation, tax benefit, IDC and lesser Fair rate of return. Accordingly, AAI requested to consider the capex phasing as proposed in original MYT proposal as it will only result in increase of shortfall while keeping the tariff at the proposed levels.

7.6.3 Regarding reimbursement of new terminal building, AAI has submitted that due to extraordinary adverse impact of ongoing COVID19 pandemic on domestic and international air travel, most of the passenger terminal buildings all over India are unutilized and it is very difficult to forecast passenger growth for future. Further, AAI will capitalize the entire cost of



terminal building in FY 2023-24 and accordingly, requests AERA to consider the entire cost of terminal building.

FIA's comments on Capital Expenditure for the First Control Period

- 7.6.4 FIA has submitted that based on AAI's response on the saturation of existing terminal building by 2023, AERA has agreed to consider the construction of New Terminal Building (NTB) at Varanasi Airport in the First Control Period. and keeping in view the planning and execution of NTB which will take around three (3) years with the expected completion/readiness for commercial operations of NTB to be around November 2023 i.e. end of the First Control Period. Despite the construction of the NTB, which will enhance the handling capacity of Varanasi Airport to 7.00 MPPA (i.e. Existing Terminal - 2.5 MPPA and Proposed NTB – 4.5 MPPA), the capacity utilization of the airport will be only to the extent of 51.57% by the end of the First Control Period. FIA has submitted that AERA has acknowledged that it will not be fair and reasonable for the passengers and the airlines to bear the consequence of the return of capital expenditure (i.e. by way of increase in tariff), in the scenario where, on one hand the construction of the NTB is completed and included in the RAB, and on the other hand, approx. forty eight (48) % of the building remains unutilized.
- 7.6.5 However, despite the above acknowledgement by AERA, AERA has proposed to provide a headroom to AAI (by way of traffic multiplier of 1.45 times) to derive reimbursement of capital expenditure equal to seventy-five (75) % of NTB's aeronautical expenditure. Such headroom is allegedly intended for accommodating capital commitments made by AAI and allowance of future growth/expansion of capacity at Varanasi Airport, beyond the immediate short-term period. Further, as per Table 9 of the Addendum, 90% of the approved capital expenditure towards the NTB is proposed to be capitalized during the First Control Period
- 7.6.6 FIA has submitted that keeping in view the fact that: (a) the passenger terminal building (including NTB) at Varanasi Airport will only be utilized to almost half of its completed designed capacity; and (b) bulk of the passengers may not be using the NTB, as it is expected to be operationalized at the end of the First Control Period, there appears no rationale for capitalizing costs in excess of the projected usage of the facilities provided to the passengers and airlines. As already acknowledged by AERA, any excess capitalization of capital expenditures, more than what is required for projected usage will unnecessarily lead to an increase in tariff, which will be unfair, unreasonable and a burden on the passenger and airlines.
- 7.6.7 FIA highlighted that one of the principles enshrined under International Civil Aviation Organisation's (ICAO) 'Policies for Airports and Air Navigation Services' (Doc 9082), states that the proportion of costs allocable to various categories of users, should be determined on an equitable basis, so that no users are burdened with costs not properly allocable to them according to sound accounting principles. Therefore, in view of the above, FIA suggested that there does not appear any rationale to provide a 'headroom' for capitalizing capital expenditures more than the projected requirement/usage and AERA should ensure that any capitalization of cost for the passenger terminal building (including NTB), may not be more than the corresponding proportion of the projected usage of such passenger terminal building (including NTB).



- 7.6.8 FIA requested AERA for conducting independent analysis for determining the asset including NTB.
- 7.6.9 FIA also submitted that the Authority may consider deferring any non-essential capital expenditure projects to the subsequent control period and the same may be decided through a suitable user consultation/AUCC. Further, the essential capital expenditure should be proposed within the ceiling limits of the normative norms prescribed by AERA.

7.7 AAI's counter comments and response to stakeholder comments on Addendum to CP regarding Capital Expenditure for the First Control Period

- 7.7.1 In response to FIA's comments, AAI has submitted that as per the accounting policy, 100% Capital expenditure for new terminal building will be booked in the FY 23-24 and 10% withheld amount as per PMC will be shown as Liability in the Balance sheet.
- 7.7.2 AAI further submitted that as per the past experiences, it has been observed that most of the contractors submit the Bank Guarantee as security deposit, resulting not only in loss of cash flow but also return on capex, depreciation, tax benefit, IDC and lesser Fair rate of return. Accordingly, AAI requested to consider the capex phasing as proposed in original MYT proposal as it will only result in increase of shortfall while keeping the tariff at the proposed levels.
- 7.7.3 Further, AAI has submitted that AUCC meeting was already conducted on November 8, 2019 where all the major capex items were discussed, and capital expenditure proposed in tariff proposals are essential in nature.

7.8 Authority's examination and decisions regarding Capital Expenditure for the First Control Period

- 7.8.1 The Authority has carefully analyzed the submissions from FIA and AAI, has presented its views in the ensuing paragraphs.
- 7.8.2 The Authority has done a detailed analysis regarding the requirement of the major capital expenditure at the time of issuing of Addendum to CP and accordingly, the Authority decided to consider the new terminal building in the first control period.
- 7.8.3 The Authority has noted the comments raised by AAI regarding consideration of the entire cost of the new Passenger Terminal Building, instead of 75% of the total costs. The Authority is of the view that in case, the construction of the terminal building is completed in the FY 2023-24, included in the RAB and ~48% of the building remains unutilized, the Passengers and Airlines will have to bear the entire return on investment made in the building, on which a portion may remain unutilized. This practice will not be fair and reasonable. The Authority is further of the view that the investment made on the portion of building which will be put to use/utilized should be included in the RAB for tariff determination in the current Control Period. The balance portion of the cost of the building, not considered now, should be included in the RAB when it is utilized possibly in the next Control Period. However, in case the actual traffic flow is more than the projected figure of 3.61 MPPA at any time of the Control Period and the capacity utilization is more than ~52%, the amount of the cost of the building (RAB) would be suitably adjusted at the time of true up in the tariff determination process of the next control period.



- 7.8.4 The Authority decides to consider the aeronautical cost of new Passenger Terminal Building in the RAB for the First Control Period as INR 507.36 crores.
- 7.8.5 With regard to FIA comments regarding AUCC meeting, the Authority is of the view that all the Airport operators including AAI need to scrupulously follow the Guidelines of AERA on the Consultation Protocol. Further, the Authority wants the Airport Operator to adhere to the timelines stipulated under the Guidelines on AUCC consultation process and also maintain records of the Consultation process, information shared and the User responses for the purpose of review by the Authority. Further, Authority also always stresses for all the stakeholders to participate in the consultation process with all seriousness and at to the fruitful outcome of the consultation process
- 7.8.6 With regard to AAI's submission regarding consideration of 100% of the capital cost for new terminal building, the Authority has noted AAI's concerns and accordingly, decides to true up the Capital Expenditure incurred based on actual costs subject to the Normative Approach at the time of determination of tariff for the Second Control Period.
- 7.8.7 The Authority decides to consider the capital expenditure for the first control period in line with the Authority's proposal in Addendum to Consultation Paper.
- 7.8.8 As discussed in the above paragraphs of this Chapter, the Authority decides to revise the capital expenditure for the first control period as shown in table below:

Table 46: Capital Expenditure as approved by the Authority for the first Control Period (INR crores)

S. No.	Component	Aero Cost (INR Cr)	Total Cost (INR Cr)	Aero Portion (%)	Proposed Date of Capitalization
a)	Construction of New Terminal Building (including IDC & amount that shall be capitalized in 1 st Control Period)	507.36	579.18	87.60%	Nov-23
b)	Modification of Existing Terminal Building including consultancy work	22.50	25.00	90.00%	June-22
c)	Construction of Residential Quarters	32.03	74.00	58.134	June-22
d)	Construction of Additional Parking Bays	9.50	9.50	100.00%	June-23
e)	Surface Grading of entire operational area, construction of drainage system and construction of rainwater harvesting system	14.60	14.60	100.00%	2021-22
f)	Provision of 2 nos of Passenger Boarding Bridge (PBB)	2.23	2.23	100.00%	2020-21
g)	Renovation of washrooms and construction of New toilets in International Arrival before Immigration including Electrical PA system i/c renovation of VIP lounge (both)	4.50	4.50	100.00%	2020-21
h)	Construction of New Fire Station & Medical Centre	11.85	11.85	100.00%	2021-22



S. No.	Component	Aero Cost (INR Cr)	Total Cost (INR Cr)	Aero Portion (%)	Proposed Date of Capitalization
i)	Construction of localizer and glide path building hut and antenna platform	3.67	3.67	100.00%	2020-21
j)	Extension of existing 2nos arrival carousal	1.31	1.31	100.00%	2020-21
k)	Provision of one no. additional arrival carousal	3.71	3.71	100.00%	2021-22
l)	Runway Mechanical Sweeper	7.30	7.30	100.00%	2021-22
m)	CFT 1 nos	4.50	4.50	100.00%	March-22
n)	Construction of R/way End Safety Area (RESA) at both ends of Runway	1.81	1.81	100.00%	2020-21
o)	Expansion of Apron for 2 nos .4C type of aircraft	7.57	7.57	100.00%	2020-21
p)	Vertical Extension of CISF Barrack i/c Quarter Guard	2.20	2.20	100.00%	2020-21
q)	Construction of Administrative Block for AAI Staff	9.62	25.41	95/251	June-23
r)	Purchase of PBB and AVDGS (2 nos)	4.08	4.08	100.00%	2020-21
s)	Provision of way finding signages	1.49	1.49	100.00%	2019-20
t)	Supply of Passenger Baggage Trolley	2.02	2.02	100.00%	Dec-22
u)	Provision of UPS and GLF System	1.08	1.08	100.00%	2020-21
v)	Modification of domestic BHS system for inline X-BIS	3.35	3.35	100.00%	2019-20
w)	Provision of Inline X-BIS	19.00	19.00	100.00%	2020-21
x)	Others	5.37	5.37	100.00%	
	Total	682.66	814.73		

7.8.9 Accordingly, the Authority has decided to consider the revised aeronautical capitalization for the first Control Period as per the table below:

Table 47: Revised Aeronautical Capitalization as approved by the Authority (INR crores)

Asset category	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Runways, Aprons and Taxiways	0.25	9.38	14.60	0.00	9.50	33.73
Road, Bridges & Culverts	0.82	1.74	0.00	0.00	0.00	2.56
Building – Terminal	0.85	2.92	0.00	22.50	329.78	356.06
Building- Residential	0.00	0.00	0.00	20.82	0.00	20.82
Boundary Wall - Operational	0.52	0.00	0.00	0.00	0.00	0.52
Other Building – Unclassified	0.81	4.58	10.39	0.00	9.62	25.40

Asset category	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Plant & Machinery	1.42	5.39	11.01	0.00	0.00	17.83
Tools & Equipment	1.49	0.00	0.00	0.00	0.00	1.49
Office Furniture	0.00	0.00	0.00	0.00	0.00	0.00
Vehicles	0.00	0.00	0.00	0.00	0.00	0.00
Electrical Installations	0.64	4.43	1.45	11.21	177.58	195.31
Furniture & Fixtures-Other than Trolley	0.05	0.00	0.00	0.00	0.00	0.05
Furniture & Fixtures- Trolley	0.00	0.00	0.00	2.02	0.00	2.02
X Ray Baggage System	3.35	19.00	0.00	0.00	0.00	22.35
CFT/Fire Fighting Equipment	0.02	0.00	4.50	0.00	0.00	4.52
Total	10.24	47.44	41.95	56.55	526.48	682.66

7.9 Authority's Decision regarding Aeronautical Capitalization for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

- 7.9.1 The Authority decides to adopt the Aeronautical Capitalization for the 1st Control Period in accordance with Table 47.
- 7.9.2 The Authority has decided that subject to the terms and conditions of privatization of Varanasi Airport, it will consider to true-up the Capital expenditure incurred based on actual costs subject to the Normative approach at the time of determination of tariffs for the 2nd Control Period.
- 7.9.3 The Authority decides to rework the RAB of the Airport Operator for the Second Control Period, by reducing the RAB by 1% of the cost of the Terminal Building, if the Airport Operator (AAI/prospective PPP bidder) fails to commission and capitalize the new terminal building by November 2023.



CHAPTER 8. DEPRECIATION FOR THE FIRST CONTROL PERIOD

8.1 AAI's submission regarding Depreciation for the First Control Period

- 8.1.1 AAI follows rates of depreciation, approved by its Board for different asset classes. While submitting the Multi-Year Tariff proposal for the first Control Period, AAI has taken cognizance of the rates of depreciation approved by the Authority in previous tariff orders. Accordingly, AAI has proposed three different sets of rates. These are based on three different periods – up to FY 2015-16, from 01/04/16 to 31/03/18, and beyond 01/04/18.
- 8.1.2 However, for the period, i.e., from 01/04/17 to 31/03/19, AAI has proposed depreciation rates as per the Authority's notified rates of depreciation considering Varanasi airport as Major Airport. For the 1st Control Period, i.e., FY 2019-20 onwards, the depreciation rates have been proposed as per the Authority's Order No. 35/2017-18 titled "In the matter of Determination of Useful life of Airport Assets", describing the normative useful lives for various airport assets.
- 8.1.3 Further, depreciation has been computed separately on opening block of assets and on proposed additions.
- 8.1.4 The depreciation rates proposed by AAI have been summarized in the table below:

Table 48: Depreciation rates proposed by AAI

Asset category	Up to FY 2018	Beyond FY 2018	
		For opening block of assets	For proposed additions
Leasehold Land	0.00%	0.00%	0.00%
Runways, Aprons and Taxiways	3.33%	3.33%	3.33%
Road, Bridges & Culverts	3.33%	10.00%	10.00%
Building-Others	3.33%	3.33%	3.33%
Building – Terminal	3.33%	3.33%	3.33%
Building – Temporary	33.33%	33.33%	33.33%
Building- Residential	3.33%	3.33%	3.33%
Security Fencing-Temp	33.33%	33.33%	33.33%
Boundary Wall – Operational	3.33%	10.00%	10.00%
Boundary Wall – Residential	3.33%	10.00%	10.00%
Buildings – Other	3.33%	3.33%	3.33%
Computer - End user	16.67%	33.33%	33.33%
Computer – Server & Networks	16.67%	16.67%	16.67%



Asset category	Up to FY 2018	Beyond FY 2018	
		For opening block of assets	For proposed additions
Intangible Assets – Software	20.00%	20.00%	20.00%
Plant & Machinery	6.67%	6.67%	6.67%
Tools & Equipment	6.67%	6.67%	6.67%
Furniture & Fixtures: Other Than Trolley	10.00%	14.29%	14.29%
Furniture & Fixtures: Trolley	10.00%	33.33%	33.33%
Vehicles	12.50%	12.50%	12.50%
Electrical Installations	10.00%	10.00%	10.00%
Other Office Equipment	20.00%	20.00%	20.00%
X Ray Baggage System	6.67%	6.67%	6.67%
CFT/Fire Fighting Equipment	6.67%	6.67%	6.67%

- 8.1.5 The depreciation amount proposed by AAI for the 1st Control Period has been presented in the table below:

Table 49: Depreciation proposed by AAI (INR crores)

Particulars	FY ending March 31, 2018	FY ending March 31, 2019	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Depreciation	10.14	11.62	12.17	13.54	15.70	16.32	40.45

8.2 Authority's examination regarding Depreciation for the First Control period at Consultation stage and proposals made in the CP

- 8.2.1 The Authority noted the submission regarding the two different rates of depreciation adopted by AAI for different periods under consideration and had duly examined these for consideration towards determination of aeronautical tariff.
- 8.2.2 AAI has worked out depreciation for FY 2017-18 and FY 2018-19 using rates as per Authority's Order No. 35/2017-18, which is applicable for Major Airports within the economic regulatory ambit of AERA. However, MoCA has directed AERA to determine the aeronautical tariff for Varanasi Airport, while declaring it as a Major Airport, only on October 30, 2019. Accordingly, the depreciation rates as per Authority's Order No. 35/2017-18 may not be applied for the periods FY 2017-18 and FY 2018-19. Therefore, the Authority proposed to use the depreciation rates applicable as per AAI's internal accounting policies for computing the net block of Initial RAB.
- 8.2.3 However, from April 2019 onwards, the Authority has drawn reference to its Order No. 35/2017-18 titled "In the matter of Determination of Useful life of Airport Assets", for working out the



depreciation rates and proposed to use the same for computation of Aggregate Revenue Requirement (ARR).

