

फा.सं. ऐरा/20010/एमवाईटीपी/केआईएएल/सीपी-II/2024-28

F.No. AERA/20010/MYTP/KIAL/CP-II/2024-28

परामर्श पत्र संख्या 17/2023-24

Consultation Paper No. 17/2023-24



सत्यमेव जयते

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

कन्नूर अंतरराष्ट्रीय हवाईअड्डा, कन्नूर (सीएनएन) के लिए द्वितीय नियंत्रण अवधि
(01.04.2023 – 31.03.2028) के लिए वैमानिक टैरिफ निर्धारित करने के मामले में

IN THE MATTER OF
DETERMINATION OF AERONAUTICAL TARIFF FOR
KANNUR INTERNATIONAL AIRPORT, KANNUR (CNN)
FOR THE SECOND CONTROL PERIOD

(01.04.2023 - 31.03.2028)

जारी करने की तारीख : 16.11.2023

Date of issue: 16.11.2023

ऐरा भवन/AERA Building

प्रशासनिक कॉम्प्लेक्स/Administrative Complex

सफदरजंग हवाईअड्डा/Safdarjung Airport

नई दिल्ली/New Delhi – 110003

STAKEHOLDERS' COMMENTS

Kannur International Airport commenced its commercial operations in December 2018 and reported an actual passenger throughput volume of 1.59 MPPA for FY 2019-20 which was lesser than the threshold limit of 3.5 MPPA defined under the AERA Act 2008 read with AERA (Amendment) Act 2019. However, based on the designated capacity of the Airport which is 9.34 MPPA as well as the built-up terminal area of 96,143 Sq. m., AERA declared Kannur International Airport as a 'Major Airport' vide Amendment to Public Notice No. 17/2019-20 dated March 16, 2020.

Kannur International Airport had a passenger throughput of about 0.48 MPPA in the FY 2020- 21 (being the pandemic year). The Airport witnessed a steady recovery in the passenger traffic in FY 2021-22, in the aftermath of COVID-19 pandemic and has achieved actual passenger traffic of 1.25 MPPA in FY 2022-23.

For this Consultation Paper, the Authority after considering the entire information currently available, the views of the Airport Operators, industry bodies such as IATA, ACI, and other Expert Agencies on air traffic, and analysing various scenarios, has reviewed the necessary adjustments in traffic and other regulatory building blocks on account of the expected changes and uncertainties in the prevailing business scenario.

The Authority has considered the audited financial results submitted by Kannur International Airport for the first 4 tariff years and unaudited financials for the last tariff year, i.e. FY 2022-23 of the First Control Period (FY 2018- FY 2023). The Authority directs the Airport Operator to submit the audited financials for FY 2022-23.

The Authority has released this Consultation Paper putting forward its proposals in the background of i) Government of India's decision to resume commercial flights and pick up in the passenger/ ATM traffic and ii) Authority's analysis and observations on the Multi Year Tariff Proposal (MYTP) submitted by the Airport Operator.

The Authority shall consider written evidence-based feedback, comments and suggestions from all the stakeholders on the proposals made in the Consultation Paper and pass a suitable Order determining the Tariff for aeronautical services. The Authority would like to emphasize that the consultation process timelines are sacrosanct and hereby requests the stakeholders to provide their comments/ inputs within the timelines specified in this Consultation Paper, beyond which the same will not be considered by the Authority

Thus, in accordance with the provisions of Section 13(4) of the AERA Act, the written comments on Consultation Paper No. 17/2023-24 dated 16.11.23 are invited from the stakeholders, preferably in electronic form, at the following address:

Director (P&S, Tariff)

Airports Economic Regulatory Authority of India (AERA),

AERA Administrative Complex,

Safdarjung Airport, New Delhi – 110003, India

Email: director-ps@aera.gov.in, rajan.gupta1@aera.gov.in, copy to: secretary@aera.gov.in

Stakeholder Consultation Meeting:	01.12.23
Last Date for submission of comments:	15.12.23
Last Date for submission of counter comments:	26.12.23

Comments and Counter-comments will be posted on AERA's website: www.aera.gov.in.

For any clarification/ information, Director (P&S, Tariff) may be contacted at Telephone Number: Tel: 011-24695043

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GLOSSARY

Abbreviation	Full Form
A&G	Administrative & General
AAI	Airports Authority of India
AC	Air Conditioning
AECOM	Architecture, Engineering, Construction, Operations, and Management
AERA	Airports Economic Regulatory Authority of India
AGL	Airfield Ground Lighting
AHU	Air Handling Unit
Airport Operator	Kannur International Airport Limited
ANS	Air Navigation Services
AO	Airport Operator
AOCC	Airport Operations Control Center
ARR	Aggregate Revenue Requirement
ARFF	Aircraft Rescue and Fire Fighting
Asset Allocation Report	Study on allocation of assets between Aeronautical and Non-aeronautical assets for Kannur International Airport Limited
ATC	Air Traffic Control
ATM	Air Traffic Movement
ATS	Air Traffic Service
AUCC	Airport User Consultative Committee
AVDGS	Advanced Visual Docking Guidance Systems
BIAL	Bangalore International Airport Limited
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
CCTV	Closed Circuit Television
CISF	Central Industrial Security Force
CNS	Communication, Navigation and Surveillance
CSR	Corporate Social Responsibility
CUPPS	Common User Passenger Processing System
CUSS	Common User Self Service
CUTE	Common Use Terminal Equipment
CWIP	Capital Work in Progress
DFMD	Door Frame Metal Detector
DG	Diesel Generator
DIAL	Delhi International Airport Limited
DVOR	Doppler Very high frequency Omni directional Range
EC	Empowered Committee
EHCR	Employee Head Count Ratio
EPC	Engineering Procurement Construction
FA	Financing Allowance
FAR	Fixed Asset Register
FIDS	Flight Information Display System
FRoR	Fair Rate of Return
FY	Financial Year

Abbreviation	Full Form
GAL	GMR Airports Limited
GFA	Gross Fixed Asset
GHAL	GMR Hyderabad International Airport Limited
GIL	GMR Infrastructure Limited
GoI	Government of India
HHMD	Handheld Metal Detector
HSD	High Speed Diesel
HVAC	Heating, Ventilation and Air Conditioning
IATA	International Air Transport Association
IDC	Interest During Construction
IMG	Inter-Ministerial Group
INR	Indian Rupee
IP	Internet Protocol
IT	Information Technology
KIA	Kannur International Airport
KIAL / AO	Kannur International Airport Limited
KINFRA	Kerala Industrial Infrastructure Development Corporation
KITCO	Kerala Industrial and Technical Consultancy Organization
LED	Light Emitting Diodes
MIA	Mangaluru International Airport
MPPA	Million Passengers per Annum
MYTP	Multi-Year Tariff Proposal
NCAP	National Civil Aviation Policy
O&M	Operation and Maintenance
O&M study report	Study on Efficient Operations & Maintenance expenses for Kannur International Airport Limited
OPEX	Operational Expenditure
ORAT	Operational Readiness and Airport Transfer
PAX	Passenger Traffic
PBB	Passenger Boarding Bridge
PPP	Public-private partnership
R&M	Repairs & Maintenance
RAB	Regulatory Asset Base
RESA	Runway End Safety Area
RFP	Request for Proposal
SCP	Second Control Period
Sq.m.	Square Metres
TIES	Trade Infrastructure for Export Scheme
TNLC	Terminal Navigation Landing Charges
UPS	Uninterrupted Power Supply
VDGS	Visual Docking Guidance System
VIP	Very Important Person
WPI	Wholesale Price Index
YPP	Yield per Passenger

1 INTRODUCTION

1.1 Background

- 1.1.1 Kannur International Airport (KIA) is the second Greenfield Airport in Kerala set up under the Public Private Partnership (PPP) model. It is located 28 Kms east of Kannur and close to the municipality of Mattannur in Kannur district of Kerala. The airport commenced its commercial operations in December 2018 and caters primarily to the catchment area of Kannur, Wayanad, Kasaragod and northern Calicut district.
- 1.1.2 KIA reported an actual passenger throughput volume of 1.59 MPPA for FY 2019-20 which was lesser than the threshold limit of 3.5 MPPA defined under the AERA Act 2008 read with AERA (Amendment) Act 2019. However, based on KIA's designated capacity of 9.34 MPPA, AERA declared KIA as a 'Major Airport' vide Amendment to Public Notice 17/2019-20 dated March 16, 2020. Accordingly, AERA had determined Aeronautical tariff for KIA for the First Control Period vide Tariff Order No. 26/2018-19 dated November 9, 2018.
- 1.1.3 Pursuant to the AERA Act, 2008 read with AERA (Amendment) Act 2019 and 2021 and AERA Guidelines for the purpose of determination of Aeronautical tariff for Major Airports, Kannur International Airport Limited ('Airport Operator' / 'KIAL') had submitted its initial Multi Year Tariff Proposal (MYTP) on October 27, 2022 and the revised MYTP on March 27, 2023 for the Second Control Period commencing from FY 2023-24 to FY 2027-28. Further, the Authority based on its examination of the MYTP, had sought clarification/ justification on various issues from the Airport Operator, from time to time, till October 2023.
- 1.1.4 Kannur International Airport is owned and operated by Kannur International Airport Limited (referred to 'KIAL'), which was incorporated as a Public Limited Company in December 2009 with the objective of building, owning and operating the Kannur International Airport. The current shareholding pattern of AO is shown in the table below:

Table 1: Shareholding pattern of the Airport Operator

S. No.	Name of Shareholder	Shareholding (%)
1	Government of Kerala (GoK)	39.23%
2	Qualified institutional investors, individuals, co-operative banks/ societies/ commercial banks and other legal entities	37.10%
3.	Bharat Petroleum Corporation Limited (BPCL)	16.20%
4.	Airports Authority of India (AAI)	7.47%
	TOTAL	100%

1.2 Profile of Kannur International Airport (KIA)

- 1.2.1 Technical and Terminal Building details submitted by AO are provided in the table below:

Table 2: Technical and Terminal Building details submitted by AO

Particulars	Details
Total area of Integrated Terminal Building:	96,143 Sqm.
Designated Capacity	9.34 million passenger per annum
Check in counters:	<ul style="list-style-type: none"> • Domestic-30 • International- 30
Immigration counters:	<ul style="list-style-type: none"> • Arrival- 16 • Departure-16
ARFF	Two category 9 fire stations
Navigation	ILS Category 1, DVOR, Automatic Dependent Surveillance Broadcast
Aircraft Handling:	Airport Code 4E with orientation 07/25
Runway Physical length:	3,050 Meters extendable up to 4,000 meters
Number of parking bays:	14 out of which 6 are Multiple Aircraft Ramp System. Can accommodate 20 Code C aircraft at a time
Number of boarding bridges:	6

- 1.2.2 After the commencement of commercial operations in December 2018, the AO reported Passenger traffic of 0.22 MPPA only for 4 months of FY 2018-19. The Airport thereafter achieved 1.59 MPPA in FY 2019-20, i.e., Pre-Covid Year.

Following the completion of the first year of commercial operations, the airport was severely impacted by COVID-19 with passengers traffic dropping by 70% in FY 2021 over FY2020.

- 1.2.3 The Authority vide Order No. 26/ 2018-19 dated November 9, 2018 had determined the Aeronautical tariffs for Kannur International Airport for the First Control Period from April 1, 2018 to March 31, 2023.

Thereafter, the Authority vide Order No. 41/ 2022-23 dated March 22, 2023, had decided to continue the levy of existing tariff beyond March 31,2023 for a period of 6 months up to September 30, 2023.

Further, AERA vide Order No. 19/2023-24 dated September 20, 2023 had extended the levy of existing tariffs for another 6 (six) months i.e. from October 1, 2023 till March 31, 2024.

1.3 Cargo, Ground Handling & Fuel (CGF) Services

- 1.3.1 The CGF services are either carried out by the AO themselves or through Independent Service providers and the same is explained as follows:

Cargo

- 1.3.2 Currently, the Cargo facility at the Airport is executed by the Airport Operator. The AO is handling Cargo Volume of approx. 4,000 tons, from the existing Cargo facility, constructed within an area of 1,506 Sq.m
- 1.3.3 AERA vide Order No. 44/2020-21 dated September 3, 2020 had determined tariff for the Cargo operations at Kannur International Airport, from the date of its commencement (i.e., October, 2021) up to 31st March 2021 and vide Order No. 67/ 2020-21 dated March 25, 2021 had extended the levy of existing tariff till September 30, 2021. The Authority vide Order No. 18/2021-22 dated September 15, 2021 had decided to continue the levy of existing tariff for a period of 6 months from October 1, 2021 to March 31, 2022.

Thereafter, AERA vide Order No. 46/ 2021-22 dated March 17, 2022 had decided to continue the levy of existing tariff for a period of 6 months, up to September 30, 2022

Further, AERA vide Order No. 24/2022-23 dated September 23, 2022 had extended the levy of existing tariffs for Cargo operations for an additional period of 6 months, effective till March 31, 2023 and vide Order No. 42/2022-23 dated March 23, 2023 extended the levy of existing tariffs, for another six months, which was effective up to September 30, 2023.

Furthermore, the Authority vide Order No. 20/ 2023-24 dated September 27, 2023 had extended the levy of existing tariff for a period up to March 31, 2024.

Ground Handling

1.3.4 Currently, there are two service providers engaged by the AO for Ground Handling Services and the details are as follows:

- i M/s Celebi Ground Handling Delhi Private Limited had been engaged by the AO from September 2018 for a period of 5 years with a revenue share of 41%. Later, the contract with Celebi had been extended for a further period of 2 years with a revenue share of 43%.
- ii M/s AI Airport Services Ltd. had been engaged by the AO for a period of 5 years from December 2018 with a revenue share of 41%.

1.3.5 AERA vide Order No. 36/2018-19 dated December 18, 2018 had determined tariff for AO for FY 2018-19 to FY 2019-20 in respect of M/s Celebi Ground Handling Private Limited for providing ground handling services at Kannur Airport.