- 8.2.4 These normative depreciation rates of airport assets as per the above-mentioned Order, relevant to Varanasi Airport, are given in the table below:

Table 50: Depreciation rates as per Authority's Order No. 35 / 2017-18 dated January 12, 2018

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

- 8.2.5 The Authority observed that the depreciation rates used by AAI for the period beyond 01/04/2019 are in line with the rates as per the above-mentioned order. Therefore, the Authority does not propose any change in the depreciation rate schedule.

- 8.2.6 Combining its observations across the two periods, the Authority proposed the depreciation rates for tariff determination in respect of Varanasi Airport as per table below:

Table 51: Depreciation rates proposed by the Authority

Asset category	For FY 2017-18 & FY 2018-19		Beyond FY 2019-20	
	For opening block of assets	For proposed additions	For opening block of assets	For proposed additions
Leasehold Land	0.00%	0.00%	0.00%	0.00%
Runways, Aprons and Taxiways	13.00%	13.00%	3.33%	3.33%
Road, Bridges & Culverts	13.00%	13.00%	10.00%	10.00%
Building – Terminal	8.00%	8.00%	3.33%	3.33%
Building – Temporary	100.00%	100.00%	33.33%	33.33%



Asset category	For FY 2017-18 & FY 2018-19		Beyond FY 2019-20	
	For opening block of assets	For proposed additions	For opening block of assets	For proposed additions
Building- Residential	5.00%	5.00%	3.33%	3.33%
Security Fencing-Temp	100.00%	100.00%	33.33%	33.33%
Boundary Wall – Operational	8.00%	8.00%	10.00%	10.00%
Boundary Wall – Residential	5.00%	5.00%	10.00%	10.00%
Buildings – Other	8.00%	8.00%	3.33%	3.33%
Computer - End user	20.00%	20.00%	33.33%	33.33%
Computer – Server & Networks	20.00%	20.00%	16.67%	16.67%
Intangible Assets – Software	20.00%	20.00%	20.00%	20.00%
Plant & Machinery	11.00%	11.00%	6.67%	6.67%
Tools & Equipment	20.00%	20.00%	6.67%	6.67%
Furniture & Fixtures: Other Than Trolley	20.00%	20.00%	14.29%	14.29%
Furniture & Fixtures: Trolley	20.00%	20.00%	33.33%	33.33%
Vehicles	14.00%	14.00%	12.50%	12.50%
Electrical Installations	11.00%	11.00%	10.00%	10.00%
Other Office Equipment	20.00%	20.00%	20.00%	20.00%
X Ray Baggage System	11.00%	11.00%	6.67%	6.67%
CFT/Fire Fighting Equipment	13.00%	13.00%	6.67%	6.67%

8.2.7 On account of the above depreciation rates, and the changes in proposed capital expenditure, the Authority proposed the following depreciation during the 1st Control Period.

Table 52: Depreciation proposed by the Authority at Consultation stage (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Depreciation	9.44	11.33	14.63	15.88	32.90	84.18

8.3 Stakeholders' Comments on CP regarding Depreciation for the First Control Period

AAI's comments on Depreciation for the First Control Period



- 8.3.1 AAI has requested to consider the depreciation rate of 18% for "Other Office Equipment's" for FY 2017-18 and FY 2018-19 as against the depreciation rate of 20% considered by the Authority.

Indigo's comments on Depreciation for the First Control Period

- 8.3.2 Indigo has submitted that review of useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicates that terminal buildings have useful life of as long as 60 years and aprons have it for as long as 99 years. Similarly, the useful life of terminal building for Kannur and Cochin airports has been considered as 60 years by the Authority and accordingly, the useful life for terminal building must be considered as 60 years.
- 8.3.3 Regarding depreciation of residential building, Indigo submitted that "as per Sl. No.8 of Annexure - I of the Authority 's Order 35/2017- 18- In the matter of determination of useful life of Airport Assets dated 12.01.2018; residential buildings have a prescribed useful life of 30/60 years. It is pertinent to note here that unlike in case of terminal buildings where option of 30 or 60 years is to be evaluated by Airport Operator, the election of 30 years or 60 years is case of residential buildings is not to be evaluated by Airport Operator but is to be derived from provisions of Companies Act". Further, Indigo submitted that Part C of Schedule II of Companies Act 2013 prescribes the useful life of Buildings (other than factory buildings) having Reinforced Concrete Cement (RCC) frame structure to be 60 years. " It is very unlikely that residential buildings will not be built on RCC Frame structure." Therefore, Indigo submitted that residential buildings should be depreciated over a period of 60 years and not 30 years.
- 8.3.4 In view of the above, Indigo submitted that AERA should consider the useful life of Residential building and Terminal Building as 60 years as envisaged in Order No. 35/2017-18 read with Schedule II of Companies Act 2013 and revise the amount of depreciation accordingly.

8.4 AAI's counter comments and response to stakeholder comments on CP regarding Depreciation for the First Control Period

- 8.4.1 In response to Indigo's comments, AAI has submitted that they have adopted the Useful Life Policy issued by AERA while preparing proposal for all AAI Major Airports.

8.5 Authority's examination regarding Depreciation for the First Control Period at Addendum to CP stage

- 8.5.1 The Authority carefully analyzed the submissions from Indigo and AAI, and has presented its views, as below.
- 8.5.2 AAI has considered the useful life in accordance with the Useful Life Policy issued by AERA. Since, the Policy allows the Airport Operators to choose the 'useful life' of terminal buildings, therefore, the Authority is bound to accept their proposal.
- 8.5.3 As discussed in para 8.2.2, the Authority has considered the depreciation rates for FY 2017-18 and FY 2018-19 as per AAI's internal accounting policy to compute the Initial RAB. Accordingly, the Authority has already considered the depreciation rate of 18% for "Other Office Equipments" for FY 2017-18 and FY 2018-19.



- 8.5.4 As discussed in the above paragraphs of this Chapter, the Authority proposed to consider the depreciation rates as per the Order No. 35/2017-18. The Authority proposed the following revised depreciation during the 1st Control Period.

Table 53: Revised Depreciation as proposed by the Authority at Addendum to CP stage (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Depreciation	8.69	9.55	11.68	13.66	29.63	73.20

8.6 Stakeholders' Comments on Addendum to CP regarding Depreciation for the First Control Period

- 8.6.1 No comments were received from the stakeholders.

8.7 Authority's examination and decisions regarding Depreciation for the First Control Period

- 8.7.1 The Authority has duly examined the issues relating to depreciation in the previous chapters. The Authority has decided to consider the initial RAB in accordance with Table 26, aeronautical capitalization in accordance with Table 47 and depreciation rates in accordance with Table 51 to revise depreciation for the 1st Control Period as presented in table below:

Table 54: Revised Depreciation as approved by the Authority (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Depreciation	8.69	9.55	11.68	13.66	29.63	73.20

8.8 Authority's Decision regarding Depreciation for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

- 8.8.1 The Authority decides to adopt depreciation rates for Varanasi airport as per Table 51 for the 1st Control Period.
- 8.8.2 The Authority decides to consider the depreciation amounts as per Table 54 for the 1st Control Period.



CHAPTER 9. REGULATORY ASSET BASE (RAB) FOR THE FIRST CONTROL PERIOD

9.1 AAI's submission regarding RAB for the First Control Period

9.1.1 AAI submitted RAB for the 1st Control Period as follows:

Table 55: RAB for the 1st Control Period as per AAI's submission (INR crores)

S. No.	Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1.	Opening RAB	90.37	136.19	185.80	225.61	209.29
2.	Capitalizations	57.98	63.15	55.55	0.00	870.46
3.	Disposals	0.00	0.00	0.0429	0.00	0.00
4.	Depreciation	12.17	13.54	15.70	16.32	40.45
5.	Closing RAB	136.19	185.80	225.61	209.29	1039.29
6.	Average RAB	113.28	161.00	205.70	217.45	624.29

9.2 Authority's examination regarding RAB for the First Control period at Consultation stage

9.2.1 The Authority examined each element of RAB proposed to adopt the Initial RAB as per Table 24, the aeronautical capitalization in accordance with Table 37, and the depreciation amounts in accordance with Table 52.

9.2.2 Combining all its propositions, the Authority had proposed to consider the aeronautical RAB for the 1st Control Period of Varanasi Airport as per table below:

Table 56: RAB for the 1st Control Period after Authority's examination at consultation stage (INR crores)

S. No.	Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1.	Opening RAB	74.80	96.40	143.60	213.61	197.73
2.	Capitalizations	31.04	58.52	84.68	0.00	612.73
3.	Disposals	0.00	0.00	0.04	0.00	0.00
4.	Depreciation	9.44	11.33	14.63	15.88	32.90
5.	Closing RAB	96.40	143.60	213.61	197.73	777.57
6.	Average RAB	85.60	120.00	178.60	205.67	487.65



9.3 Stakeholders' Comments on CP regarding Average RAB for the First Control Period

9.3.1 No comments were received from the stakeholders.

9.4 Authority's examination regarding Average RAB for the First Control Period at Addendum to CP stage

9.4.1 Considering the revision in the aeronautical capitalization, the Authority proposed the revised RAB for the first control period as presented in the following table:

Table 57: Revised RAB for the 1st Control Period proposed by the Authority at Addendum to CP stage (INR crores)

S.No.	Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1.	Opening RAB	74.80	76.35	114.25	144.49	187.38
2.	Capitalizations	10.24	47.44	41.95	56.55	526.48
3.	Disposals	0.00	0.00	0.04	0.00	0.00
4.	Depreciation	8.69	9.55	11.68	13.66	29.63
5.	Closing RAB	76.35	114.25	144.48	187.38	684.22
6.	Average RAB	75.58	95.30	129.36	165.93	435.80

9.5 Stakeholders' Comments on Addendum to CP regarding Average RAB for the First Control Period

9.5.1 No comments were received from the Stakeholders.

9.6 Authority's examination and decisions regarding Average RAB for the First Control Period

9.6.1 The Authority has duly examined each element of RAB in the previous chapter. Accordingly, the Authority decided to adopt the Initial RAB as per Table 26, the aeronautical capitalization in accordance with Table 47, and the depreciation amounts in accordance with Table 54.

9.6.2 Considering the decisions as per para 9.6.1, the Authority decides to revise the aeronautical RAB for determination of tariffs for the 1st Control Period in respect of Varanasi Airport as given in the table below:

Table 58: Revised RAB for the 1st Control Period after Authority's examination (INR crores)

S. No.	Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1.	Opening RAB	74.80	76.35	114.25	144.49	187.38
2.	Capitalizations	10.24	47.44	41.95	56.55	526.48
3.	Disposals	0.00	0.00	0.04	0.00	0.00



S. No.	Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
4.	Depreciation	8.69	9.55	11.68	13.66	29.63
5.	Closing RAB	76.35	114.25	144.48	187.38	684.22
6.	Average RAB	75.58	95.30	129.36	165.93	435.80

9.7 Authority's Decision regarding Average RAB for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

- 9.7.1 The Authority decides to consider the average RAB for the 1st Control Period for Varanasi airport as per Table 58.



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CHAPTER 10. FAIR RATE OF RETURN (FRoR) FOR THE FIRST CONTROL PERIOD

10.1 AAI's submission regarding FRoR for the First Control Period

- 10.1.1 AAI has considered Fair Rate of Return (FRoR) as 14% at par with the decision taken by the Authority for other AAI airports, including Chennai, Jaipur, Patna among others.
- 10.1.2 AAI has submitted that all project financing activities are undertaken centrally by AAI's Corporate Office, New Delhi. The funds are then apportioned among airports by the Corporate Office, New Delhi. AAI has proposed a financing structure of 60%-40% debt to equity for the proposed new terminal building. Accordingly, the Fair rate of return (FRoR) has been considered at 12.03% for last year in Control Period, assuming cost of debt as 8.03%. The workings for the same as submitted by AAI is shown in table below:

Table 59: Calculation of FRoR for FY 2023-24 as submitted by AAI (INR Crore)

Sr. No	Particulars	Formula	Value
	Assumptions:		
a.	Closing RAB		1000.42
b.	Additions made in FY 2023-24		830.45
c.	Portion of Debt		60%
d.	Portion of Equity		40%
e.	Cost of Debt		8.03%
f.	Cost of Equity		16%
	Calculation of FRoR:		
g.	Cost of Debt (b x c x e)	$830.45 \times 60\% \times 8.03\%$	40.01
h.	Cost of Equity on last year additions (b x d x f)	$830.45 \times 40\% \times 16\%$	53.15
j.	Cost of Equity on balance assets { (a -b) x f }	$(1000.42 - 830.45) \times 16\%$	27.20
k.	Total Capital (a)		120.36
	FRoR-% (k/a)		12.03%

10.2 Authority's examination regarding FRoR for the First Control period at Consultation stage

- 10.2.1 The Authority recognized that AAI's capital structure may not be regarded as an efficient one in that it doesn't optimize the cost of funds from a regulatory perspective. The Authority desired that the FRoR allowed to AAI should come down over a period of time by optimizing capital gearing. In this respect, AAI has proposed to finance the new terminal building with 60% debt. AAI submitted that they are still in process of finalizing the loan conditions at the corporate level and shall be allotting the debt in respect of the new terminal building from the same. The Authority would like to highlight that it may also consider a normative capital structure to determine the FRoR at a later date.
- 10.2.2 The Authority had earlier considered the Fair Rate of Return at 14% for similar airports such as Jaipur, Patna, Chennai etc. Accordingly, the Authority proposes to consider the Fair Rate of Return at 14%.
- 10.2.3 The Authority notes that AAI has considered cost of equity as 16% for last year of the Control Period on opening RAB and additions as well. The Authority would like to highlight that adding the



leverage doesn't affect the risk level of initial RAB and proposes to consider cost of equity of 16% for addition in RAB only for FY 2023-24. Accordingly, the Authority proposes to consider FRoR at 11.96% as shown in table below:

Table 60: Calculation of FRoR for FY 2023-24 as per Authority (INR Crore)

Sr. No	Particulars	Formula	Value
	Assumptions:		
a.	Opening RAB for FY 2023-24		210.84
b.	Additions made in FY 2023-24		579.13
c.	Portion of Debt		60%
d.	Portion of Equity		40%
e.	Cost of Debt		8.03%
f.	Cost of Equity (Additions)		16%
g.	Cost of Equity (Initial RAB)		14%
	Calculation of FRoR:		
h.	Cost of Debt (b x c x e)	$579.13 \times 60\% \times 8.03\%$	27.90
i.	Cost of Equity on additions in FY 2023-24 (b x d x f)	$579.13 \times 40\% \times 16\%$	37.06
j.	Cost of Equity on balance assets {a x g}	$210.84 \times 14\%$	29.52
k.	Total Capital (a+b)	$210.84 + 579.13$	789.97
	FRoR-% (k/a)		11.96%

10.2.4 Based on the above, the Authority proposed to consider FRoR as per table below for Varanasi Airport for the 1st Control Period:

Table 61: Fair Rate of Return (FRoR) as proposed by the Authority in Consultation Paper

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Fair Rate of Return (FRoR)	14%	14%	14%	14%	11.96%

10.3 Stakeholders' Comments on CP regarding FRoR for the First Control Period

AAI's comments on FRoR for the First Control Period

10.3.1 AAI has requested to consider the FRoR at the rate of 12.06% for FY 2023-24.

Indigo's comments on FRoR for the First Control Period

10.3.2 IndiGo has requested the Authority to expedite the study for normative norms on capital structure to review the high cost of equity/FRoR being awarded to state entities like AAI, which are required to cater to the public interest and not to the commercial interests.

10.4 AAI's counter comments and response to stakeholder comments on CP regarding FRoR for the First Control Period

10.4.1 AAI has requested the Authority to offer its views.



10.5 Authority's examination regarding FRoR for the First Control Period at Addendum to CP stage

10.5.1 The Authority proposed to consider the Fair rate of return at 14% for FY 2019-20 to FY 2022-23 as per the Consultation Paper. However, based on the revised capital expenditure plan and proposed change in PDC of new terminal building (November 2023), the Authority computed the Fair rate of return for FY 2023-24 as below:

Table 62: Calculation of FRoR for FY 2023-24 as per Authority (INR Crore)

Sr. No	Particulars	Formula	Value
	Assumptions:		
a.	Opening RAB for FY 2023-24		187.38
b.	Additions made in FY 2023-24 for New Terminal Building (Refer S. No. (a) in Table 47)		507.36
c.	Additions made in FY 2023-24 for Other Capex (Refer S. No. (d) & (q) in Table 47)		19.12
d.	Portion of Debt		60%
e.	Portion of Equity		40%
f.	Cost of Debt		8.03%
g.	Cost of Equity (Additions)		16%
h.	Cost of Equity (Initial RAB)		14%
	Calculation of FRoR:		
i.	Cost of Debt	$b*d*f$	24.44
j.	Cost of Equity on TB additions in FY 2023-24	$b*e*g$	32.47
k.	Cost of Equity on balance assets	$(a+c)*h$	28.91
l.	Total Capital	$a+b+c$	713.85
m.	FRoR (for period Nov 2023 – Mar 2024)*	$(i+j+k)/l$	12.02%
n.	FRoR (for period Apr 2023 – Oct 2023)	h	14.00%
o.	Weighted Average FRoR	$(n*7+m*5)/12$	13.18%

* Since the proposed PDC for new PTB is November 2023, therefore FRoR of 14% will be applicable up to October 2023.