Further, the Authority vide Order No. 46/ 2020-21 dated September 29, 2020 had decided to continue the levy of existing tariff for an additional period of one year, till March 31, 2021 and vide Order No. 67/ 2020-21 dated March 25, 2021 had extended the levy of existing tariff as on March 31, 2021 till September 30, 2021.

AERA vide Order No. 18/2021-22 dated September 15, 2021 had decided to extend the levy of existing tariff till March 31, 2022. Later, the Authority had decided vide Order No. 46/ 2021-22 dated March 17, 2022 to continue the levy of existing tariff for Ground Handling till September 30, 2022.

Thereafter, the Authority vide Order No. 24/ 2022-23 dated September 23, 2022 had decided to extend the existing tariff up to March 31, 2023 and vide Order No. 42/ 2022-23 dated March 23, 2023 had decided to continue the levy of existing tariff till September 30, 2023.

Furthermore, the Authority vide Order No. 20/ 2023-24 dated September 27, 2023 had extended the levy of existing tariff for a period up to March 31, 2024.

Fuel

1.3.6 Fuel Farm services at the Airport are provided by the service provider BPCL Kannur Fuel Farm Private Limited (BKFFPL). The fuel volume handled at the Airport during FY 2022-23 is around 41,000 kilo litres

The Authority vide Order No. 34/ 2018-19 dated December 4, 2018 had determined tariff in respect of Fuel Farm for Kannur Airport for the First Control Period, which was effective till June 30, 2019 and vide Order No. 6/ 2019-20 dated June 21, 2019 extended the levy of existing tariff till September 30, 2019. The Authority through various orders had extended the levy of existing tariff for Fuel Facility, from time to time, till September 30, 2023.

2 TARIFF DETERMINATION OF KANNUR INTERNATIONAL AIRPORT

2.1 Introduction

2.1.1 AERA was established by the Government of India vide notification No. GSR 317(E) dated May 12, 2009. The functions of AERA, in respect of Major Airports, are specified in section 13(1) of The - Airports Economic Regulatory Authority of India Act, 2008 ('AERA Act' or 'the Act') read with AERA (Amendment) Act 2019 and 2021, which are as below:

- a) To determine the tariff for Aeronautical services taking into consideration –
 - i. the capital expenditure incurred and timely investment in the improvement of airport facilities.
 - ii. the service provided, its quality and other relevant factors
 - iii. the cost for improving efficiency.
 - iv. economic and viable operation of Major Airports
 - v. revenue received from services other than the Aeronautical services
 - vi. the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise; and
 - vii. any other factor which may be relevant for the purpose of this Act:

Provided that different tariff structures may be determined for different airports having regard to all or any of the above considerations specified at sub-clauses (i) to (vii).
- b) To determine the amount of the development fees in respect of Major Airports.
- c) To determine the amount of the passengers' service fee levied under Rule 88 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934.
- d) To monitor the set performance standards relating to quality, continuity and reliability of service as may be specified by the Central Government or any authority authorised by it in this behalf.
- e) To call for any such information as may be necessary to determine the tariff for Aeronautical services; and
- f) To perform such other functions relating to tariff, as may be entrusted to it by the Central Government or as may be necessary to carry out the provisions of this Act.

2.1.2 The terms "aeronautical services" and "Major Airport" are defined on section 2 (a) and 2 (i) of the Act. respectively.

2.1.3 As per the AERA Act, 2008 the following are the Aeronautical services:

- i. Aeronautical services provided by the Airport Operators.
- ii. Cargo, Ground Handling and Fuel Supply Services; and
- iii. Air Navigation Services.

Tariff determination for Air Navigation Services is carried out by the Ministry of Civil Aviation (MoCA) across all airports to maintain uniformity.

2.2 Authority's orders applied in tariff proposals in this Consultation Paper

2.2.1 Detailed Guidelines laying down information requirements, periodicity and procedure for Tariff determination have been issued by the Authority. The details of Orders and Guidelines issued in this

regard are as under:

- i. Order No. 13 dated 12.01.2011 (Regulatory philosophy and approach in Economic Regulation of Airport Operators) and Direction No. 5 dated 28.02.2011 (Terms and conditions for determination of tariff for Airport Operators); and
- ii. Order No. 05 dated 02.08.2010 ((Regulatory philosophy and approach in Economic Regulation of the services provided for Cargo facility, Ground Handling and Supply of Fuel to aircrafts); Order No. 12 dated 10.01.2011 and Direction No. 4 dated 10.01.2011 (Terms and conditions for determination of tariff for services provided for Cargo facility, Ground Handling and Supply of Fuel to aircrafts).
- iii. Order No. 07/2016-17 dated 13.06.2016 (Normative Approach to Building Blocks in Economic Regulation of Major Airports).
- iv. Order No. 14/2016-17 dated 23.01.2017 in the matter of aligning certain aspects of AERA's Regulatory Approach (Adoption of Regulatory Till) with the provisions of the National Civil Aviation Policy – 2016 (NCAP-2016) approved by the Government of India.
- v. Order No. 20/2016-17 dated 31.03.2017 in the matter of allowing Concession to Regional Connectivity Scheme (RCS) Flights under RCS – Ude Desh ka Aam Naagrik (UDAN) at Major Airports.
- vi. Order No. 35/2017-18 dated 12.01.2018 and Amendment No. 01 to Order No. 35/2017-18 dated 09.04.2018 in the matter of determination of useful life of Airport assets.
- vii. Order No. 42/2018-19 dated 05.03.2019 in the matter of Determination of Fair Rate of Return (FRoR) to be provided on Cost of Land incurred by various Airport Operators in India.

2.3 Multi Year Tariff Proposal submission

- 2.3.1 Kannur International Airport commenced its operations w.e.f. December 9, 2018 with the First Control Period commencing from April 1, 2018 to March 31, 2023. AERA vide its Order No. 26/2018-19 dated November 9, 2018, had determined Aeronautical tariffs for KIA for the First Control Period.
- 2.3.2 As per proviso to clause 3.1 of the Airport Guidelines, the Airport Operator(s) are required to submit to the Authority for its consideration, a Multi-Year Tariff Proposal (MYTP) for the respective Control Periods within the due date as specified by the Authority. AO had submitted an initial MYTP for the Second Control Period commencing from April 1, 2023 to March 31, 2028 on October 27, 2022 (with projected financials for FY 2022-23) and a revised MYTP (by making revisions to certain Regulatory Building Blocks) on March 27, 2023. The MYTP is available on the AERA's website. Further, the AO had submitted unaudited financials for FY 2022-23 on June 30, 2023.
- 2.3.3 The Authority has appointed an Independent Consultant, M/s R. Subramanian and Company LLP to assess the MYTP submitted by AO for the Second Control Period. M/s R. Subramanian and Company LLP has further assisted the Authority in examining the true up submission of AO including verifying the data from various supporting documents submitted by the airport operator, examining the regulatory building blocks in tariff determination, performing independent studies on the allocation of assets between Aeronautical and Non-aeronautical activities and efficient O&M expenses of AO for the First Control Period, Fixed Asset Register (FAR), audited financials, documentary evidence of the process of approval of capital addition projects including award of various work orders and ensuring that the treatment given to it is consistent with the Authority's methodology, approach, etc.
- 2.3.4 The Authority through its Independent Consultant has examined the revised MYTP submitted by AO,

verified the data, the projections for the Second Control Period and true up for the First Control Period. The Authority obtained clarifications on the information shared by the AO from time to time, to review the appropriateness of the classification of assets, the reasonableness of the proposed Capital Expenditure, Operation & Maintenance expenditure, for finalizing this Consultation Paper. The sequential timeline of the above events has been presented in the table below:

Table 3: MYTP Submission Timelines

Dates	Event
October 27, 2022	Initial MYTP Submission by AO
March 27, 2023	Revised MYTP was submitted by AO
April 3, 2023	Virtual meeting convened by AERA along with its Consultants with the Representatives of AO for addressing the issues in FAR
April 11, 2023	Trial Balance was submitted by AO for bifurcation of O&M Expenses
May 11, 2023	Revised FAR submitted by the AO
May 19, 2023	Confirmation provided by AO for considering figures in FAR for the purpose of determination of RAB and independent study on Allocation of Assets
June 29, 2023	Components of Non-Aeronautical Revenue (NAR) submitted by AO
June 30, 2023	Submission of Unaudited Financials for FY 2022-23 by the AO
July 7, 2023	Details obtained w.r.t certain components of the O&M expenses such as Custom Cost Recovery charges
September 2023 and October 2023	Clarification provided by AO w.r.t NAR, O&M expenses and capitalisation of assets

- 2.3.5 The Authority notes that clause 5.7.1 of Direction 5/ 2010-11 pertaining to Terms and Conditions for determination of Tariff for Airport Operators Guidelines, 2011 states that “ *For any service provided by the Airport Operator for (i) ground handling services relating to aircraft, passengers and cargo at an airport; (ii) the cargo facility at an airport and (iii) supplying fuel to the aircraft at an airport, the Authority shall follow the regulatory approach and process for tariff determination as mentioned in the Direction No. 4/ 2010-11 on Terms and Conditions for determination of Tariff for services provided for Cargo facility, Ground Handling and Supply of Fuel to the Aircraft Guidelines, 2011*”.

Further, clause 1.2 of the Direction No.4/ 2010-11 states that “*these Guidelines shall apply to Service Provider(s) for (i) the Cargo facility at a Major Airport, (ii) ground handling relating to aircraft, passengers and cargo at a major airport and for (iii) supplying fuel to the aircraft at a major airport: Provided that Airport Operator providing the Regulated Service(s) as defined herein shall be excluded from the application of these Guidelines.*”

Taking cognizance of the above provisions laid out under Direction 5/ 2010-11 and Direction 4/ 2010-11 and the fact that the Airport Operator is providing the services on cargo facility, the Authority has examined the Assets, Expenses and Revenues pertaining to Cargo of the AO separately under the relevant chapters in this Consultation Paper, for the purpose of determining Aggregate Revenue Requirement of the Airport Operator.

- 2.3.6 This Consultation Paper has been developed as per the Chapter-wise details summarized below:
- i. The background of the Authority’s tariff determination process is explained in this Chapter (Chapter 2) and in Chapter 3, wherein the framework for determination of tariff is discussed.
 - ii. Chapter 4 lists out the submissions of AO on true-up for regulatory building blocks for the First Control Period, along with the summaries of decisions taken by the Authority as per the Tariff Order for the First Control Period. This is followed by the Authority’s examination of and proposals regarding true-up of the regulatory building blocks of the First Control Period. This

chapter also discusses the assessment and the outcome of the studies conducted by the Authority regarding asset allocation ratios between aeronautical and non-aeronautical assets and efficient cost segregation between aeronautical and non-aeronautical operating expenses. The summary of these reports is given as Annexures to this Consultation Paper and the reports have been appended separately to the Consultation Paper.

- iii. Chapter 5 presents the submissions of AO regarding Traffic Projections for the Second Control Period, along with the Authority's examination and proposals regarding the same.
- iv. Chapter 6 includes the submissions of AO regarding Capital Expenditure (CAPEX), Depreciation and RAB for the Second Control Period along with the Authority's detailed examination, adjustments, rationalisation and proposals on the Aeronautical capital expenditure and RAB for the Second Control Period.
- v. Chapter 7-13 includes the submissions of AO regarding various building blocks pertaining to the Second Control Period including Fair Rate of Return, Operation and Maintenance Expenses, Non-aeronautical Revenue, Taxation, Inflation, Quality of Service and Return on Land along with Authority's examination and proposals on each matter.
- vi. Chapter 14 presents the revised Aggregate Revenue Requirement as determined by the Authority based on the proposals for the Second Control Period
- vii. Chapter 15 summarizes the Authority's proposals regarding each of the building blocks.
- viii. In Chapter 16, the Authority invites views of all the stakeholders regarding proposals put forward for tariff determination for the Second Control Period in the Consultation Paper.
- ix. Chapter 17 contains Annexures.
 - Annexure 1 – Summary of study on allocation of assets between Aeronautical and Non-aeronautical assets
 - Annexure 2 – Summary of study on efficient Operation and Maintenance expenses
- x. Chapter 18 contains the list of Appendices.

2.3.7 AO should submit the Annual Compliance Statement in the form and manner provided under section A5.10 of Appendix 5 of the *Terms and Conditions for determination of tariff for Airport Operators Guidelines, 2011*, based on its annual audited accounts for a particular tariff year.

2.4 Studies commissioned by the Authority

2.4.1 The Authority commissioned the following studies through its Independent Consultant for the purpose of tariff determination of KIA, which are as follows:

- a) **Study on allocation of Assets between Aeronautical and Non-Aeronautical Assets:** The Study has carried out a detailed analysis of the Regulatory Asset Base (RAB) of KIA. The study has developed a rationale for classification of assets into Aeronautical, Non-aeronautical, Air Navigation Services (ANS) and Common. Further, the Common assets have been apportioned to Aeronautical services, based on appropriate ratios. Based on the examination of the assets, the RAB has been determined as on March 31, 2023.
- b) **Study on efficient Operation and Maintenance Expenses:** The Study examined the trends in the O&M expenses of KIA and assessed how the Airport has been performing in comparison to the select peers in the industry. The Study verified the classification of the various expenses between Aeronautical, Non-aeronautical, ANS and Common and made revisions wherever

necessary. The Common expenses were further apportioned based on appropriate ratios. Further, the Study ascertained the expenses that were unreasonably high and rationalized them based on suitable benchmarks.

- 2.4.2 The recommendations of these studies have been used in this Consultation Paper. The summary of the study on Allocation of Assets is given in Annexure 1 and that of Efficient O&M expenses is given in Annexure 2 of the Chapter 17 of this Consultation Paper.