10.5.2 The Authority has considered 14% FRoR for Apr 2023-Oct 2023. For Nov 2023- Mar 2024 (as the Terminal Building is getting capitalized in Nov 2023), the Authority has computed FRoR using the Debt/Equity ratio of 60:40, Cost of Debt @ 8.03%, Cost of Equity @ 16% for the Terminal Building and for remaining assets assuming 100% Equity, Cost of Equity @14%. FRoR for Nov 2023-March 2024, thus, comes as 12.02%. For computing FRoR for 2023-24, the Authority has taken weighted average of FROR for Apr 2023- Oct 2023 and Nov 2023- Mar 2024.

10.5.3 Based on the above, the Authority proposes to consider FRoR as per table below for Varanasi Airport for the 1st Control Period:

Table 63: Fair Rate of Return (FRoR) as considered by the Authority at addendum to CP stage

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Fair Rate of Return (FRoR)	14%	14%	14%	14%	13.18%



10.6 Stakeholders' Comments on Addendum to CP regarding FRoR for the First Control Period

AAI's comments on FRoR for the First Control Period

- 10.6.1 AAI has requested to consider the FRoR at the rate of 13.41% for FY 2023-24.

10.7 Authority's examination and decisions regarding Fair Rate of Return (FRoR) for the First Control Period

- 10.7.1 Since the Authority has decided to adopt the capital expenditure and aeronautical capitalization in line with the Authority's proposal in Addendum to Consultation Paper, the Authority, accordingly, also decides to consider the fair rate of return for the 1st Control Period in line with Addendum to Consultation Paper as presented in table below:

Table 64: Fair Rate of Return (FRoR) as approved by the Authority

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Fair Rate of Return (FRoR)	14%	14%	14%	14%	*13.18%

* Refer table – 62 for Calculation of FRoR for FY 2023-24:

10.8 Authority's Decision regarding Fair Rate of Return (FRoR) for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

- 10.8.1 The Authority decides to consider the FRoR for the Varanasi Airport for the 1st Control Period as per Table 64.



CHAPTER 11. NON-AERONAUTICAL REVENUE FOR THE FIRST CONTROL PERIOD

11.1 AAI's submission regarding Non- Aeronautical Revenue for the First Control Period

11.1.1 AAI has forecast revenue from services other than aeronautical services as below.

Table 65: Non-aeronautical revenue projections as per AAI (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1. Trading concessions					
Restaurant / snack bars	3.89	4.28	4.71	5.18	6.22
T.R. stall	5.68	6.25	6.87	7.56	9.07
Hoarding & display	3.77	4.15	4.57	5.02	6.03
2. Rent and services					
Land leases	0.04	0.04	0.04	0.04	0.04
Building (residential)	0.02	0.02	0.02	0.02	0.02
Building (non-residential)	1.75	1.93	2.12	2.33	2.80
3. Miscellaneous					
Car rentals	0.77	0.84	0.93	1.02	1.23
Car parking	2.34	1.80	1.98	2.18	2.61
Admission tickets	0.31	0.34	0.38	0.42	0.50
Other income/ sale of scrap etc.	2.96	3.10	3.26	3.42	3.59
Total	21.54	22.76	24.88	27.20	32.11

11.1.2 The growth rates assumed by AAI have been presented in the table below:

Table 66: Growth rates assumed by AAI for non-aeronautical revenue

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1. Trading concessions					
Restaurant / snack bars	10%	10%	10%	10%	20%
T.R. stall	10%	10%	10%	10%	20%
Hoarding & display	10%	10%	10%	10%	20%
2. Rent and services					
Land leases	0.0%	0.0%	0.0%	0.0%	0.0%
Building (residential)	0.0%	0.0%	0.0%	0.0%	0.0%
Building (non-residential)	10%	10%	10%	10%	20%
3. Miscellaneous					
Car rentals	10%	10%	10%	10%	20%
Car parking	-14%	-23%	10%	10%	20%



Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Admission tickets	10%	10%	10%	10%	20%
Other income/ sale of scrap etc.	5%	5%	5%	5%	5%
Total	6%	6%	9%	9%	18%

11.2 Authority's examination regarding Non-aeronautical revenues for the First Control period at Consultation stage

- 11.2.1 The Authority examined the non-aeronautical revenues for FY 2018-19 as submitted by AAI and found the figures to be in line with the trial balances of FY 2018-19.
- 11.2.2 **Car Parking:** AAI has submitted that car parking contract of INR 24.25 lakhs per month has expired on May 9, 2019, subsequent to which it is being presently maintained by AAI with monthly revenue of INR 19.50 lakhs. As per the new AAI's Car Park Policy, the revised MRLF of INR 15 lakhs per month has been proposed for new award, which shall increase by 10% each year.
- 11.2.3 **Car Rentals:** AAI has submitted that two new contracts for prepaid taxi booth have been awarded in FY 2018-19 resulting in high growth in FY 2018-19, thus normal growth of 10% has been assumed for FY 2018-19 onwards.
- 11.2.4 **T.R. Stall:** AAI has submitted that it has increased the number of T R Stalls at the airport, which has resulted in the substantial increase in the revenue from TR stalls in FY2018-19. For projections during the 1st Control Period, AAI has considered the escalation of 10% in the revenue from TR Stalls.
- 11.2.5 **Land Leases:** AAI has submitted that land leases in FY 2017-18 represents arrear bills of INR 38 lakhs for Air India and INR 58 lakhs for Met Department for prior period which were raised in FY 2017-18. AAI has also submitted that shutting down of Jet Airways operation has impacted the land lease revenue in FY 2018-19.
- 11.2.6 The Authority verified the above-mentioned concession agreements and found the projections to be in line with the same.
- 11.2.7 The Authority observed that AAI has proposed additional 10% escalation in last year of the Control Period considering operationalization of the new terminal building in FY 2023-24. However, the proposed new terminal building shall spread across an area of 67,000 sqm, which is 2.5 times the area of the existing terminal building. Therefore, the Authority proposes to change the growth rates in FY 2023-24 assumed for:
- Trading Concessions" – from 20% to 30%
 - Building (non-residential) – from 20% to 30%
 - Car rental and car parking – from 20% to 30%
 - Admission Tickets – on the basis of proposed passenger traffic growth rate
- 11.2.8 The revised growth rates as per Authority's examination have been presented in the table below:



Table 67: Growth rates in non-aeronautical revenue considered by the Authority at Consultation stage

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Trading concessions					
Restaurant / snack bars	10%	10%	10%	10%	30%
T.R. stall	10%	10%	10%	10%	30%
Hoarding & display	10%	10%	10%	10%	30%
Rent and services					
Land leases	0.0%	0.0%	0.0%	0.0%	0.0%
Building (residential)	0.0%	0.0%	0.0%	0.0%	0.0%
Building (non-residential)	10%	10%	10%	10%	30%
Miscellaneous					
Car rentals	10%	10%	10%	10%	30%
Car parking	-14%	-23%	10%	10%	20%
Admission tickets	13.65%	22.10%	22.22%	22.34%	22.47%
Other income/ sale of scrap etc.	5%	5%	5%	5%	5%
Total	6%	6%	9%	9%	18%

11.2.9 The non-aeronautical revenues as per Authority's examination have been presented in the table below:

Table 68: Non-aeronautical revenues proposed by the Authority at Consultation stage (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Trading concessions						
Restaurant / snack bars	3.89	4.28	4.71	5.18	6.74	24.82
T.R. stall	5.68	6.25	6.87	7.56	9.83	36.18
Hoarding & display	3.77	4.15	4.57	5.02	6.53	24.04
Rent and services						
Land leases	0.04	0.04	0.04	0.04	0.04	0.21
Building (residential)	0.02	0.02	0.02	0.02	0.02	0.10
Building (non-residential)	1.75	1.93	2.12	2.33	3.03	11.17
Miscellaneous						
Car rentals	0.77	0.84	0.93	1.02	1.33	4.89
Car parking	2.34	1.80	1.98	2.18	2.83	11.13
Admission tickets	0.32	0.39	0.48	0.59	0.72	2.51
Other income/ sale of scrap etc.	2.96	3.10	3.26	3.42	3.59	16.34
Total	21.55	22.81	24.98	27.37	34.66	131.38

11.3 Stakeholders' Comments on CP regarding Non-aeronautical Revenues for the First Control Period

AAI's comments on Non-aeronautical Revenue for the First Control Period

11.3.1 AAI has proposed to extend the waiver to commercial contracts by giving a reduction of 50% in FY 2020-21, 30% in FY 2021-22 and Nil in FY 2022-23.



11.3.2 AAI requested the Authority to consider additional 10% increase in FY 2023-24 as the new terminal building will be operationalized in FY 2023-24 and it will take time in demand of space for Trading concession/Building(Non-residential)/Car rental and car parking in NTB as NTB is not the replacement of the Existing Building

11.3.3 AAI proposed the revised non-aeronautical revenue as below:

Table 69: Revised Non-aeronautical revenue projections as per AAI (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Trading concessions						
Restaurant / snack bars	3.89	1.95	2.73	3.89	4.67	17.14
T.R. stall	5.68	2.84	3.98	5.68	6.81	24.99
Hoarding & display	3.77	1.89	2.64	3.77	4.53	16.60
Rent and services						
Land leases	0.04	0.04	0.04	0.04	0.04	0.21
Building (residential)	0.02	0.02	0.02	0.02	0.02	0.10
Building (non-residential)	1.75	0.88	1.23	1.75	2.10	7.71
Miscellaneous						
Car rentals	0.77	0.38	0.54	0.77	0.92	3.38
Car parking	2.34	0.90	1.26	1.80	2.16	8.46
Admission tickets	0.31	0.16	0.22	0.31	0.37	1.37
Other income/ sale of scrap	2.96	3.10	3.26	3.42	3.59	16.34
Total	21.54	12.16	15.91	21.46	25.23	96.29

Indigo's comments on Non-aeronautical Revenue for the First Control Period

11.3.4 Indigo has submitted that the increase in non-aeronautical revenue is the function of passenger traffic growth, inflationary increase and real increase in contract rates. However, the Authority has followed the conservative approach. Further, Indigo has highlighted the following:

- Propose increase in non-aeronautical revenue is not commensurate with the new terminal building
- No reason was provided behind decline in car parking revenue
- Whether annual escalations as agreed under related contracts have been considered or not for the Land lease/commercial contracts/building?

11.3.5 Indigo has also requested AAI to clarify whether airlines are eligible to claim waiver of charges as suggested for commercial contracts and to specify such contracts.

GAL's comments on Non-aeronautical Revenue for the First Control Period

11.3.6 GAL has submitted that given the present situation of COVID-19, there is a high degree of uncertainty on the traffic figures and a dip in Non-Aero revenues to the tune of 50% has been estimated by various air traffic agencies. GAL has requested the Authority to rationalize the non-aeronautical revenues in-line with the Authority's viewpoint for rationalization of passenger traffic.

11.4 AAI's counter comments and response to stakeholder comments on CP regarding Non-aeronautical Revenues for the First Control Period

11.4.1 In response to Indigo's comments, AAI has submitted that the increase in non-aeronautical revenue



is not a direct function of passenger traffic growth, inflationary increase and real increase in contract rates and depends upon the passenger profile at the airport as well. An additional 10% y-o-y increase has been considered for non-aeronautical revenue due to the new terminal building.

11.4.2 Further, AAI has clarified that they have changed their car parking policy resulting in the lower revenue for car parking; and annual escalation has been considered as per the agreement/rates issued by AAI for Land lease/Commercial contract etc. AAI has also clarified that the waiver in respect of commercial contracts (excluding space rentals contracts) shall be applicable to all concessionaires.

11.4.3 In response to GAL's comments, AAI has shown agreement with their views.

11.5 Authority's examination regarding issues on Non-aeronautical Revenues for the First Control Period at Addendum to CP stage

11.5.1 The Authority carefully analyzed the submissions from Indigo, GAL and AAI, and presented its views, as below.

11.5.2 The Authority has assessed the projections made by AAI. The Authority understands that currently there are restrictions imposed by GoI on aircraft movements in view of the ongoing COVID19 pandemic. At this moment it is difficult to gauge the actual impact on the passenger traffic including passengers' buying behavior. The Authority, therefore, proposes to consider the non-aeronautical revenue as proposed by AAI and the same shall be trued-up as per actuals at the time of tariff determination for the next Control Period.

11.5.3 The table below provides the non-aeronautical revenue as proposed by the Authority in the Addendum to CP for the 1st control period:

Table 70: Non-aeronautical revenues proposed by the Authority at Addendum to CP stage (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Trading concessions						
Restaurant / snack bars	3.89	1.95	2.73	3.89	4.67	17.14
T.R. stall	5.68	2.84	3.98	5.68	6.81	24.99
Hoarding & display	3.77	1.89	2.64	3.77	4.53	16.60
Rent and services						
Land leases	0.04	0.04	0.04	0.04	0.04	0.21
Building (residential)	0.02	0.02	0.02	0.02	0.02	0.10
Building (non-residential)	1.75	0.88	1.23	1.75	2.10	7.71
Miscellaneous						
Car rentals	0.77	0.38	0.54	0.77	0.92	3.38
Car parking	2.34	0.90	1.26	1.80	2.16	8.46
Admission tickets	0.31	0.16	0.22	0.31	0.37	1.37
Other income/ sale of scrap	2.96	3.10	3.26	3.42	3.59	16.34
Total	21.54	12.16	15.91	21.46	25.23	96.29



11.6 Stakeholders' Comments on Addendum to CP regarding Non-aeronautical Revenues for the First Control Period**FIA's comments on Non-aeronautical Revenue for the First Control Period**

- 11.6.1 FIA has submitted that the non-aeronautical revenues may be revised keeping in view of any upward revision in traffic.

11.7 AAI's counter comments and response to stakeholder comments on Addendum to CP regarding Non-aeronautical Revenues for the First Control Period

- 11.7.1 In response to FIA's comments, AAI has submitted that Non-aeronautical revenue may not be linked directly with the passenger growth as the clientele is primarily pilgrim tourist which does not generally spend at the airport.

11.8 Authority's examination and decisions regarding issues on Non-aeronautical Revenues for the First Control Period

- 11.8.1 The Authority has carefully analyzed the submissions from FIA and AAI, has presented its views, as below.
- 11.8.2 The Authority has considered the passenger traffic projections in line with its proposal in Addendum to consultation paper. Accordingly, the Authority decides to consider the non-aeronautical revenues as proposed in the Addendum to consultation paper.
- 11.8.3 The table below provides the non-aeronautical revenue as considered by the Authority for the 1st control period:

Table 71: Non-aeronautical revenues approved by the Authority (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Trading concessions						
Restaurant / snack bars	3.89	1.95	2.73	3.89	4.67	17.14
T.R. stall	5.68	2.84	3.98	5.68	6.81	24.99
Hoarding & display	3.77	1.89	2.64	3.77	4.53	16.60
Rent and services						
Land leases	0.04	0.04	0.04	0.04	0.04	0.21
Building (residential)	0.02	0.02	0.02	0.02	0.02	0.10
Building (non-residential)	1.75	0.88	1.23	1.75	2.10	7.71
Miscellaneous						
Car rentals	0.77	0.38	0.54	0.77	0.92	3.38
Car parking	2.34	0.90	1.26	1.80	2.16	8.46
Admission tickets	0.31	0.16	0.22	0.31	0.37	1.37
Other income/ sale of scrap	2.96	3.10	3.26	3.42	3.59	16.34
Total	21.54	12.16	15.91	21.46	25.23	96.29



11.9 Authority's Decision regarding Non-Aeronautical Revenues for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

- 11.9.1 The Authority decides to consider the non-aeronautical revenues for the 1st Control Period for Varanasi airport in accordance with Table 71.