3 FRAMEWORK FOR TARIFF DETERMINATION OF KIA FOR THE SECOND CONTROL PERIOD

3.1 Methodology

3.1.1 The Methodology adopted by the Authority to determine Aggregate Revenue Requirement (ARR) is based on AERA Act, 2008 read with AERA (Amendment) Act 2019 and 2021, the AERA (Terms and Conditions for determination of Tariff for Airport Operators) Guidelines, 2011 and further Guidelines issued by AERA from time to time.

3.1.2 As per the Guidelines, the Authority had adopted the Hybrid-Till mechanism for tariff determination for the First Control Period wherein, 30% of the Non-aeronautical revenues is to be used for cross-subsidising the Aeronautical charges. The Authority has considered the same methodology in the true up of the First Control Period and for tariff determination in the Second Control Period

3.1.3 The ARR under hybrid till for the Control Period (ARR) shall be expressed as under:

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

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'
- s is the cross-subsidy factor for revenue from services other than Aeronautical services. Under the Hybrid Till methodology followed by the Authority, $s = 30\%$.
- NAR_t is the Non-aeronautical revenue in tariff year 't'.

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

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

- 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. The Authority has considered discounting cash flows, one year from the start of the Control Period.
- VE_t is the passenger traffic in year 't'.

3.1.5 All the figures presented in this Consultation Paper have been rounded off up to two decimals.

3.2 Control Period

- 3.2.1 In terms of Direction No. 5 issued on 28 February 2011, Control Period means “a period of five Tariff Years during which the Multi Year Tariff Order and Tariff(s) as determined by the Authority pursuant to such order shall subsist”. The First Control Period for Kannur International Airport Limited commenced from April 1, 2018 and the Second Control Period has commenced from April 1, 2023

3.3 Revenues from Air Navigation Services (ANS)

- 3.3.1 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 assets, expenses and revenues from ANS.
- 3.3.2 The Airport Operator shall be performing Aeronautical services like landing, parking, ground handling, cargo services at Kannur Airport and has submitted revenue projections for the same for the Second Control Period in its MYTP. However, AAI shall be handling the Air Navigation Systems (ANS) at Kannur Airport and hence the MYTP submitted by Airport Operator does not consider revenues, expenditure, and assets on account of ANS.

4 TRUE UP OF KIA FOR THE FIRST CONTROL PERIOD

4.1 Background

4.1.1 Pursuant to the AERA Act, 2008 read with AERA (Amendment) Act 2019 and 2021 and AERA Guidelines for the purpose of determination of Aeronautical tariff for Major Airports, Kannur International Airport Limited ('Airport Operator' / 'KIAL') has submitted True up workings for the First Control Period (from April 1, 2018 to March 31, 2023) as part of its initial Multi Year Tariff Proposal (MYTP) dated October 27, 2022 and the revised MYTP dated March 27, 2023.

4.1.2 The true up workings submitted by AO covers the following building blocks:

- i. Traffic
- ii. Regulatory Asset Base
- iii. Aeronautical Depreciation
- iv. Fair Rate of Return
- v. Return on Land
- vi. Aeronautical Operation and Maintenance Expenses
- vii. Non-aeronautical Revenue
- viii. Aeronautical Taxes
- ix. Aggregate Revenue Requirement

4.1.3 The Authority has examined AO's true up submission in detail. Analysis of the Authority, has been organized as follows:

- i. Recorded AO's submission regarding different regulatory building blocks for true up of the First Control Period.
- ii. Recapped the decisions taken by the Authority in the Tariff Order for the First Control Period (Order No. 26/2018-19 dated November 9, 2018)
- iii. Provided the Authority's examination and proposals regarding the true up calculation of each regulatory building block for the First Control Period.

4.2 AO's submission of True up for the First Control Period

4.2.1 The Authority notes AO had initially submitted details of asset additions based on the Fixed Assets Registers (FARs) for the first 4 tariff years, i.e., FY 2018-19 to FY 2021-22 and Projections for FY 2022-23 which contained certain inconsistencies and duplications. AERA had then organised a virtual joint-meeting on April 3, 2023 with the representatives of AO and the Authority's Independent Consultant, wherein AO had agreed to provide the revised FARs after addressing the inconsistencies in the FAR and in the required format. Subsequently, AO had provided the revised FARs in the desired format on May 11, 2023, which has been considered by the Authority for further analysis. Also, minor variances were noted between assets appearing in the revised FARs submitted by AO and that shown in the revised MYTP submitted by AO. The RAB as per FAR submitted by the AO amounted to ₹1,777.86 Crores (as mentioned in Table 13). Upon further clarification, the AO had confirmed vide email dated May 19, 2023, to consider the figures appearing as per revised FARs (submitted by AO in the new format on May 11, 2023) for further analysis. Accordingly, the assets shown in the revised FARs have been considered for determining the adjusted RAB as on

March 31, 2023.

As mentioned in the above explanation, Authority has considered the figures as per revised FAR for calculation of RAB.

4.2.2 As mentioned in para 4.1.1, the AO had submitted a revised True Up of the First Control Period on March 27, 2023, which contained audited figures for the period up to FY 2021-22. Further, for the last tariff year, i.e., FY 2022-23, unaudited figures were submitted by the AO in June, 2023 (refer Table 3). The details of the same are as follows:

Table 4: Submission of True up of First Control Period by AO for the period from FY 2018-19 to FY 2022-23

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Opening RAB	0.52	1,990.84	1,936.29	1,859.07	1,769.69	
Closing RAB	1,990.86	1,936.29	1,859.07	1,769.69	1,729.87	
Average Regulatory Asset Base (RAB)	1,990.86	1,963.58	1,897.68	1,814.38	1,749.78	
Fair Rate of Return (FRoR)	13.10%	13.10%	13.10%	13.10%	13.10%	
Return on Average RAB	80.00	257.14	248.51	237.60	229.14	1,052.38
Depreciation	20.05	91.94	91.91	92.44	92.16	388.51
Operating Expenditure	51.64	61.78	58.59	60.04	68.50	300.55
Return on Land	4.85	15.80	15.82	15.89	15.93	68.29
Corporate Tax	0.00	0.00	0.00	0.00	0.00	0.00
Add: Carry forward of Shortfall from First CP	-	-	-	-	-	-
Less: Deductions for Non-aeronautical Revenues	(2.90)	(8.06)	(4.03)	(7.48)	(6.75)	(29.22)
Total Gross ARR	153.64	418.60	410.80	398.49	398.98	1,780.51
Revenue earned from Aeronautical Services	9.39	90.87	36.86	59.01	86.37	282.51
(Excess) / Shortfall	144.25	327.73	373.94	339.48	312.60	1,498.00
PV Factor	1.70	1.64	1.45	1.28	1.13	
PV of (Excess) / Shortfall	245.07	536.15	540.93	434.21	353.54	2,109.91

4.3 Authority's examination of True up submitted by AO for the First Control Period (FY 2018-19 to FY 2022-23)

4.3.1 The Authority has taken cognizance of the decisions taken at the time of determination of tariff for the First Control Period and has then proceeded to examine the same as part of the tariff determination for the current Control Period.

4.3.2 The decisions taken at the time of determination of tariff for Aeronautical services for the First Control Period vide Order No. 26/2018-19 dated November 9, 2018 have been reproduced below:

- **Decision No.1 – Regarding RAB**

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

1b. The Authority has decided to exclude cost of ₹ 490 Crores pertaining to cost towards runway extension proposed to be incurred in FY 2020-21 as incurrence of such cost is not certain yet.

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

1d. *The Authority has decided to consider RAB during the First Control Period for the calculation of ARR.*

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

- **Decision No. 2 – Regarding FRoR**

2a. *The Authority has decided to consider the Cost of Equity at 16% p.a. and FRoR at 13.06% p.a. for the First Control Period.*

2b. *FRoR will be trued up based on Actual debt- equity ratio, actual cost of debt and cost of equity which will be decided upon after completion of the proposed study on cost of equity at Major airports.*

- **Decision No.3 – Regarding Operation and Maintenance Expenditure**

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

3b. *The Authority has decided to accept allocation of aeronautical and non-aeronautical expenses in the ratio of 95:05. Further, the Authority shall true-up allocation ratio based on study being commissioned on the subject.*

3d. *The Authority also decides to true up the Operating expenses based on the actual expenditure during the First Control Period.*

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

4a. *The Authority has decided to consider lease rental revenue from aircraft maintenance center, logistics and redistribution center and fuel farm as revenue from aeronautical services, and consequently exclude it from revenue from Non-aeronautical services.*

4c. *The Authority has decided to true-up the Non-Aeronautical Revenue based on the Actual Non Aeronautical Revenue earned during the First Control Period.*

- **Decision No.5 – Regarding Taxation**

5b. *The true up amount shall be based on the actual tax paid during the First Control Period.*

- **Decision No.6 – ARR & the resultant shortfall/ excess calculations**

6a. *Determination of aeronautical tariffs for the First Control Period is based on ARR and the resultant shortfall shall be considered in next Control Period.*

6b. *True up of all the building blocks shall be considered in the next Control Period.*

- **Decision No.7 – Traffic Forecast**

7b. *The Authority decides to true up the traffic (ATM and Passenger) based on actual traffic in the First Control Period while determining the tariff for next Control Period.*

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

8a. *The Authority has decided to merge PSF (F) with UDF.*

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

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

- **Decision No.9 Aeronautical Revenues**

9.a. The Authority has decided to consider revenue from lease of land for Aircraft Maintenance Centre, Logistics and Redistribution Centre and Fuel Farm as revenue from aeronautical services.

9.c. The Authority decides to true up the Aeronautical Revenue based on actual revenue during the First Control Period

4.4 True up of Traffic

4.4.1 The actual passenger traffic and ATM for the First Control Period submitted by AO is as follows:

Table 5: AO's submission for True up of traffic for the First Control Period

Financial Year	Domestic Passengers (in Million)	International Passengers (in Million)	Total Passenger traffic (in Million)	Domestic ATM (in numbers)	International ATM (in numbers)	Total ATM (in numbers)
2018-19#	0.14	0.09	0.22	1,467	578	2,045
2019-20	0.78	0.81	1.58	9,742	5,389	15,131
2020-21	0.18	0.30	0.48	3,985	2,321	6,306
2021-22	0.28	0.52	0.80	5,674	4,136	9,810
2022-23*	0.60	0.75	1.35	6,533	5,933	12,466

Operations started only in December 9, 2018

* Forecasted

4.4.2 The Authority verified the actual Passenger traffic and ATM (as per Table 5) for the First Control Period with AAI's website and noted no variance till FY 2021-22. However, the Authority observed a variance between projected traffic submitted by AO for FY 2022-23 and the actual traffic achieved in respect of the same. The Authority has considered the actual traffic achieved by KIA in FY 2022-23 for true up of traffic for the First Control Period.

4.4.3 The Authority examined the actual passenger traffic and ATM of KIA with the traffic projections approved by the Authority in the Tariff Order of the First Control Period, which is as follows:

Table 6: Passenger traffic and ATM approved by the Authority in the Tariff Order of the First Control Period for KIA

Financial Year	Domestic Passengers (in Million)	International Passengers (in Million)	Total Passenger traffic (in Million)	Domestic ATM (in numbers)	International ATM (in numbers)	Total ATM (in numbers)
2018-19	0.14	1.47	1.61	2,015	13,372	15,387
2019-20	0.16	1.65	1.81	2,246	14,746	16,992
2020-21	0.18	1.85	2.03	2,481	16,139	18,620
2021-22	0.20	2.06	2.26	2,737	17,637	20,374
2022-23	0.22	2.29	2.51	3,014	19,251	22,265

4.4.4 The Authority notes from the above Table 5 and Table 6 that the actual Passenger traffic and ATM for the first tariff year i.e., FY 2018-19 is much lesser than the approved traffic projections since

Kannur Airport commenced operations only in December 2018 whereas the approved traffic projections were based on assumption of six months of operations. Further, it is observed that the actual PAX and ATM traffic of next tariff year, (i.e., FY 2019-20 during which, KIA started functioning in a full-fledged manner) is mostly in line with the projections, although there are minor deviations.

- 4.4.5 However, the Authority notes that the actual Passenger traffic and ATM in the next two tariff years, i.e., FY 2020-21 and FY 2021-22 are significantly lower than the projections approved in the Tariff order for the First Control Period, due to the adverse impact of the COVID-19 pandemic.
- 4.4.6 Further, it is observed that the AO has projected a positive growth in the FY 2022-23 (i.e., total traffic of 1.35 MPPA and 12,466 ATM) over the previous year's actuals due to resumption of full-fledged and normal operations at the Airport. As against this, the Authority notes that KIA has actually achieved PAX traffic of 1.26 MPPA (Domestic 0.41 MPPA + International 0.85 MPPA) and ATM traffic of 12,024 (International 6,233 + Domestic 5,791) for the FY 2022-23 (data as per AAI's website).
- 4.4.7 The Authority notes that the AO has submitted the following explanation with respect to True up of traffic for the First Control Period:

“KIAL started its operations in December 2018. Hence there were only four full months of operations in FY 2019. In the first full year of operation i.e., FY 2020, the airport had good domestic as well as international traffic. The airport registered higher domestic traffic than it was projected in FY 2020. This indicates a stronger domestic demand potential than what was expected from the catchment. On the other hand, the international traffic was lesser than what was projected in FY2020. However, the overall traffic was seen to be close to the projected figures of FY 2020.

In addition to the above, Kannur airport does not have Point of Call (PoC) status which would enable it to handle international airline operators. Given the dominant international passenger traffic demand in Airport's catchment, not having the PoC status has been a major factor that prevented the airport to achieve its full potential.”