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CHAPTER 12. OPERATION AND MAINTENANCE EXPENDITURE FOR THE FIRST CONTROL PERIOD

12.1 AAI's submission regarding Operation and Maintenance expenditure for the First Control Period

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

- a) Payroll expenses;
- b) Admin and general expenditure;
- c) Repair and maintenance expenditure;
- d) Utilities and outsourcing expenditure; and
- e) Other outflows, i.e. collection charges on UDF

12.1.2 The expenses related to AAICLAS, ANS and CISF security have not been considered by AAI.

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

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

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

Table 72: Growth rates in O&M as per AAI

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Payroll expenses - non CHQ/RHQ	8.0%	7.0%	7.0%	7.0%	16.9%
Payroll expenses - CHQ/RHQ	14.0%	7.2%	6.7%	7.2%	17.2%
Administration and General expenses - non CHQ/RHQ	10.9%	9.3%	10.1%	9.8%	116.0%
Administration and General expenses - CHQ/RHQ	5.0%	5.0%	5.0%	5.0%	5.0%
Repairs and maintenance	16.4%	6.2%	6.4%	-24.4%	16.1%
Utilities and outsourcing expenses	2.5%	37.1%	0.8%	0.9%	91.6%
Other outflows - Collection Charges on UDF & PSF (F)	158.4%	11.9%	11.9%	11.9%	10.0%
Total	10.15%	9.01%	5.88%	-2.22%	28.30%

12.1.6 The summary of aeronautical expenses proposed by AAI for the 1st Control Period has been presented in the table below:



Table 73: Operation and Maintenance (O&M) expenditure (in INR crores) as per AAI

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Payroll expenses - non CHQ/RHQ	13.97	14.95	16.00	17.12	20.02
Payroll expenses - CHQ/RHQ	1.95	2.09	2.23	2.39	2.80
Administration and General expenses - non CHQ/RHQ	3.55	3.88	4.27	4.69	10.13
Administration and General expenses - CHQ/RHQ	16.23	17.05	17.90	18.79	19.73
Repairs and maintenance	15.40	16.35	17.40	13.16	15.28
Utilities and outsourcing expenses	4.88	6.69	6.74	6.80	13.02
Other outflows - Collection Charges on UDF	0.88	0.98	1.10	1.23	1.35
Overall Growth Rates	56.86	61.98	65.63	64.17	82.33

12.1.7 Further, summary of allocation of expenses between aeronautical and non-aeronautical as proposed by AAI is given in the table below:

Table 74: Allocation of O&M expenses as per AAI in 2018-19

Particulars	Aeronautical	Non-aeronautical
Payroll expenses - non CHQ/RHQ	97.96%	2.04%
Payroll expenses - CHQ/RHQ	95.0%	5.0%
Administration and General expenses - non CHQ/RHQ	94.15%	5.85%
Administration and General expenses - CHQ/RHQ	95.0%	5.0%
Repairs and maintenance	98.36%	1.64%
Utilities and outsourcing expenses	100%	0%
Other outflows - Collection Charges on UDF	100%	0%

12.2 Authority's examination regarding Operation and Maintenance expenses for the First Control period at Consultation stage and proposal made in the CP:

12.2.1 The Authority examined the trial balance for FY 2018-19 and discrepancies are detailed below:

- An amount of INR 2.27 lakhs in item titled "Civil works" pertaining to ANS has been included erroneously as part of Repair & Maintenance Expenses

The Authority accordingly proposed to revise the same.



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

Table 75: Comparison of allocation of O&M expenses as aeronautical with other AAI airports

Expense category	Patna	Kolkata	Jaipur
Payroll expenses - non CHQ/RHQ	97%	88%	94%
Payroll expenses - CHQ/RHQ	95%	88%	95%
Administration and General expenses - non CHQ/RHQ	99%	96%	88%
Administration and General expenses - CHQ/RHQ	95%	85%	90%
Repairs and maintenance	95%	89%	93%
Utilities and outsourcing expenses	90%	91%	93%
Other outflows - Collection Charges on UDF	100%	93%	100%

12.2.3 The Authority observed that AAI has allocated 95% of Payroll expenses – CHQ/RHQ and Administration and General expenses - CHQ/RHQ to aeronautical expenses. The Authority finds it to be appropriate based on AERA's decision in other AAI airports.

12.2.4 The Authority observes that AAI has allocated 2.04% of Payroll expenses – non CHQ/RHQ to Non-Aeronautical expenses. The Authority proposes to revise this in proportion of employee ratio for FY 2018-19, 2/88 i.e. 2.27%.

12.2.5 The Authority observes that AAI has allocated 94.15% of Administration and General expenses – non CHQ/RHQ to aeronautical expenses. The Authority proposes to modify this ratio based on the terminal building ratio and employee ratio for allocation of various components of these expenses. Accordingly, 92.75% of Administration and General expenses – non CHQ/RHQ may be allocated to aeronautical expenses.

12.2.6 AAI has proposed almost 100% of the Utilities and outsourcing expenses as aeronautical expenses. However, since the Utilities and related expenses shall be proportionately utilized for Non-Aeronautical functions also, the Authority proposes to allocate 90% of Utilities and outsourcing expenses to aeronautical expenses, in line with the Terminal Building ratio.

12.2.7 For other outflows, i.e., collection charges on UDF, AAI considered the growth rate to be the same as that of ATM traffic. The Authority proposes to use the same fundamental approach, as it finds them reasonable for projection.

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

Table 76: Allocation of O&M expenses as per the Authority

Particulars	Aeronautical	Non-aeronautical
Payroll expenses - non CHQ/RHQ	97.73%	2.27%
Payroll expenses - CHQ/RHQ	95.00%	5.00%
Administration and General expenses - non CHQ/RHQ	92.75%	7.25%
Administration and General expenses - CHQ/RHQ	95.00%	5.00%



Particulars	Aeronautical	Non-aeronautical
Repairs and maintenance	98.36%	1.64%
Utilities and outsourcing expenses	93.00%	7.00%
Other outflows - Collection Charges on UDF	100%	0.00%

- 12.2.9 AAI considered a growth rate of 7% in payroll expenses beyond FY 2019. This rate is consistent with other AAI airports and the Authority finds it to be reasonable. AAI has also considered a growth rate of 17% in payroll expenses in FY 2023-24 due to operations of new terminal building i.e. an additional 10% over and above annual growth rate of 7%. The Authority has found the same to be appropriate.
- 12.2.10 AAI considered a 40% increase in electricity charges in FY 2020-21 due to commencement of 24-hour operations at the airport with effect from 1/02/2019. Considering the fact that the additional five hours will be during the night, the increase of 40% is found to be reasonable. AAI has also considered an additional increase of 100% in electricity charges in FY 2023-24 due to operations of new terminal building. The Authority has found the same to be appropriate.
- 12.2.11 AAI has proposed expenses pertaining to re-carpeting of runway at INR 26.85 crores. Further, the expense has been deferred equally in five years, three of which fall in the 1st control period. The Authority evaluated the cost computations and found the same to be reasonable. Further, last portion of the re-carpeting expense shall be paid in FY 2021-22, thus resulting in negative growth in R&M Expenses in FY 2022-23.
- 12.2.12 AAI has proposed a trajectory for Repair and maintenance expenses in their MYTP. The Authority examined actual growth trend of expenses for the past few years at the airport and examined AMC and other contractual agreements with vendors on a sample basis, to understand the escalation dynamics. On the basis of these checks, the Authority has found the considered growth rates to be reasonable.
- 12.2.13 Based on above considerations, the Authority proposed the following growth rates in Operation and Maintenance expenses.

Table 77: Growth rates in O&M expenses considered by the Authority at consultation stage

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Payroll expenses - non CHQ/RHQ	7%	7%	7%	7%	17%
Payroll expenses - CHQ/RHQ	7%	7%	7%	7%	17%
Administration and General expenses - non CHQ/RHQ	10%	10%	10%	10%	10%
Administration and General expenses - CHQ/RHQ	5%	5%	5%	5%	5%
Repairs and maintenance	16.40%	6.20%	6.40%	-24.40%	16.10%
Utilities and outsourcing expenses	2.50%	37.10%	0.80%	0.90%	91.60%
Other outflows - Collection Charges on UDF	13.65%	22.10%	22.22%	22.34%	22.47%
Overall Growth Rate	8.67%	8.86%	5.94%	-2.38%	20.09%



12.2.14 After incorporating the above observations by the Authority, the revised O&M expenses are given in the table below:

Table 78: Revised Operation and maintenance (O&M) expenses as proposed by the Authority at Consultation stage (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Payroll expenses - non CHQ/RHQ	13.80	14.77	15.80	16.91	19.78	81.06
Payroll expenses - CHQ/RHQ	1.83	1.96	2.09	2.24	2.62	10.74
Administration and General expenses - non CHQ/RHQ	3.27	3.60	3.96	4.36	4.79	19.98
Administration and General expenses - CHQ/RHQ	16.23	17.05	17.90	18.79	19.73	89.70
Repairs and maintenance	15.36	16.31	17.35	13.12	15.23	77.37
Utilities and outsourcing expenses	4.39	6.02	6.07	6.12	11.73	34.32
Other outflows - Collection Charges on UDF	0.37	0.45	0.55	0.67	0.82	2.85
Total	55.25	60.14	63.72	62.20	74.70	316.01

12.3 Stakeholders' Comments on CP regarding Operation and Maintenance expenses for the First Control Period

AAI's comments on Operations and Maintenance expenses for the First Control Period

- 12.3.1 AAI has proposed an additional 10% R&M expenses for sanitization and other expenses due to ongoing COVID-19 pandemic. For the month of April 2020 and May 2020, electricity charges have been considered as 30% of the existing expenditure and additional 100% increase may be taken for 8 months in FY 2023-24. AAI has also clarified that the electricity charges were proposed after the adjustment of recoveries against the electricity charges from various concessionaires and accordingly, AAI has requested to consider the electricity charges as proposed in revised submissions.
- 12.3.2 Further, AAI has clarified that the consumption of stores & spares which includes consumption of paper glass for the passengers are 100% aeronautical expenditure, therefore consumption of stores & spares along with POL, fees paid to outsider and hire charges have been considered on actual basis.
- 12.3.3 AAI proposed Upkeep and Watch & ward expenses to be proportionate to 8 months due to shift of PDC of NITB. Similarly, the financing charges (Interest on debt) of INR 53.49 crore for post completion period i.e. 8 months is to be charge off in FY 2023-24.
- 12.3.4 For various expenses deducted by the Authority as per trial balance, AAI has clarified that these expenses have been booked wrongly under ANS and pertains to the airport operations only. AAI has further requested the Authority to consider the Terminal Building ratio and employee ratio as per the revised submissions.



12.3.5 AAI has submitted that the CHQ/RHQ expenses and retirement benefits were projected on provisional basis for FY 2018-19 and the same has been proposed based on actuals in revised submissions.

12.3.6 The revised O&M expenditure proposed by AAI is shown in table below:

Table 79: Revised O&M expenses as proposed by AAI (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Payroll expenses - non CHQ/RHQ	13.93	14.90	15.94	17.06	19.96	81.79
Payroll expenses - CHQ/RHQ	4.66	4.99	5.34	5.71	6.68	27.38
Administration and General expenses - non CHQ/RHQ	3.55	3.88	4.27	4.69	8.48	24.86
Administration and General expenses - CHQ/RHQ	39.35	41.32	43.38	45.55	47.83	217.44
Repairs and maintenance	15.40	16.35	17.40	13.16	41.94	104.25
Utilities and outsourcing expenses	4.88	5.97	6.74	6.80	10.97	35.35
Other outflows - Collection Charges on UDF	0.76	0.48	0.59	0.68	0.79	3.29
Total	82.53	87.89	93.66	93.65	136.65	494.36

Indigo's comments on Operations and Maintenance expenses for the First Control Period

12.3.7 Indigo submitted that the "Operating and Maintenance; expenditure is one of the major components for determining ARR, hence, the AERA should evaluate such expenses in detail rather than accepting projections provided by AAI on an "as is" basis".

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

12.3.9 Indigo submitted that in order to assess efficient operating expenditure, AERA should conduct an independent analysis in terms of AERA Act. Indigo submitted that Varanasi Airport has already completed a significant period of operations, hence benchmarking the costs would not be difficult for AERA. However, till the time an independent study is conducted by AERA, Indigo highlighted the Aeronautical allocation ratio proposed as per AERA CP 5/2014-15 of Normative approach of 80% should be applied.



12.4 AAI's counter comments and response to stakeholder comments on CP regarding Operation and Maintenance expenses for the First Control Period

- 12.4.1 AAI has submitted that the operational expenditure has been projected based on past trends and considering the inflationary impact and increase in the minimum wages of maintenance workers as decided by the state Government. The same has been considered by AERA in previous tariff order for AAI Major Airports.

12.5 Authority's examination regarding issues on Operation and Maintenance expenses for the First Control Period at Addendum to CP stage

- 12.5.1 The Authority carefully analyzed the submissions from Indigo and AAI and presented its proposal on Operation & Maintenance expenses in the Addendum to CP as detailed in the ensuing paragraphs.
- 12.5.2 The Authority considered AAI's submission regarding the additional expenses for sanitization, proposed electricity charges and consideration of wrongly booked entries while proposing the O&M expenses for the Control Period. However, the allocation ratios have been considered as proposed in Chapter 5.
- 12.5.3 The Authority observed that AAI has proposed an excessive hike in the CHQ/RHQ allocation of Administrative & General expenses and Employee expenses vis-à-vis AAI's submission in the original tariff proposal. Further, AAI has not clarified or explained the reason behind such increase in these expenses. Therefore, the Authority proposes to consider these expenses as per original tariff proposal and the same shall be revisited at the time of true-up in the next control period.
- 12.5.4 AAI proposed to consider the IDC for new terminal building as part R&M expenses, however IDC is a capital expense and has been allowed along with the capital cost of the new terminal building.
- 12.5.5 For employee expenses, the Authority understands that since the traffic projections for the control period have been rationalized due to the ongoing COVID-19 pandemic and expected to reach the existing levels of FY 2019-20 by the end of FY 2022-23, therefore, AAI should not increase the number of employee deputed to the airport. Hence, the y-o-y increase in the employee expenses has been proposed as 5%.
- 12.5.6 Further, the Authority has considered the allocation ratios as proposed in Chapter 5 for allocating the common expenses of FY 2018-19 while projecting the O&M expenses for the control period.
- 12.5.7 As discussed in the above paragraphs of this chapter, the Authority proposed the following growth rates in various components of Operation and Maintenance expenses.

Table 80: Growth rates in O&M expenses proposed by the Authority

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Payroll expenses - non CHQ/RHQ	5%	5%	5%	5%	15%
Payroll expenses - CHQ/RHQ	5%	5%	5%	5%	15%
Administration and General expenses - non CHQ/RHQ	10%	10%	10%	10%	10%



Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Administration and General expenses - CHQ/RHQ	5%	5%	5%	5%	5%
Repairs and maintenance	16.37%	6.21%	6.40%	-24.39%	16.10%
Utilities and outsourcing expenses	2.54%	22.32%	12.92%	0.86%	61.35%
Other outflows - Collection Charges on UDF	8.10%	-37.22%	22.86%	29.66%	20.00%
Overall Growth Rate	8.89%	6.58%	6.64%	-2.92%	16.98%

12.5.8 The revised O&M expenses proposed by the Authority are given in the table below:

Table 81: Revised O&M expenses as proposed by the Authority at Addendum to CP stage (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Payroll expenses - non CHQ/RHQ	13.44	14.12	14.82	15.56	17.90	75.84
Payroll expenses - CHQ/RHQ	1.83	1.92	2.02	2.12	2.43	10.31
Administration and General expenses - non CHQ/RHQ	3.44	3.78	4.16	4.58	5.04	21.00
Administration and General expenses - CHQ/RHQ	16.23	17.05	17.90	18.79	19.73	89.70
Repairs and maintenance	15.39	16.35	17.39	13.15	15.27	77.54
Utilities and outsourcing expenses	4.88	5.97	6.74	6.80	10.97	35.35
Other outflows - Collection Charges on UDF	0.76	0.48	0.59	0.76	0.91	3.50
Total	55.98	59.66	63.62	61.76	72.25	313.26

12.6 Stakeholders' Comments on Addendum to CP regarding Operation and Maintenance expenses for the First Control Period

AAI's comments on Operations and Maintenance expenses for the First Control Period

- 12.6.1 AAI has submitted that y-o-y growth of 7% does not include the increase in the number of employees deputed at the Airport and represents the average increase in the payroll due to annual increment of 3% in salary, quarterly increase in Dearness Allowance ("DA") and Employer contribution to PF and pension.
- 12.6.2 AAI has submitted that IDC is a capital expenditure and is capitalised with the cost of asset i.e. terminal building whereas interest post capitalisation will be treated as operating expenditure. Therefore, AAI requested the Authority to allow INR 83.34 crores interest expense as part of



operating expenditure in FY 2023-24.

FIA's comments on Operations and Maintenance expenses for the First Control Period

12.6.3 FIA submitted that O&M Expenses may be reduced keeping in view the projected underutilization of the NTB.

12.7 AAI's counter comments and response to stakeholder comments on Addendum to CP regarding Operation and Maintenance expenses for the First Control Period

12.7.1 In response to FIA's comments, AAI has submitted that most of the expenditure are operational and fixed in nature which may not be linked with utilization of the building.

12.8 Authority's examination and decisions regarding Operation and Maintenance expenses for the First Control Period

12.8.1 The Authority has carefully analyzed the submissions from AAI and has presented its views in the ensuing paragraphs

12.8.2 For employee expenses, the Authority would like to highlight that the airport operator has assumed that the 7% hike will remain the same across the control period. However, the effective hike shall decrease with the y-o-y increase in the base DA and accordingly, the effective hike will vary from ~6.00%-6.66% over the control period.

12.8.3 The Government of India vide DPE's OM No. W-02/0038/2017-DPE(WC)-GL-IX/20 dated 28.04.2020 has frozen the CDA pay scales for CPSE employee till June 30, 2021. Therefore, DA shall remain at the Jan 2020 levels till June 2021. Further, it may be noted that AAI has incurred losses during the year due to the de-growth in passenger traffic caused by the COVID-19 pandemic, thereby resulting in withdrawal of Performance related Payments (PRP). Considering the economic downturn caused by the COVID-19 pandemic, the resultant decrease in Aeronautical revenues, losses incurred by AAI, and the consequent austerity measures such as withdrawal of hike in DA, the Authority may have to consider the variable growth rate in payroll expenses across the control period. However, in order to rationalize the payroll expenses for the control period, a flat growth rate of 5% has been considered.

12.8.4 Further, the Authority has utilized the allocation ratio as considered in Chapter 5 for allocating the common expenses between the aeronautical and non-aeronautical services.

12.8.5 In regard to interest expense post capitalisation, the Authority would like to clarify that the capital structure along with the interest on debt was considered for computing the fair rate of return for FY 2023-24. Therefore, the return on RAB allowed for FY 2023-24 includes the interest expense and is not allowed separately as operating expense.

12.8.6 As discussed in the above paragraphs of this chapter, the Authority has decided to consider the following growth rates in various components of Operation & Maintenance expenses.

Table 82: Growth rates in O&M expenses approved by the Authority

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Payroll expenses - non CHQ/RHQ	5%	5%	5%	5%	15%

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Payroll expenses - CHQ/RHQ	5%	5%	5%	5%	15%
Administration and General expenses - non CHQ/RHQ	10%	10%	10%	10%	10%
Administration and General expenses - CHQ/RHQ	5%	5%	5%	5%	5%
Repairs and maintenance	16.37%	6.21%	6.40%	-24.39%	16.10%
Utilities and outsourcing expenses	2.54%	22.32%	12.92%	0.86%	61.35%
Other outflows - Collection Charges on UDF	8.10%	-37.22%	22.86%	29.66%	20.00%
Overall Growth Rate	8.89%	6.58%	6.64%	-2.92%	16.98%

12.8.7 Accordingly, the Authority, has decided to revise the O&M expenses to be considered for First Control Period as given in the table below:

Table 83: Revised O&M expenses as approved by the Authority for the First Control Period (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Payroll expenses - non CHQ/RHQ	13.44	14.12	14.82	15.56	17.90	75.84
Payroll expenses - CHQ/RHQ	1.83	1.92	2.02	2.12	2.43	10.31
Administration and General expenses - non CHQ/RHQ	3.44	3.78	4.16	4.58	5.04	21.00
Administration and General expenses - CHQ/RHQ	16.23	17.05	17.90	18.79	19.73	89.70
Repairs and maintenance	15.39	16.35	17.39	13.15	15.27	77.54
Utilities and outsourcing expenses	4.88	5.97	6.74	6.80	10.97	35.35
Other outflows - Collection Charges on UDF	0.76	0.48	0.59	0.76	0.91	3.50
Total	55.98	59.66	63.62	61.76	72.25	313.26

12.9 Authority's Decision regarding Operation and Maintenance expenses for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

12.9.1 The Authority decides to consider the O&M expenses for the 1st Control Period for Varanasi Airport as per Table 83.



CHAPTER 13. AERONAUTICAL REVENUE FOR THE FIRST CONTROL PERIOD

13.1 AAI's submission regarding Aeronautical Revenue for the First Control Period

13.1.1 AAI has proposed to increase the aeronautical tariff as applicable from 1st February 2020 as per below schedule:

- Landing Charges- For Domestic ATM, one-time hike of 41% and 4% year on year thereafter. For International ATM, one-time hike of 18% and 4% year on year thereafter;
- Parking and housing charges - For Domestic ATM, one-time hike of 120% and 4% year on year thereafter. For International ATM, one-time hike of 91% and 4% year on year thereafter;
- User Development Fee – AAI has proposed to subsume the PSF(F) charges to UDF charges. AAI has sought a hike of 52% in Domestic UDF charges only to recover the shortfall in ARR;
- Fuel Throughput Charges – AAI has proposed to increase the through put charges at 5% year on year basis;

13.1.2 The table below summarizes the Aeronautical revenue proposed by AAI:

Table 84: Aeronautical revenue as proposed by AAI (INR crores)

S. No.	Particulars	Apr-Dec 2019	Jan -Mar 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1.	Landing charges	13.62	6.26	28.85	33.24	38.29	43.41
2.	Parking & Housing charges	0.06	0.04	0.20	0.23	0.26	0.29
3.	UDF/PSF	37.34	17.46	77.92	86.97	97.07	106.78
4.	Fuel Throughput Charges	1.68	0.59	2.60	2.88	3.19	3.48
5.	Extension of Watch hours	0.00	0.00	0.00	0.00	0.00	0.00
6.	Ground Handling Charges	1.02	0.34	1.51	1.67	1.86	2.02
7.	Cute Charges	1.86	0.47	2.11	2.36	2.64	2.90
8.	Land Lease	0.46	0.15	0.61	0.61	0.61	0.61
9.	Revenue share from AAICLS	0.07	0.02	0.10	0.11	0.12	0.12
10.	Total Revenue	56.10	25.33	113.90	128.07	144.04	159.62

13.2 Authority's examination regarding Aeronautical revenue for the First Control period at Consultation stage and proposals made in the CP:

13.2.1 The MYTP for Varanasi Airport was submitted by AAI on 13th December 2019. However, GoI's



restrictions on Domestic and International flights entering / exiting the country, in view of the COVID-19 pandemic, have negatively impacted the aviation sector in general and traffic in particular.

- 13.2.2 Considering the present scenario as discussed in para 1.3, the Authority is inclined not to increase the Landing, Parking & Housing charges both for domestic and international traffic in the current financial year 2020-21 and proposed to revise the Landing, Parking & Housing charges with effect from April 1, 2021 and the User Development Fees (UDF) from July 1, 2020.
- 13.2.3 The Authority proposed to allow a one-time increase of 10% and 5% respectively in Domestic and International landing charges for FY 2021-22 and thereafter a 6% increase on compounded basis every year, up to FY 2023-24.
- 13.2.4 The Authority proposed to increase Domestic and International parking and housing charges by 120% and 91% respectively for FY 2021-22 as proposed by AAI. Further, the Authority proposes parking and housing charges to be increased by 6% on compounded basis every year.
- 13.2.5 Further, the Ministry of Civil Aviation has discontinued the levy of fuel throughput charge at all airports with effect from 15th January 2020 vide MoCA letter no. F.No. AV-13030/216/2016-ER (Pt.2) dated 8th January 2020.
- 13.2.6 The Authority proposed to keep all other charges in line with AAI proposal.
- 13.2.7 The Authority has determined the aeronautical revenue with the proposed aeronautical tariff as follows:

Table 85: Aeronautical revenue as proposed by the Authority at consultation stage (INR crores)

S. No.	Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1.	Landing charges	16.61	19.47	25.10	31.18	38.76
2.	Parking & Housing charges	0.08	0.10	0.24	0.30	0.37
3.	UDF/PSF	36.59	56.56	75.47	95.20	120.40
4.	Fuel Throughput Charges	1.77	0.00	0.00	0.00	0.00
5.	Extension of Watch hours	0.00	0.00	0.00	0.00	0.00
6.	Ground Handling Charges	1.23	1.44	1.68	1.97	2.30
7.	Cute Charges	1.64	2.00	2.45	3.00	3.67
8.	Land Lease	0.61	0.61	0.61	0.61	0.61
9.	Revenue share from AAICLS	0.09	0.10	0.11	0.12	0.12
10.	Total Revenue	58.63	80.28	105.66	132.37	166.23

13.3 Stakeholders' Comments on CP regarding Aeronautical Revenue for the First Control Period

AAI's comments on Aeronautical Revenue for the First Control Period



- 13.3.1 AAI has requested to change the date of implementation of tariffs for all the revenue streams w.e.f. August 1, 2020.
- 13.3.2 AAI has proposed to increase the aeronautical tariff as applicable from August 1, 2020 as per below schedule:
- Landing Charges- For Domestic ATM, one-time hike of 46.7% and 4% year on year thereafter. For International ATM, one-time hike of 23% and 4% year on year thereafter;
 - Parking and housing charges - For Domestic ATM, one-time hike of 129% and 4% year on year thereafter. For International ATM, one-time hike of 98% and 4% year on year thereafter;
 - User Development Fee – AAI has proposed the UDF charges of INR 400 for domestic passenger and INR 1250 for international passenger

Indigo's comments on Aeronautical Revenue for the First Control Period

- 13.3.3 Indigo has appreciated the Authority's proposal to implement the hike in aeronautical tariff from April 1, 2021, however, Indigo has requested to defer the tariff hikes to the next control period stating that airlines has suffered an adverse financial impact due to GoI restrictions on scheduled domestic and international flights between March and May 2020.
- 13.3.4 Further, the domestic operations were resumed on May 25, 2020 with restrictions on fare and capacity and therefore, airlines may continue to face financial distress until the complete opening of scheduled domestic and international flights.
- 13.3.5 Indigo has further highlighted that the proposed increase in aeronautical tariff along with y-o-y escalation will adversely impact the operational expenditure and it may not be commensurate with the increase in passenger traffic.

13.4 AAI's counter comments and response to stakeholder comments on CP regarding Aeronautical Revenues for the First Control Period

- 13.4.1 In response to Indigo's comments, AAI has submitted that it doesn't agree with their views as airport operators have been hit badly in current situation due to the higher investment. AAI has also submitted that the airport operators may have to incur losses even after the proposed hike and thus, has requested to consider the tariff hikes as per the revised submission.

13.5 Authority's examination regarding Aeronautical Revenues for the First Control Period at Addendum to CP stage

- 13.5.1 The Authority carefully analyzed the comments received from Indigo and AAI on the CP, and made the following proposals in the Addendum to CP as detailed below.
- 13.5.2 The Authority understand the concerns of the airlines and airport operators, however, deferring the tariff hikes for the control period may result in the unwarranted burden on the consumers in second control period and financial hardship to the airport operator. Therefore, the Authority proposed the aeronautical tariff while balancing the interests of the passengers, airlines and airport operators in order to promote the growth in passenger traffic.



- 13.5.3 The Authority proposed to revise the aeronautical charges with effect from April 1, 2021.
- 13.5.4 The Authority proposed to allow a one-time increase of 45% in Domestic and International landing charges for FY 2021-22 and thereafter 10% increase in FY 2022-23 and 6% increase in FY 2023-24.
- 13.5.5 The Authority proposed to increase Domestic and International parking and housing charges by 45% for FY 2021-22 and thereafter 10% increase in FY 2022-23 and 6% increase in FY 2023-24.
- 13.5.6 The Authority proposed the User Development Fees of INR 400/- and INR 1300/- respectively for Domestic and International passengers for FY 2021-22 and thereafter to remain at the same levels for the control period.
- 13.5.7 The Authority determined the aeronautical revenue with the proposed aeronautical tariff as under:

Table 86: Revised Aeronautical revenue as proposed by the Authority at Addendum to CP stage (INR crores)

S. No.	Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
1.	Landing charges	16.29	10.51	18.86	25.98	33.04	104.67
2.	Parking & Housing charges	0.08	0.04	0.09	0.12	0.16	0.49
3.	UDF/PSF	44.85	25.90	53.73	70.64	84.77	279.89
4.	Fuel Throughput Charges	1.57	0.00	0.00	0.00	0.00	1.57
5.	Land Lease	0.61	0.61	0.61	0.61	0.61	3.05
6.	Ground Handling Charges	1.21	0.80	0.97	1.21	1.46	5.65
7.	Cute Charges	2.16	1.36	1.67	2.16	2.59	9.94
8.	Revenue share from AAICLS	0.12	0.10	0.11	0.12	0.12	0.57
9.	Total Revenue	66.88	39.32	76.03	100.84	122.75	405.83

13.6 Stakeholders' Comments on Addendum to CP regarding Aeronautical Revenue for the First Control Period

AAI's comments on Aeronautical Revenue for the First Control Period

- 13.6.1 AAI has requested to change the date of implementation of tariffs for all the revenue streams w.e.f. January 1, 2021.
- 13.6.2 AAI has proposed to increase the aeronautical tariff as applicable from August 1, 2020 as per below schedule:
- Landing Charges- A one-time increase of 45% in Domestic and International landing charges for FY 2020-21 and thereafter 10% increase in FY 2021-22 and 6% increase in FY 2022-23



and FY 2023-24;

- b. Parking and housing charges - For Domestic ATM, one-time hike of 120% and 6% year on year thereafter. For International ATM, one-time hike of 91% and 6% year on year thereafter;
- c. User Development Fee – AAI has proposed the UDF charges of INR 400 for domestic passenger and INR 1300 for international passenger

13.7 Authority's examination and decisions regarding Aeronautical Revenues for the First Control Period

- 13.7.1 The Authority has carefully analyzed the submissions from AAI, and presented its views, as below.
- 13.7.2 The Authority understand the concerns of the airlines and airport operators, however, deferring the tariff hikes during the First Control Period may result in the unwarranted burden on the consumers in Second Control Period and financial hardships to the Airport Operator. Therefore, the Authority has attempted to balance the interests of the Passengers, Airlines, and, the Airport Operators, in order to promote the growth in passenger traffic while approving the aeronautical tariffs.
- 13.7.3 As discussed earlier in this Chapter, the Authority decides to revise the aeronautical charges with effect from April 1, 2021.
- 13.7.4 The Authority decides to allow a one-time increase of 45% in Domestic and International landing charges for FY 2021-22 and thereafter 10% increase in FY 2022-23 and 6% increase in FY 2023-24.
- 13.7.5 The Authority decides to increase Domestic and International parking and housing charges by 45% for FY 2021-22 and thereafter 10% increase in FY 2022-23 and 6% increase in FY 2023-24.
- 13.7.6 The Authority decides the User Development Fees of INR 400/- and INR 1300/- respectively for Domestic and International passengers for FY 2021-22 and thereafter to remain at the same levels for the control period.
- 13.7.7 The Authority has computed the aeronautical revenue with the above decided tariff hikes as under:

Table 87: Revised Aeronautical revenue as approved by the Authority (INR crores)

S. No.	Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
1.	Landing charges	16.29	10.51	18.86	26.05	33.13	104.83
2.	Parking & Housing charges	0.08	0.04	0.09	0.13	0.16	0.50
3.	UDF/PSF	44.85	25.90	53.73	70.65	84.78	279.90
4.	Fuel Throughput Charges	1.57	0.00	0.00	0.00	0.00	1.57
5.	Land Lease	0.61	0.61	0.61	0.61	0.61	3.05
6.	Ground Handling Charges	1.21	0.80	0.97	1.21	1.46	5.66



S. No.	Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
7.	Cute Charges	2.16	1.36	1.67	2.16	2.59	9.94
8.	Revenue share from AAICLS	0.12	0.10	0.11	0.12	0.12	0.56
9.	Total Revenue	66.88	39.32	76.03	100.92	122.85	406.01

13.8 Authority's Decision regarding Aeronautical Revenue for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

- 13.8.1 The Authority decides to consider the Aeronautical revenue for the 1st Control Period for Varanasi Airport as per Table 87.