- 4.4.8 Based on all the above factors, the Authority proposes to consider the actual Passenger traffic and ATM as submitted by AO for the first 4 tariff years i.e., FY 2018-19 to FY 2021-22 and the actual traffic achieved by KIA in the last tariff year, i.e., FY 2022-23 (as mentioned in para 4.4.6) for the purposes of true up of the First Control Period. The details of actual traffic considered by the Authority for true up are as follows:

Table 7: True up of traffic proposed by the Authority for the First Control Period

Year	Domestic Passengers (in Million)	International Passengers (in Million)	Total Passenger traffic (in Million)	Domestic ATM (in numbers)	International ATM (in numbers)	Total ATM (in numbers)
2018-19#	0.14	0.09	0.22	1,467	578	2,045
2019-20	0.78	0.81	1.58	9,742	5,389	15,131
2020-21	0.18	0.30	0.48	3,985	2,321	6,306
2021-22	0.28	0.52	0.80	5,674	4,136	9,810
2022-23*	0.41	0.85	1.26	5,791	6,233	12,024

Operations started only in December 2018

* Actual traffic achieved by KIA

4.4.9 The above proposal is also in line with the Authority's decision no. 7b of the Tariff Order No. 26/2018-19 dated November 9, 2018, which states "The Authority decides to true up the traffic (ATM and passengers) based on actual traffic in first control period while determining tariff for the next control period."

4.5 True up of RAB

4.5.1 The AO has submitted RAB for the First Control Period as follows:

Table 8: RAB submitted by AO as part of true up of the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23 *	Total
Opening RAB (1) [#]	0.52	1,990.84	1,936.29	1,859.07	1,769.69	
Additions (2)	2,010.40 [^]	37.40	14.69	3.06	52.34	2,117.89
Deletions (3)	-	-	-	-	-	-
Depreciation (4)	20.05	91.94	91.91	92.44	92.16	388.51
Closing RAB= (1)+(2)-(3)-(4)	1,990.86**	1,936.29	1,859.07	1,769.69	1,729.87	

[#] The Opening RAB for FY 2018-19 has been obtained from the audited financials of the FY ending March 31, 2018.

[^] includes financing allowance of ₹ 363.56 Crores, which was included only for the FY 2018-19.

* FY 2022-23 figures represent unaudited figures submitted by AO

** Inaccuracies were noted in the Closing RAB submitted by the AO for FY 2018-19.

4.5.2 The Authority notes that the RAB submitted by AO as at March 31, 2022 is based on audited figures (i.e., from FY 2018-19 to FY 2021-22) and the RAB as at March 31, 2023 is based on Unaudited figures for the last tariff year, i.e., FY 2022-23.

4.5.3 The Authority compared the year-wise additions to RAB by AO with the Aeronautical Capital Expenditure (CAPEX) approved by it in the Tariff Order for the First Control period and the same is summarized in the following table:

Table 9: Comparison of year-wise additions to RAB by AO with Aeronautical CAPEX approved by the Authority in the Tariff Order of the First Control Period

(₹ in Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23*	Total
Additions to RAB as per Tariff Order of the First Control Period (refer Table 11 of the Tariff Order No. 26/2018-19 dated November 9, 2018) (A)	1,791.96	-	-	-	-	1,791.96
Actual additions to RAB (refer Table 8) (B)	2,010.40	37.40	14.69	3.06	52.34	2,117.89
Variance (A-B)	(218.44)	(37.40)	(14.69)	(3.06)	(52.34)	(325.93)

* unaudited figures for FY 2022-23

4.5.4 The Authority reviewed the actual capital additions to RAB during the First Control Period, which is explained as follows:

Table 10: Capital additions submitted by AO for the First Control Period

(₹ in Crores)

S. No	Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23*	Total
1	Free Hold Land	330.95	2.24	0.08	-	-	333.28
2	Lease Hold Land	51.17	0.35	-	-	-	51.52
3	Pavements	265.55	20.64	-	-	-	286.19
4	Buildings, Roads, Bridges, drains & Culverts	655.25	7.64	8.10	1.86	32.20	705.05
5	Fire Department Equipment	31.90	(0.04)	0.41	-	-	32.28
6	Plant & Equipment	22.42	0.03	0.71	0.01	20.14	43.30
7	Furniture & fittings	8.79	0.42	0.17	0.18	-	9.56
8	Vehicles	-	-	-	0.28	-	0.28
9	Computers & Accessories	0.33	0.00	0.02	0.18	-	0.53
10	Office Equipment	0.43	-	0.01	-	-	0.43
11	Electrical Equipment	279.90	6.05	5.10	0.39	-	291.43
12	Intangible asset	0.16	0.06	0.09	0.16	-	0.47
13	Financing Allowance	363.56	-	-	-	-	363.56
	TOTAL	2,010.40	37.40	14.69	3.06	52.34	2,117.89

* unaudited figures given by AO for FY 2022-23

4.5.5 The comparison of CAPEX approved by the Authority in the tariff order of the First Control Period with the CAPEX claimed by AO as part of the true up submission, is shown in the table below:

Table 11: Comparison of Aeronautical CAPEX approved by the Authority in the Tariff Order as against CAPEX claimed in the True up of the First Control Period

(₹ in Crores)

Particulars	CAPEX approved by the Authority (A)	CAPEX claimed by AO (B)	Variance (C = A - B)
Buildings & Civil works, Runways, bridges, roads and culverts	1312.94	968.60	344.34
Plant & Machinery	479.02	346.87	132.15
Other assets such as Furniture & fixtures, vehicles, Office Equipment, Computer & accessories and Intangibles.	-	1.71	(1.71)
Freehold Land	-	333.28	(333.28)
Leasehold land	-	51.52	(51.52)
Plant & Machinery (one-time reimbursement of cost of ANS equipment to AAI)	-	20.14	(20.14)
Buildings & Civil works, Runways, bridges, roads and culverts (Construction of Integrated Cargo complex and office building)	-	32.20	(32.20)
Financing Allowance	-	363.56	(363.56)
Total	1,791.96	2,117.90	(325.94)

The Authority notes that the total approved CAPEX of ₹ 1,791.96 Crores, comprises of the following:

- (i) An amount of ₹ 1,312.94 Crores was approved towards Buildings & Civil works, Runways, roads and culverts, against which the Airport Operator has claimed actual CAPEX of ₹ 968.60 Crores (which includes Terminal Building Area of 96,143 Sqm), Roads, Bridges, Drains and Culverts for ₹ 672.85 Crores, Pavements for ₹ 286.19 Crores and Furniture & fixtures for ₹ 9.56 Crores);
- (ii) An amount of ₹ 479.02 Crores was approved towards Plant & Machinery, against which the Airport Operator has submitted actual CAPEX of ₹ 346.87 Crores (which includes Electrical equipment worth ₹ 291.43 Crores, Fire departments equipment for ₹ 32.28 crores and other Plant & Machinery items for ₹ 23.16 Crores).
- (iii) Apart from the above, it is observed that AO has claimed unapproved CAPEX amounting to ₹ 802.27 Crores as part of RAB and the breakup of the same is as follows:
 - An amount of ₹ 1.27 Crores towards miscellaneous assets such as Furniture & fixtures, Vehicles, Office equipment, Computers & accessories and Intangibles (in the nature of Computer Software, Logo, etc.)
 - An amount of ₹ 333.28 Crores towards Freehold land development cost
 - An amount of ₹ 51.52 Crores towards Leasehold land development cost
 - Reimbursement of cost of procurement and installation of ANS equipment worth ₹ 20.14 Crores to AAI.
 - Construction of Integrated Cargo complex and office building worth ₹ 32.30 Crores and
 - Financing allowance of ₹ 363.56 Crores for the FY 2018-19