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CHAPTER 14. TAXATION FOR THE FIRST CONTROL PERIOD

14.1 AAI's submission regarding Taxation for the First Control Period

14.1.1 To compute depreciation for tax purposes, AAI has used the depreciation rates in accordance with the following table:

Table 88: Depreciation rates for tax purposes as per AAI

Asset category	IT Depreciation rate - up to FY 18	IT Depreciation rate - from FY 19
Leasehold Land	0%	0%
Runways, Aprons and Taxiways	15%	10%
Road, Bridges & Culverts	10%	10%
Building-Others	10%	10%
Building – Terminal	10%	10%
Building – Temporary	100%	100%
Building- Residential	5%	5%
Security Fencing-Temp	10%	10%
Boundary Wall – Operational	10%	10%
Boundary Wall – Residential	5%	5%
Computer - End user	60%	40%
Intangible Assets – Software	60%	40%
Plant & Machinery	15%	15%
Tools & Equipment	15%	15%
Furniture & Fixtures: Other Than Trolley	10%	10%
Furniture & Fixtures: Trolley	10%	10%
Vehicles	15%	15%
Electrical Installations	10%	10%
Other Office Equipment	15%	15%
X Ray Baggage System	15%	15%
CFT/Fire Fighting Equipment	15%	15%

14.1.2 The tax calculation as submitted by AAI as given in the table below:

Table 89: Taxation as per AAI (INR crores)

Particulars	FY ending March 31, 2018	FY ending March 31, 2019	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Aero revenue with revised rates	47.66	60.92	81.44	113.90	128.07	144.04	159.62
O&M expenses	45.44	51.62	56.86	61.98	65.63	64.17	82.33
Depreciation	9.27	10.62	14.80	20.16	23.45	22.88	63.74

Particulars	FY ending March 31, 2018	FY ending March 31, 2019	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Profit before tax	-7.06	-1.32	9.72	31.76	38.99	56.99	13.55
Prior Period Set-off	0.00	0.00	-8.37	0.00	0.00	0.00	0.00
PBT after Set-off	-7.06	-1.32	1.35	31.76	38.99	56.99	13.55
Tax rate (%)	34.61%	34.61%	25.17%	25.17%	25.17%	25.17%	25.17%
Taxes	0.00	0.00	0.34	7.99	9.81	14.34	3.41

14.2 Authority's examination regarding Taxation for the First Control period at Consultation stage

- 14.2.1 The Authority observed that AAI has proposed 01/01/2020 as the implementation date of the tariffs. The Authority proposed to revise the Landing, Parking & Housing charges with effect from 01/04/2021 and the User Development Fees from 01/07/2020. This had an impact on the projected aeronautical revenues, leading to difference in tax computation.
- 14.2.2 Furthermore, the Authority considered Varanasi Airport on standalone basis, as it has done for other AAI airports as well. Treatment on standalone basis for computation of aeronautical taxes as a building block for determination of ARR means computing tax based on levels of profitability of these airports individually and not getting clouded by levels of profitability at the corporate or group level.
- 14.2.3 The Authority observed that AAI has taken the tax rate for FY 2018-19 as 34.61% and as 25.17% for the 1st Control Period i.e. from FY 2019-20 to FY 2023-24. This percentage has been calculated on basis of 22% basic tax, plus 10% surcharge plus 4% cess.
- 14.2.4 The projected aeronautical revenues for the Control Period are based on the charges proposed by AAI as part of its initial submission of Multi-Year Tariff Proposal.
- 14.2.5 The Authority proposed to consider the O&M expenses in accordance with Table 78 for computation of tax expense.
- 14.2.6 The Authority proposed to consider the capital expenditures for computation of depreciation in accordance with Table 52.
- 14.2.7 After considering all the above observations, the Authority proposed the following tax expense during the 1st Control Period.

Table 90: Tax expense as per Authority at consultation stage at consultation stage (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Aero revenue with proposed rates	58.63	80.28	105.66	132.37	166.23
O&M expenses	55.25	60.14	63.72	62.20	74.70
Depreciation	9.44	11.33	14.63	15.88	32.90
Profit before tax	-6.06	8.80	27.31	54.29	58.62
Set-off of loss	0.00	-6.06	0.00	0.00	0.00



Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Profit before tax after set-off of loss	-6.06	2.74	27.31	54.29	58.62
Tax rate (%)	25.17%	25.17%	25.17%	25.17%	25.17%
Taxes	0.00	0.69	6.87	13.66	14.76

14.3 Stakeholders' Comments on CP regarding Taxation for the First Control Period

Indigo's comments on Taxation for the First Control Period

- 14.3.1 Indigo has submitted that business losses can be carried forward for 8 years and can be set off with profits in future years. The actual tax paid by the Company in control period shall be lower due to the set-off of carry forward losses prior to the present control period.
- 14.3.2 Therefore, IndiGo has requested that losses for periods prior to present control period (if any) that are allowed to carry forward as per Income Tax Act, 1961 should be considered while computing taxation in the first control period rather than leaving it for true up in the second control period and true up must be done on basis of actual tax payment at the time of true-up.

GMR Airport Limited comments on Taxation for the First Control Period

- 14.3.3 GMR Airport Limited (GAL) has agreed on the AERA's approach for adopting methodology for assessment of aero tax on a standalone aeronautical P&L drawn based on various building blocks used for tariff determination.

14.4 AAI's counter comments and response to stakeholder comments on CP regarding Taxation for the First Control Period

- 14.4.1 AAI has submitted that the MYTP in the instant case is submitted for the first control period and the loss in a year during the control period has been set off against the profits (if any) of the subsequent years in the control period.

14.5 Authority's examination regarding issues on Taxation for the First Control Period at Addendum to CP stage

- 14.5.1 The Authority carefully analyzed the submissions from Indigo, GAL and AAI, and presented its views in the Addendum to CP, as detailed below.
- 14.5.2 Since the first Control Period has been considered from FY2019-20, therefore the loss of previous periods cannot be utilized to set-off the gains in the first Control Period as the true up of loss/gain for the period prior to the Control Period has not been considered for the determination of annual revenue requirement. Accordingly, the Authority proposed to consider taxation only for those years during the current control period in which there is a taxable income.
- 14.5.3 As discussed in the above paragraphs of this Chapter, the Authority proposed to consider the Tax Expense for the First Control Period as under:



Table 91: Tax expense as considered by the Authority at Addendum to CP stage (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Aero revenue with proposed rates	66.88	39.32	76.03	100.84	122.75
O&M expenses	55.98	59.66	63.62	61.76	72.25
Depreciation	8.69	9.55	11.68	13.66	29.63
Profit before tax	2.22	-29.89	0.74	25.43	20.87
Set-off of loss	0.00	0.00	-0.74	-25.43	-3.72
Profit before tax after set-off of loss	2.22	-29.89	0.00	0.00	17.15
Tax rate (%)	25.17%	25.17%	25.17%	25.17%	25.17%
Taxes	0.56	0.00	0.00	0.00	4.32

14.6 Stakeholders' Comments on Addendum to CP regarding Taxation for the First Control Period

14.6.1 No comments were received from the stakeholders.

14.7 Authority's examination and decisions regarding Taxation for the First Control Period

- 14.7.1 The Authority has decided to implement the revised tariffs from April 1, 2021.
- 14.7.2 The Authority has considered the tax rates as per AAI's submission.
- 14.7.3 The Authority has considered the O&M expenses in accordance with Table 83 for computation of tax expense.
- 14.7.4 The Authority has considered the capital expenditures for computation of depreciation in accordance with Table 47.
- 14.7.5 The Authority has considered the aeronautical revenues in accordance with Table 87 for computation of tax.
- 14.7.6 Based on above considerations, the Authority has decided to consider the following tax expense during the 1st Control Period

Table 92: Tax expense as approved by the Authority (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Aero revenue with proposed rates	66.88	39.32	76.03	100.92	122.85
O&M expenses	55.98	59.66	63.62	61.76	72.25
Depreciation	11.90	14.02	17.69	20.23	46.40
Profit before tax	-0.99	-34.36	-5.27	18.93	4.21
Set-off of loss	0.00	0.00	0.00	-18.93	-4.21



Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Profit before tax after set-off of loss	-0.99	-34.36	-5.27	0.00	0.00
Tax rate (%)	25.17%	25.17%	25.17%	25.17%	25.17%
Taxes	0.00	0.00	0.00	0.00	0.00

14.8 Authority's Decision regarding Taxation for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

- 14.8.1 The Authority decides to consider the tax expense for the 1st Control Period for Varanasi Airport as per Table 92.



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CHAPTER 15. AGGREGATE REVENUE REQUIREMENT (ARR) FOR THE FIRST CONTROL PERIOD

15.1 AAI's submission regarding ARR for the First Control Period

15.1.1 AAI submitted the Aggregate Revenue Requirement (ARR) and Yield Per Passenger (YPP) for the 1st Control Period as per the regulatory building blocks discussed.

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

15.1.3 The summary of ARR and YPP has been presented in the table below:

Table 93: ARR and Yield as per AAI

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Average RAB (INR crores)	113.28	161.00	205.70	217.45	624.29
Fair Rate of Return	0.14	0.14	0.14	0.14	0.12
Return on average RAB (INR crores)	15.86	22.54	28.80	30.44	75.10
O&M expenses (INR crores)	56.86	61.98	65.63	64.17	82.33
Depreciation (INR crores)	12.17	13.55	15.70	16.32	40.45
Tax expense (INR crores)	0.34	7.99	9.81	14.34	3.41
Less: 30% NAR (INR crores)	6.46	6.83	7.46	8.16	9.63
ARR per year (INR crores)	78.77	99.23	112.47	117.11	191.66
Add: True up shortfall/(Surplus)	26.25				
Discount rate	14%	14%	14%	14%	12.03%
PV of ARR (INR crores)	105.05	87.04	86.55	79.05	115.47
Sum Present value of ARR (INR crores)	473.13				
Total traffic (million passengers)	10.92				
Yield Per Passenger (YPP) (INR)	433.22				

15.2 Authority's examination regarding ARR for the First Control period at Consultation stage and proposals made in the CP:

15.2.1 The observations and proposals of the Authority across the regulatory building blocks impact the computation of ARR and YPP. With respect to each element of the regulatory building blocks considered by AAI in computation of ARR and YPP in table above, the Authority proposed as below:

- To consider the average RAB in accordance with Table 56.
- To consider the FRoR in accordance with Table 61.
- To consider the O&M expenses as per Table 78.
- To consider the depreciation as per Table 52.
- To consider the tax expense as per Table 90.
- To consider the non-aeronautical revenue as per Table 68.



- To consider the total traffic in accordance with
- Table 7.

15.2.2 After considering the above, the Authority proposed the following ARR and YPP, as presented in the table below:

Table 94: ARR and YPP as per Authority at consultation stage

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Average RAB (INR crores) (Refer Table 56)	85.60	120.00	178.60	205.67	487.65
Fair Rate of Return	0.14	0.14	0.14	0.14	0.12
Return on average RAB (INR crores)	11.98	16.80	25.00	28.79	58.32
O&M expenses (INR crores)	55.25	60.14	63.72	62.20	74.70
Depreciation (INR crores)	9.44	11.33	14.63	15.88	32.90
Tax expense (INR crores)	0.00	0.69	6.87	13.66	14.76
Less: 30% NAR (INR crores)	6.46	6.84	7.49	8.21	10.40
ARR per year (INR crores)	70.21	82.12	102.73	112.33	170.28
Add: True up shortfall/(Surplus)	0.00				
Discount Rate	14%	14%	14%	14%	11.96%
PV of ARR based @14% (INR crores)	70.21	72.04	79.05	75.82	108.37
Sum Present value of ARR (INR crores)	405.48				
Total departing traffic (million passengers)	12.30				
Yield Per Passenger (YPP) (INR)	329.54				

15.3 Stakeholders' Comments on CP regarding Taxation for the First Control Period

15.3.1 No comments were received from the stakeholders.

15.4 Authority's examination regarding ARR for the First Control Period at Addendum to CP stage

15.4.1 Based on the revised propositions on various building blocks of ARR as discussed in previous sections, the Authority proposed the revised ARR and Yield Per Passenger as below:

Table 95: ARR and YPP as per Authority at Addendum to CP stage

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Average RAB (INR crores) (Refer Table 57)	75.58	95.30	129.36	165.93	435.80
Fair Rate of Return (in %)	14.00%	14.00%	14.00%	14.00%	13.18%
Return on average RAB (INR crores)	10.58	13.34	18.11	23.23	57.42



Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
O&M expenses (INR crores)	55.98	59.66	63.62	61.76	72.25
Depreciation (INR crores)	8.69	9.55	11.68	13.66	29.63
Tax expense (INR crores)	0.56	0.00	0.00	0.00	4.32
Less: 30% NAR (INR crores)	6.46	3.65	4.77	6.44	7.57
ARR per year (INR crores)	69.34	78.90	88.63	92.21	156.05
Add: True up Shortfall/(Surplus)	0.00				
PV of ARR based on FRoR (INR crores)	69.34	69.21	68.20	62.24	95.11
Sum Present value of ARR (INR crores)	364.10				
Total traffic for the Control Period (million passengers)	6.92				
Yield Per Passenger (YPP) (INR)	525.93				

15.5 Stakeholders' Comments on Addendum to CP regarding Taxation for the First Control Period

15.5.1 No comments were received from the Stakeholders.

15.6 Authority's examination and decisions regarding ARR for the First Control Period

15.6.1 The consideration of the Authority across the regulatory building blocks impact the computation of ARR and YPP. With respect to each element of the regulatory building blocks considered by AAI in computation of ARR and YPP in table above, the Authority proposed as below:

- To consider the average RAB in accordance with Table 58.
- To consider the FRoR in accordance with Table 63.
- To consider the O&M expenses as per Table 83.
- To consider the depreciation as per Table 54.
- To consider the tax expense as per Table 92.
- To consider the non-aeronautical revenue as per Table 71.
- To consider the total traffic in accordance with Table 11.
- Based on the revised propositions on various building blocks of ARR as discussed in previous sections, the Authority, has decided to consider the revised ARR and Yield Per Passenger (YPP) as below:

Table 96: ARR and YPP as approved by the Authority for the FCP

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Average RAB (INR crores) (Refer Table 58)	75.58	95.30	129.36	165.93	435.80



Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Fair Rate of Return (in %) (Refer Table 64)	14.00%	14.00%	14.00%	14.00%	13.18%
Return on average RAB (INR crores)	10.58	13.34	18.11	23.23	57.42
O&M expenses (INR crores) (Refer Table 83)	55.98	59.66	63.62	61.76	72.25
Depreciation (INR crores) (Refer Table 54)	8.69	9.55	11.68	13.66	29.63
Tax expense (INR crores) (Refer Table 92)	0.00	0.00	0.00	0.00	0.00
Less: 30% NAR (INR crores) (Refer Table 71)	6.46	3.65	4.77	6.44	7.57
ARR per year (INR crores)	68.78	78.90	88.63	92.21	151.73
Add: True up Shortfall/(Surplus)	0.00				
PV of ARR based @14% (INR crores)	68.78	69.21	68.20	62.24	92.48
Sum Present value of ARR (INR crores)	360.92				
Total traffic for the control period (million passengers) (Refer Table 11)	6.92				
Yield Per Passenger (YPP) (INR)	521.31				

15.7 Authority's Decision regarding Aggregate Revenue Requirement (ARR) for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following:

- 15.7.1 The Authority decides to consider the ARR and YPP for the 1st Control Period for Varanasi airport in accordance with Table 96.



CHAPTER 16. ANNUAL TARIFF PROPOSAL FOR THE FIRST CONTROL PERIOD

16.1 AAI's submission regarding Annual Tariff Proposal for the First Control Period

- 16.1.1 As part of the Multi-year Tariff proposal, AAI submitted a tariff card for all five years of the first Control Period. This tariff card has been reproduced in this chapter. AAI has proposed an increase in Landing Charges- for Domestic ATM (one-time hike of 41% and 4% year on year thereafter) and International ATM (one-time hike of 18% and 4% year on year thereafter), increase in parking and housing charges - for Domestic ATM (one-time hike of 120% and 4% year on year thereafter) and International ATM (one-time hike of 91% and 4% year on year thereafter), increase in User Development Fee (subsume the PSF(F) charges to UDF charges and one time hike of 52.42% in Domestic UDF charges only).
- 16.1.2 The Authority examined AAI's Multi-year Tariff Proposal, along with all regulatory building blocks. The Authority's examination has been discussed in this consultation paper in the previous chapters.
- 16.1.3 AAI has proposed the revised implementation date of tariffs from February 01, 2020. The Authority had proposed to revise the aeronautical charges with effect from April 1, 2021.
- 16.1.4 The tariff card proposed for the first Control Period has been reproduced here. This is based on tariff card proposed by AAI, revised with the changes proposed by the Authority. For purposes of comparison, the existing aeronautical charges have been provided along with each charge.

1) LANDING CHARGES

Table 97: Existing International landing charges at Varanasi Airport

Weight of the Aircraft	International rate per landing (INR)
Up to 10 MT	141 Per MT
Above 10 MT up to 20 MT	1410+ 207.10 per MT in excess of 10 MT
Above 20 MT up to 50 MT	3,481 + 409.10 per MT in excess of 20 MT
Above 50 MT to 100 MT	15,754 + 477.80 per MT in excess of 50 MT
Above 100 MT	39,644+ 545.10 per MT in excess of 100 MT

Table 98: Existing Domestic landing charges at Varanasi Airport

Weight of the Aircraft	Domestic rate per landing (INR)
Up to 10 MT	67.10 Per MT
Above 10 MT up to 20 MT	671 + 117.70 per MT in excess of 10 MT
Above 20 MT	1,848 + 231 per MT in excess of 20 MT



Table 99: Landing charges proposed by AAI for the first Control Period

Weight of the Aircraft	International rate per landing (INR)	Domestic rate per landing (INR)
Up to 25 MT	260 Per MT	173 Per MT
Above 25 MT up to 50 MT	6,500+ 487 per MT in excess of 25 MT	4,325+ 303 per MT in excess of 25 MT
Above 50 MT up to 100	18,675+ 563 per MT in excess of 50 MT	11,900+ 346 per MT in excess of 50 MT
Above 100 MT to 200 MT	46,825+ 649 per MT in excess of 100 MT	29,200+ 422 per MT in excess of 100 MT
Above 200 MT	111,725+ 779 per MT in excess of 200 MT	71,400+ 476 per MT in excess of 200 MT

Landing charges are proposed to be increased by 4% on a compounded basis.

- 16.1.5 No landing charges shall be payable in respect of a) aircraft with a maximum certified capacity of less than 80 seats, being operated by Domestic schedule operators at airport, b) helicopters of all types, and c) DGCA approved Flying school/flying training institute aircrafts.
- 16.1.6 All Domestic legs of International routes flown by Indian operators will be treated as Domestic flights as far as landing charges is concerned, irrespective of flight number assigned to such flights.
- 16.1.7 Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg).
- 16.1.8 Flight operating under Regional Connectivity Scheme will be completely exempted from Landing charges from the date of the scheme is operationalization by GOI.

II) PARKING AND HOUSING CHARGES

Table 100: Existing Parking, Housing and Night Parking Charges for International ATM

Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)	Parking Charges Rates per Hour (INR) (beyond first four hours)
Up to 40 MT	2.10 Per Hour Per MT	4.10 Per Hour Per MT
Above 40 MT up to 100 MT	84+3.90 per Hour per MT in excess of 40 MT	164+7.90 per MT per Hour in excess of 40 MT
Above 100 MT	318+6.00 per MT per Hours in excess of 100 MT	638+11.90 per MT per Hour in excess of 100 MT

Table 101: Existing Parking, Housing and Night Parking Charges for Domestic ATM

Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)	Parking Charges Rates per Hour (INR) (beyond first four hours)



Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)	Parking Charges Rates per Hour (INR) (beyond first four hours)
Up to 40 MT	1.80 Per Hour Per MT	3.50 Per Hour Per MT
Above 40 MT up to 100 MT	72+3.40 per Hour per MT in excess of 40 MT	140+6.80 per MT per Hour in excess of 40 MT
Above 100 MT	276+5.20 per MT per Hours in excess of 100 MT	548+10.30 per MT per Hour in excess of 100 MT

Table 102: Parking and housing charges proposed by AAI for the first Control Period

Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)	Parking Charges Rates per Hour (INR) (beyond first four hours)
Up to 25 MT	3.37 Per Hour Per MT	6.75 Per Hour Per MT
Above 25 MT up to 50 MT	84.36+4.50 per Hour per MT in excess of 25 MT	168.73+9.00 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	196.85+9.00 per MT per Hour in excess of 50 MT	393.70+18.00 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	646.80+11.25 per MT per Hours in excess of 100 MT	1293.59+22.50 per MT per Hours in excess of 100 MT
Above 200 MT	1771.66+12.37 per MT per Hours in excess of 200 MT	3543.32+24.75 per MT per Hours in excess of 200 MT

Parking and housing charges are proposed to be increased by 4% on a compounded basis every year.

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

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

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

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

16.1.13 At the in-contact stands and open stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges.

16.1.14 Night parking charges (between 2200 hours to 0600 hours) will be similar to the parking and housing



charges as per table above. Night parking charges are waived off in principle for all Domestic scheduled operators at Varanasi Airport if the State Government reduces the rate of tax (VAT) on ATF less than 5%. The above waiver of night parking charges will be made applicable from the date of implementation of less than 5% tax on ATF by the State Govt. In the event of upward revision in the tax rate of ATF by the State Govt., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State.

16.1.15 Flight operating under Regional Connectivity Scheme (RCS) shall be completely governed by AIC Sl. No. 19/2017 dated August 30, 2017 issued by DGCA.

16.1.16 For unauthorized overstay of aircraft on ground, an additional charge of INR 20.00 per hour per MT beyond 24 hours will be payable.

III) FUEL THROUGHPUT CHARGES

16.1.17 The Ministry of Civil Aviation has discontinued the levy of Fuel Throughput Charges (FTC) from all airports w.e.f. 15th January 2020 vide MoCA letter no. F.No. AV-13030/216/2016-ER (Pt.2) dated 8th January 2020. Accordingly, the Authority has not proposed any Fuel Throughput Charges.

IV) USER DEVELOPMENT FEES (UDF)

Table 103: Existing UDF, UDF Proposed by AAI (per embarking passenger)

Passenger	Existing UDF*	UDF proposed by AAI
Domestic	INR 227/-	INR 346/-
International	INR 1216/-	INR 1216/-

***PSF (F) is proposed to be subsumed in the UDF.**

Notes:-

- Collection charges: if the payment is made in accordance within period prescribed under credit policy of AAI, then collection charges at INR 5.00 per departing passenger shall be paid by AAI. No collection charges shall be payable in case the airline fails to pay the UDF invoice to AAI within the prescribed credit period or in case of part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any account with AAI.
- No collection charges are payable to casual operator/non-scheduled operators.
- For conversion of UDF in foreign currency, the RBI reference conversion rate as on the last day of the previous month for tickets issued in the 1st fortnight and rate as on 15th of the month for tickets issued in the 2nd fortnight shall be adopted.
- Revised UDF charges will be applicable on tickets issued on or after **01/01/2020**.
- No UDF/PSF (Facilitation) will be levied for Transit Passengers.

V) Aviation Security Fee: Applicable as prescribed by MoCA vide Order No. AV.13024/659/2015-AS dated May 7, 2019

VI) Exemption from levy and collection from UDF/ASF at the Airports

16.1.18 The Ministry of Civil Aviation, Govt. of India vide order no. AV.16011/002/2008-AAI dated



30.11.2011 has directed AAI to exempt the following categories of persons from levy and collection of UDF/ASF:

- a. Children (under age of 2 years),
- b. Holders of Diplomatic Passport,
- c. 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),
- d. Persons travelling on official duty on aircraft operated by Indian Armed Forces,
- e. Persons traveling on official duty for United Nations Peace Keeping Missions.
- f. 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 2 separate tickets are issued it would not be treated as transit passenger").
- g. Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions.

VII) GENERAL CONDITION:

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

16.2 Authority's examination regarding Annual Tariff Proposal for the First Control period at Consultation stage

- 16.2.1 The Authority examined AAI's MYTP, along with all the regulatory building examination has been discussed in detail in the previous chapters in this Tariff Order.
- 16.2.2 Based on the Present Value of ARR arrived by the Authority at the Consultation stage (of INR 405.48 crores as mentioned in Table 94 of this Tariff Order), the Authority had proposed at the Consultation stage to allow a one- time increase of 10% and 5% respectively in Domestic and International Landing for FY 2021-22 and thereafter a 6% increase on compounded basis every year, up to FY 2023-24.
- 16.2.3 The Authority proposed to increase Domestic and International parking and housing charges by 120% and 91% respectively for FY 2021-22 as proposed by AAI. Further, the Authority proposed parking and housing charges to be increased by 6% on compounded basis every year.
- 16.2.4 The Authority proposed to increase Domestic and International UDF by 76.21% and 6.91% respectively for FY 2021-22 and thereafter to remain at the same level for the control period.
- 16.2.5 The Authority proposed to revise the Landing, Parking & Housing charges with effect from April 1, 2021 and the User Development Fees (UDF) from July 1, 2020.



16.3 Stakeholders' Comments on CP regarding Annual Tariff Proposal for the First Control Period

AAI's comments on Aeronautical Revenue for the First Control Period

16.3.1 AAI has requested to change the date of implementation of tariffs for all the revenue streams w.e.f. August 1, 2020.

16.3.2 AAI has proposed to increase the aeronautical tariff as per below schedule:

- a. Landing Charges- For Domestic ATM, one-time hike of 46.7% and 4% year on year thereafter. For International ATM, one-time hike of 23% and 4% year on year thereafter;
- b. Parking and housing charges - For Domestic ATM, one-time hike of 129% and 4% year on year thereafter. For International ATM, one-time hike of 98% and 4% year on year thereafter;
- c. User Development Fee – AAI has proposed the UDF charges of INR 400 for domestic passenger and INR 1250 for international passenger

Indigo's comments on Annual Tariff Proposal for the First Control Period

16.3.3 Indigo acknowledged AERA's proposal to defer the increase/hike in the Landing, Parking and Housing charges at Varanasi Airport to April 2021 and requested AERA to not allow/implement any increase of aeronautical tariff, during the First Control Period, due to the reasons below:

- a. Airlines have suffered adverse financial impact due to operational restrictions on scheduled domestic and international air transport, imposed by government authorities due to Covid-19 but have continued to incur airport charges and further, been directed to mandatorily refund cancelled tickets for certain categories of passengers w.r.t booking/travel period, which has aggravated the financial impact.
- b. While the scheduled domestic air transport has been permitted a calibrated opening w.e.f. 25th May 2020, such flight operations are subject to restrictions on capacity and fare, and adherence to safety protocols, as imposed by the Ministry of Civil Aviation / Directorate General of Civil Aviation (DGCA). It may be appreciated that until there is a complete opening of scheduled domestic and international flight operations, coupled with regaining confidence of passengers in air travel, airlines will continue to face a weak financial position.
- c. The proposed increase in Landing Charges itself will adversely impact the operating expenditure for Indigo operating at Varanasi airport at the current level of operations. This impact is likely to further increase with the Year-on-Year increase of tariff proposed by AERA and increase of flight operations.

16.3.4 Indigo further requested the Authority to not take any steps, including increase in aeronautical tariff, which may further precipitate any adverse financial impact on the airlines.

16.3.5 Indigo requested to delete the following line as part of 'Note' to the levy of the User Development Fee under the Tariff Card/Proposal:

"To be eligible to claim this collection charges, the airlines should have no overdue on any account with AAI."

16.3.6 IndiGo submitted that since collection charges are primarily for rendering of service of collection of UDF as part of ticket, and does not have any correlation with payment of utilities/rentals to the airport operators, it should be treated on a stand-alone basis and not held back on account of any



other overdues in favour of the airport operator.

- 16.3.7 Further, Indigo highlighted that AAI will appreciate, there are certain instances wherein invoices for utilities/rentals etc. are disputed between the parties. In such cases, airlines should be not be penalised in delayed recovery/disqualification of 'Collection Charges' when the airlines have deposited the UDF amounts, with the airport operator as per due timelines.

16.4 Authority's examination regarding issues on Annual Tariff Proposal for the First Control Period at Addendum to CP stage

- 16.4.1 The Authority has carefully examined the comments raised by Indigo and AAI, dealt with them in the relevant chapters, and has decided that the new tariff should be implemented with effect from April 1, 2021, in order to safeguard the interest of all the stakeholders and avoid any steep increase in tariff in the Second Control Period.
- 16.4.2 The Authority ensured that the proposed tariff card leads to projected revenues in line with the ARR. This has been further detailed in the table below:

Table 104: Computation of shortfall or surplus from proposed aeronautical charges at Addendum to CP stage (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Total PV of ARR including true up	364.10				
Landing charges:					
Domestic	13.86	9.45	16.17	22.10	28.11
International	2.43	1.06	2.68	3.88	4.93
Parking and housing charges:					
Domestic	0.04	0.03	0.05	0.06	0.08
International	0.04	0.02	0.04	0.06	0.08
Fuel Throughput charges	1.57	0.00	0.00	0.00	0.00
Ground handling charges	1.21	0.80	0.97	1.21	1.46
Land lease - Oil companies & Ground Handling	0.61	0.61	0.61	0.61	0.61
CUTE charges	2.16	1.36	1.67	2.16	2.59
Cargo Revenue	0.12	0.10	0.11	0.12	0.12
Total - before UDF	22.04	13.42	22.30	30.20	37.98
PV factor	1.0000	0.8772	0.7695	0.6750	0.6108
PV of above	22.04	11.77	17.16	20.39	23.15
Σ PV of above	94.50				
Shortfall before UDF	269.60				
User Development Fees:					
Domestic	31.37	20.43	43.20	55.58	66.70
International	13.47	5.47	10.53	15.06	18.07
PV of UDF	44.85	22.72	41.34	47.68	51.67
Σ PV of UDF	208.26				
Surplus/ (Shortfall)	(61.34)				

- 16.4.3 As can be observed from the table above, AAI is entitled to recover an ARR of INR 364.10 crores from the Tariff Card proposed. Out of the Authority's Proposed Tariff Card, the Present Value of total projected aeronautical revenues based on the Authority's proposed aeronautical charges and UDF charge is INR 94.50 crore and INR 208.26 crore respectively, thus resulting in a net shortfall of INR 61.34 crores that shall be carried forward to the next Control Period.

16.5 Stakeholders' Comments on Addendum to CP regarding Annual Tariff Proposal for the First Control Period

AAI's comments on Aeronautical Revenue for the First Control Period

- 16.5.1 AAI has requested to change the date of implementation of tariffs for all the revenue streams w.e.f. January 1, 2021.
- 16.5.2 AAI has proposed to increase the aeronautical tariff as per below schedule:
- Landing Charges- A one-time increase of 45% in Domestic and International landing charges for FY 2020-21 and thereafter 10% increase in FY 2021-22 and 6% increase in FY 2022-23 and FY 2023-24;
 - Parking and housing charges - For Domestic ATM, one-time hike of 120% and 6% year on year thereafter. For International ATM, one-time hike of 91% and 6% year on year thereafter;
 - User Development Fee – AAI has proposed the UDF charges of INR 400 for domestic passenger and INR 1300 for international passenger.

FIA's comments on Annual Tariff Proposal for the First Control Period

- 16.5.3 FIA submitted that due to the revised submissions made by AAI, there is a further increase in the aeronautical tariff at Varanasi Airport, as proposed under the Addendum. In view of the same, FIA humbly requests AERA to review the comments/suggestions on the building blocks/tariff (mentioned herein read along with IndiGo Submission, as applicable), and to take appropriate adjustment/actions including conducting independent study, which is likely to reduce the Aggregate Revenue Requirement (ARR) of AAI at Varanasi Airport. The same will ensure lowering of tariffs including UDF, which will be beneficial to passengers and airlines.

16.6 Authority's examination and decisions regarding Annual Tariff Proposal for the First Control Period

- 16.6.1 The Authority has carefully examined the comments raised by Indigo, GAL, FIA and AAI, dealt with them in the relevant chapters, and, has decided that the new tariff should be implemented with effect from April 1, 2021, in order to safeguard the interest of all the Stakeholders and avoid any steep increase in tariff in the Second Control Period.
- 16.6.2 The Authority has reviewed the comments raised by various Stakeholders and has addressed all these comments/ issues in the respective Chapters.
- 16.6.3 In the interest of the Passengers, the Authority, wants to determine tariffs within a year of privatization of the Airport. Hence, the Authority decides to reduce the tariff by 10% if there is any delay in filing a fresh application for determination of tariff by the new Concessionaire. Tariff is presently determined based on financials of AAI and those would change post-privatization of the Airport
- 16.6.4 The aeronautical tariffs were last revised in the year 2009 for 'domestic' category, and, in the year



2017 for 'international' category thus rendering it necessary to factor in, the inflationary increase in the expenses.

16.6.5 There are no Housing charges that are levied as per the Tariff Card issued by the Authority (Refer Annexure 1 of this Tariff Order for details) with effect from April 1, 2021. The existing housing charges for parking of aircraft in the hangar on hourly basis is applicable only till March 31, 2021.

16.6.6 The Authority has re-computed the surplus/ shortfall from Aeronautical charges (in accordance with the increase in tariff rates as mentioned under para 13.5 in this Tariff Order), taking into consideration the revised ARR as per and the same is reproduced below:

Table 105: Computation of shortfall or surplus for the FCP (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Total PV of ARR including true up	360.92				
Landing charges:					
Domestic	13.86	9.45	16.17	22.11	28.13
International	2.43	1.06	2.68	3.93	5.01
Parking and housing charges:					
Domestic	0.04	0.03	0.05	0.06	0.08
International	0.04	0.02	0.04	0.06	0.08
Fuel Throughput charges	1.57	0.00	0.00	0.00	0.00
Ground handling charges	1.21	0.80	0.97	1.21	1.46
Land lease - Oil companies & Ground Handling	0.61	0.61	0.61	0.61	0.61
CUTE charges	2.16	1.36	1.67	2.16	2.59
Cargo Revenue	0.12	0.10	0.11	0.12	0.12
Total - before UDF	22.04	13.42	22.30	30.28	38.08
PV factor	1.0000	0.8772	0.7695	0.6750	0.6108
PV of above	22.04	11.77	17.16	20.44	23.21
Σ PV of above	94.61				
Shortfall before UDF	266.31				
User Development Fees:					
Domestic	31.37	20.43	43.20	55.58	66.70
International	13.47	5.47	10.53	15.07	18.08
PV of UDF	44.85	22.72	41.34	47.68	51.67
Σ PV of UDF	208.27				
Surplus/ (Shortfall)	(58.04)				

16.6.7 The Authority decides to carry forward the revised shortfall of INR 58.04 crores (as per Table 105) to the 2nd control period, with a view to not burden the Airlines further which are already suffering with Covid-19 pandemic impact, as also the other Users, with excessive tariff at this juncture. However, the above shortfall will be adjusted based on the aeronautical revenue achieved by Varanasi Airport in line with the actual traffic data of the 1st control period.



16.7 Authority's decisions regarding Annual Tariff Proposal for the First Control Period

- 16.7.1 The Authority decides to approve the tariff for the First Control Period for Varanasi Airport as given in the Tariff Card annexed as Annexure 1.



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CHAPTER 17. SUMMARY OF AUTHORITY'S DECISIONS

The below mentioned provides a summary of the Authority's decisions (given under each Chapter) regarding the tariff determination for the First Control Period for Varanasi Airport:

- Chapter 2, 2.7.1 The Authority decides to adopt the “Hybrid Till” approach for determination of tariff for the 1st control period in respect of the Varanasi Airport.
- Chapter 3, 3.6.1 The Authority decides not to consider the revenues from AAICLAS and ANS while determining aeronautical tariff for the Varanasi Airport.
- Chapter 4, 4.9.1 The Authority decides to consider the ATM and passenger traffic for the 1st Control Period for Varanasi Airport as per Table 11.
- Chapter 4, 4.9.2 The Authority proposes to true-up the traffic volume (ATM and Passengers) on the basis of actual traffic in 1st Control Period while determining tariffs for the 2nd Control Period.
- Chapter 5, 5.8.1 The Authority decides to consider the allocation of Gross Block of Assets as on 1st April 2017 between aeronautical and non-aeronautical assets as detailed in Table 22.
- Chapter 6, 6.7.1 The Authority decides to consider the initial regulatory asset base for the 1st Control Period for Varanasi Airport as INR 74.80 crores in accordance with Table 26.
- Chapter 7, 7.9.1 The Authority decides to adopt the Aeronautical Capitalization for the 1st Control Period in accordance with Table 47.
- Chapter 7, 7.9.2 The Authority has decided that subject to the terms and conditions of privatization of Varanasi Airport, it will consider to true-up the Capital expenditure incurred based on actual costs subject to the normative approach at the time of determination of tariff for the 2nd Control Period.
- Chapter 7, 7.9.3 The Authority decides to rework the RAB of the Airport Operator for the Second Control Period, by reducing the RAB by 1% of the cost of the Terminal Building, if the Airport Operator (AAI/prospective PPP bidder) fails to commission and capitalize the new terminal building by November 2023.
- Chapter 7, 7.9.4 The Authority decides to consider the 100% of the capital cost of the new terminal building at the time of ‘true-up’ subject to the treatment of retention payment by AAI i.e. payment withholding or acceptance of security deposit.
- Chapter 8, 8.8.1 The Authority decides to adopt depreciation rates for Varanasi airport as per Table 51 for the 1st Control Period.
- Chapter 8, 8.8.2 The Authority decides to consider the depreciation amounts as per Table 54 for the 1st Control Period.
- Chapter 9, 9.7.1 The Authority decides to consider the average RAB for the 1st Control Period for Varanasi airport as per Table 58.
- Chapter 10, 10.8.1 The Authority decides to consider the FRoR for Varanasi Airport for the 1st Control Period as per Table 64.



- Chapter 11, 11.9.1 The Authority decides to consider the non-aeronautical revenues for the 1st Control Period for Varanasi airport in accordance with Table 71.
- Chapter 12, 12.9.1 The Authority decides to consider the O&M expenses for the 1st Control Period for Varanasi Airport as per Table 83.
- Chapter 13, 13.8.1 The Authority decides to consider the Aeronautical revenues for the 1st Control Period for Varanasi Airport as per Table 87.
- Chapter 14, 14.8.1 The Authority decides to consider the Tax Expense for the 1st Control Period for Varanasi Airport as per Table 92.
- Chapter 15, 15.7.1 The Authority decides to consider the ARR and YPP for the 1st Control Period for Varanasi airport in accordance with Table 96.
- Chapter 16, 16.7.1 The Authority decides to approve the tariffs for the 1st Control Period for Varanasi Airport as given in the Tariff Card annexed as **Annexure- I**.



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CHAPTER 18. ORDER

- 18.1 In exercise of powers conferred by section 13 (I) (a) of the AERA Act, 2008 and based on the above decisions, the Authority hereby determines the aeronautical tariffs to be levied at Varanasi Airport for the First Control Period from 01.04.2019 to 31.03.2024, as placed at **Annexure- I**. These rates will be **effective from April 1, 2021**.
- 18.2 In exercise of powers conferred by Section 13 (I) (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 Card at **Annexure-I** for the current Control Period. The rates will be **effective from April 1, 2021**.
- 18.3 The tariffs determined herein are ceiling rates, exclusive of taxes, if any.



By the Order and in the name of the Authority

(Col. Manu Sooden)
Secretary

To,
The Chairman
Airports Authority of India
Rajiv Gandhi Bhawan,
Safdarjung Airport,
New Delhi – 110003

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Copy To:

1. **Secretary, Ministry of Civil Aviation**, Rajiv Gandhi Bhawan, Safdarjung Airport, New Delhi – 110003.
2. **Directorate General of Civil Aviation**, for issue of AIC.



Annexure-I

AERA Approved Tariff Card for Varanasi Airport for the 1st Control Period (FY 2019-2024)

**Note: The Existing tariff (Landing charges, Parking charges, UDF charges)
shall continue up to March 31, 2021**

APPROVED TARIFF EFFECTIVE FROM APRIL 1, 2021**I. LANDING CHARGES****Table 106: Landing Charges for Domestic ATM* (INR)**

Weight of the Aircraft	01.04.2021 to 31.03.2022	01.04.2022 to 31.03.2023	01.04.2023 to 31.03.2024
Up to 25 MT	181.10 per MT	199.20 per MT	211.20 per MT
Above 25 MT up to 50 MT	4,527.50 + 326.00 per MT in excess of 25 MT	4980.00 + 358.60 per MT in excess of 25 MT	5,280.00 + 380.10 per MT in excess of 25 MT
Above 50 MT up to 100	12,677.50 + 336.10 per MT in excess of 50 MT	13,945.00 + 369.70 per MT in excess of 50 MT	14,782.50 + 391.90 per MT in excess of 50 MT
Above 100 MT to 200 MT	29,482.50 + 340.00 per MT in excess of 100 MT	32,430.00 + 374.00 per MT in excess of 100 MT	34,377.50 + 396.40 per MT in excess of 100 MT
Above 200 MT	63,482.50 + 328.10 per MT in excess of 200 MT	69,830 + 360.90 per MT in excess of 200 MT	74,017.50 + 382.60 per MT in excess of 200 MT

* The existing Landing charges have been increased by 45% in the FY 2021-22, by 10% in the FY 2022-23 and by 6% for FY 2023-24.

Table 107: Landing Charges for International ATM* (INR)

Weight of the Aircraft	01.04.2021 to 31.03.2022	01.04.2022 to 31.03.2023	01.04.2023 to 31.03.2024
Up to 25 MT	304.50 per MT	335.00 per MT	355.10 per MT
Above 25 MT up to 50 MT	7,612.50 + 616.80 per MT in excess of 25 MT	8,375.00 + 678.50 per MT in excess of 25 MT	8,877.50 + 719.20 per MT in excess of 25 MT
Above 50 MT up to 100	23,032.50 + 689.80 per MT in excess of 50 MT	25,337.50 + 758.80 per MT in excess of 50 MT	26,857.50 + 804.30 per MT in excess of 50 MT
Above 100 MT to 200 MT	57,522.50 + 785.00 per MT in excess of 100 MT	63,277.50 + 863.50 per MT in excess of 100 MT	67,072.50 + 915.30 per MT in excess of 100 MT
Above 200 MT	1,36,022.50 + 810.10 per MT in excess of 200 MT	1,49,627.50 + 891.10 per MT in excess of 200 MT	1,58,602.50 + 944.60 per MT in excess of 200 MT

* The existing Landing charges have been increased by 45% in the FY 2021-22, by 10% in the FY 2022-23 and by 6% for FY 2023-24.



1. No landing charges shall be payable in respect of a) aircraft with a maximum certified capacity of less than 80 seats, being operated by Domestic schedule operators at airport, b) helicopters of all types, and c) DGCA approved Flying school/flying training institute aircrafts.
2. All Domestic legs of International routes flown by Indian operators will be treated as Domestic flights as far as landing charges is concerned, irrespective of flight number assigned to such flights.
3. Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg).
4. Flight operating under Regional Connectivity Scheme will be completely exempted from Landing charges from the date of the scheme is operationalization by GOI.

II. PARKING CHARGES

Table 108: Parking charges for Domestic ATM (FY 2021-22)

Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)	Parking Charges Rates per Hour (INR) (beyond first four hours)
Up to 25 MT	2.50 Per Hour Per MT	5.00 Per Hour Per MT
Above 25 MT up to 50 MT	62.50 + 3.90 per Hour per MT in excess of 25 MT	125.00 + 7.80 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	160.00 + 4.70 per MT per Hour in excess of 50 MT	320.00 + 9.40 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	395.00 + 7.50 per MT per Hours in excess of 100 MT	790.00 + 15.00 per MT per Hours in excess of 100 MT
Above 200 MT	1145.00 + 7.70 per MT per Hours in excess of 200 MT	2290.00 + 15.40 per MT per Hours in excess of 200 MT

Table 109: Parking charges for Domestic ATM (FY 2022-23)

Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)	Parking Charges Rates per Hour (INR) (beyond first four hours)
Up to 25 MT	2.80 Per Hour Per MT	5.60 Per Hour Per MT
Above 25 MT up to 50 MT	70.00 + 4.30 per Hour per MT in excess of 25 MT	140.00 + 8.60 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	177.50 + 5.20 per MT per Hour in excess of 50 MT	355.00 + 10.40 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	437.50 + 8.30 per MT per Hours in excess of 100 MT	875.00 + 16.60 per MT per Hours in excess of 100 MT
Above 200 MT	1267.50 + 8.50 per MT per Hours in excess of 200 MT	2535.00 + 17.00 per MT per Hours in excess of 200 MT



Table 110: Parking charges for Domestic ATM (FY 2023-24)

Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)	Parking Charges Rates per Hour (INR) (beyond first four hours)
Up to 25 MT	3.00 Per Hour per MT	6.00 Per Hour Per MT
Above 25 MT up to 50 MT	75.00 + 4.60 per Hour per MT in excess of 25 MT	150.00 + 9.20 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	190.00 + 5.50 per MT per Hour in excess of 50 MT	380.00 + 11.00 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	465.00 + 8.80 per MT per Hours in excess of 100 MT	930.00 + 17.60 per MT per Hours in excess of 100 MT
Above 200 MT	1,345.00 + 9.00 per MT per Hours in excess of 200 MT	2,690.00 + 18.00 per MT per Hours in excess of 200 MT

Table 111: Parking charges for International ATM (FY 2021-22)

Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)	Parking Charges Rates per Hour (INR) (beyond first four hours)
Up to 25 MT	2.60 Per Hour per MT	5.20 Per Hour Per MT
Above 25 MT up to 50 MT	65.00 + 4.50 per Hour per MT in excess of 25 MT	130.00 + 9.00 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	177.50 + 5.70 per MT per Hour in excess of 50 MT	355.00 + 11.40 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	462.50 + 8.70 per MT per Hours in excess of 100 MT	925.00 + 17.40 per MT per Hours in excess of 100 MT
Above 200 MT	1,332.50 + 8.80 per MT per Hours in excess of 200 MT	2665.00 + 17.60 per MT per Hours in excess of 200 MT

Table 112: Parking charges for International ATM (FY 2022-23)

Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)	Parking Charges Rates per Hour (INR) (beyond first four hours)
Up to 25 MT	2.90 Per Hour Per MT	5.80 Per Hour Per MT
Above 25 MT up to 50 MT	72.50 + 5.00 per Hour per MT in excess of 25 MT	145.00 + 10.00 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	197.50 + 6.30 per MT per Hour in excess of 50 MT	395.00 + 12.60 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	512.50 + 9.60 per MT per Hours in excess of 100 MT	1,025.00 + 19.20 per MT per Hours in excess of 100 MT
Above 200 MT	1,472.50 + 9.70 per MT per Hours in excess of 200 MT	2,945.00 + 19.40 per MT per Hours in excess of 200 MT



Table 113: Parking charges for International ATM (FY 2023-24)

Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)	Parking Charges Rates per Hour (INR) (beyond first four hours)
Up to 25 MT	3.10 Per Hour Per MT	6.20 Per Hour Per MT
Above 25 MT up to 50 MT	77.50 + 5.30 per Hour per MT in excess of 25 MT	155.00 + 10.60 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	210.00 + 6.70 per MT per Hour in excess of 50 MT	420.00 + 13.40 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	545.00 + 10.20 per MT per Hours in excess of 100 MT	1090.00 + 20.40 per MT per Hours in excess of 100 MT
Above 200 MT	1,565.00 + 10.30 per MT per Hours in excess of 200 MT	3,130.00 + 20.60 per MT per Hours in excess of 200 MT

Notes:

1. No parking charges shall be levied for the first two hours. While calculating free parking period, standard time of 15 minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of taxing time of aircraft from parking stand to take off point. These periods shall be applicable for each aircraft irrespective of actual time taken in the movement of aircraft after landing and before take-off.
2. For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour.
3. Charges shall be calculated on the basis of nearest MT.
4. Charges for each period parking shall be rounded off to nearest rupee.
5. At the in-contact stands and open stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges.
6. Night parking charges (between 2200 hours to 0600 hours) will be similar to the parking and housing charges as per table above. Night parking charges are waived off in principle for all Domestic scheduled operators at Varanasi Airport if the State Government reduces the rate of tax (VAT) on ATF less than 5%. The above waiver of night parking charges will be made applicable from the date of implementation of less than 5% tax on ATF by the State Govt. In the event of upward revision in the tax rate of ATF by the State Govt., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State.
7. Flight operating under Regional Connectivity Scheme (RCS) shall be completely governed by AIC Sl. No. 19/2017 dated August 30, 2017 issued by DGCA.
8. For unauthorized overstay of aircraft on ground, an additional charge of INR 20.00 per hour per MT beyond 24 hours will be payable.

III. FUEL THROUGHPUT CHARGES

The Ministry of Civil Aviation has discontinued the levy of Fuel Throughput Charges (FTC) from all airports w.e.f. 15th January 2020 vide MoCA letter no. F.No. AV-13030/216/2016-ER (Pt.2) dated 8th January 2020. Accordingly, the Authority has not proposed any Fuel Throughput Charges.



IV. USER DEVELOPMENT FEES (UDF)**Table 114: UDF approved by the Authority (per embarking passenger)**

Passenger	UDF
	On tickets issued on or after April 1, 2021 (Rate from April 1, 2021 to March 31, 2024)
Domestic	INR 400/-
International	INR 1300/-

PSF (F) is proposed to be subsumed in the UDF.*Notes:-**

- Collection charges: if the payment is made in accordance within period prescribed under credit policy of AAI, then collection charges at INR 5.00 per departing passenger shall be paid by AAI. No collection charges shall be payable in case the airline fails to pay the UDF invoice to AAI within the prescribed credit period or in case of part payment.
- No collection charges are payable to casual operator/non-scheduled operators.
- For conversion of UDF in foreign currency, the RBI reference conversion rate as on the last day of the previous month for tickets issued in the 1st fortnight and rate as on 15th of the month for tickets issued in the 2nd fortnight shall be adopted.
- UDF charges will be applicable on tickets issued on or after **01/04/2021**.
- No UDF/PSF (Facilitation) will be levied for Transit Passengers.

V. AVIATION SECURITY FEE: Applicable as prescribed by MoCA from time to time.**VI. EXEMPTION FROM LEVY AND COLLECTION FROM UDF/ASF AT THE AIRPORTS**

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

- 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 2 separate tickets are issued it would not be treated as transit passenger").
- Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions.

VII. GENERAL CONDITION:

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