4.5.6 The Authority has examined the unapproved CAPEX (as per para 4.5.5 (iii)) in detail and has provided its views as follows:

- (i) **Miscellaneous assets** - The Authority examined the miscellaneous assets amounting to ₹ 1.27 Crores relating to Furniture & fixtures, Vehicles, Office equipment, Computers & accessories (in the nature of Computer Software, Logo, etc.) based on their need, location and usage and further proposes to consider the same as part of RAB additions during the First Control Period.
- (ii) **Freehold Land Development Cost** – The Authority notes that the AO had claimed Land development costs of ₹ 333.28 Crores towards cutting, filling, blasting etc, on the Freehold land, towards development of various aeronautical assets. The Authority notes that AO has not added such cost to the respective asset in the RAB and instead included the land development cost as a separate asset in the RAB and further claimed depreciation on the same.

With reference to the above-mentioned Land Development cost, the Authority had taken inference from the relevant provisions of the Order No. 42/2018-19 dated March 5, 2019 of AERA, and notes that the cost has been incurred towards Land Development by AO, prior to the date of issuance of the above-mentioned Order No. 42/ 2018-19 (i.e., before March 5, 2019). Therefore, the Authority proposes not to consider the above-mentioned Land Development costs amounting to ₹ 333.28 Crores, as part of RAB or as part of Land cost (for which Return is provided as per Order No. 42/ 2018-19) for true up of the First Control Period of KIA.

- (iii) **Leasehold land development cost** - The Authority notes that the AO has included the development cost of ₹ 51.52 Crores incurred on Leasehold land and claimed amortization over the useful life of 60 years. Upon further enquiry, the AO had shared a map showing the land acquisition layout of the airport and explained that apart from the 1,192 acres of land acquired from the Government of Kerala through

KINFRA, the AO had also taken on lease approx. 71 acres of land from the Kerala State Government. The Authority notes that, the AO has carried out development on such land (near the runway) and the corresponding cost of the same is ₹ 51.52 Crores., which has been included under RAB. Further, the Authority understands from the AO that the lease is for a period of 60 years, though the underlying agreement is yet to be finalized and signed between the parties. Based on the provisions of Amendment No. 01 to Order No. 35/2017-18 dated April 9, 2018, which prescribes that the development cost of Leasehold land to be amortized over the lease period, the Authority proposes to consider the leasehold land development cost of ₹ 51.52 Crores as part of asset additions (refer to para 4.1.10 (iii) of *Asset Allocation report*) of the First Control Period.

- (iv) **ANS equipment** – The Authority notes that the AO has claimed CAPEX of ₹ 20.14 Crores in FY 2022-23 towards reimbursement of the cost of procurement and installation of ANS equipment incurred by AAI at the airport. Being a greenfield airport, the AO has entered into an agreement with AAI for providing CNS-ATM services at the Kannur airport. Further, it is noted that the AO has provided the following explanation for claiming the above CAPEX in the MYTP:

“KIAL has considered a sum of INR 20.14 Crore as per the details of the bill raised by the ANS service provider dated 20th January 2023. The amount pertains to the cost of procurement and installation of ANS equipment. However, these are under negotiations and KIAL has considered the amount for calculations as interim. As we get confirmation from CNS-ATM service provider for non-applicability of these charges, the same can be re-evaluated during the true-up for third control period.”

The Authority hereby states that 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 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 assets, expenses and revenues from ANS.

Based on all the above factors, the Authority proposes not to consider the above-mentioned CAPEX of ₹ 20.14 Crores as part of RAB. (refer to para 4.1.10 (iv) of *Asset Allocation report*).

- (v) **Integrated Cargo Terminal** – The Authority notes that the capital expenditure of ₹ 32.30 Crores claimed by the AO in FY 2022-23 represents the estimated cost of construction of the Integrated Cargo Terminal *net* of Government grant received from **Trade and Infrastructure Scheme (TIES)** for the construction of Cargo complex (i.e., Projected cost of ₹ 52.30 Crores *less* Grant of ₹ 20 Crores). The new Cargo terminal is expected to add 5,000 Sq.m. and an additional 12,000 MT of volume.

Further, the AO has explained the CAPEX towards Cargo terminal in the MYTP as follows:

*“The total project cost for the cargo terminal is estimated to be INR 52.3 Crore. An amount of INR 22.3 Crore is under Capital Work in Progress (CWIP) for the same as on FY22. KIAL had received a grant of INR 20 Crore as part of **Trade and Infrastructure Scheme (TIES)** for the construction of cargo complex. Out of the total grant of INR 20 Crore, KIAL has received INR 10 Crore as on date. The remaining INR 10 Crore is assumed to be transferred to KIAL in FY23. The entire grant has been adjusted in the total capital expenditure incurred for cargo complex and the same has not been considered for the calculation of RAB. After adjusting for the grant, the remaining CWIP is expected to be capitalized in FY 23, i.e., INR 32.2 Crore.”*

The Authority examined the supporting document provided by the AO i.e., Minutes of the 10th meeting of Empowered Committee (EC) on **‘Trade and Infrastructure Scheme’ (TIES)** for FY 2019-20 held under the Chairmanship of Commerce Secretary on November 1, 2019 at New Delhi and observes that

the EC had approved the estimated cost of construction of Cargo complex at Kannur Airport and also the grant of ₹ 20 Crores towards the same.

Further, the Authority notes that the cargo Terminal project has been completed to the extent of 80% as on March 31, 2023 (as confirmed by AO vide email dated May 11, 2023). Considering the same, the Authority notes that the new Cargo terminal is likely to be commissioned only in the next year i.e., FY 2023-24 which is the 1st tariff year of the 2nd Control Period.

Further, the Authority notes that AO has already capitalised Cargo related assets such as buildings, roads, electrical and fire equipment, plant & machinery, etc, amounting to approx. ₹ 10 Crores in the FY 2020-21 towards construction of an Interim cargo facility measuring approx. 1,506 Sq.m. The AO had commenced Cargo operations out of the interim facility in October 2021 and is currently functioning from the same facility. With respect to continuation of the usage of the interim cargo building and equipment, the AO has explained vide email dated May 12, 2023, that the equipment and machinery will continue to be used in the new greenfield cargo facility whereas the building may be put to alternative use (such as warehouse) and the decision would be taken at a later date (refer to para 4.1.10 (v) of *Asset Allocation Study*). Therefore, the Authority proposes not to consider the CAPEX towards construction of new Cargo Terminal during FY 2022-23 (i.e., last tariff year of First Control Period) and shift the capitalisation of the Cargo Terminal to the Second Control Period.

Financing Allowance

- (vi) Financing allowance (FA) of ₹ 363.56 Crores – The Authority notes that KIA being greenfield airport has calculated FA on the value of Work-in Progress Assets (WIPA) as per the prescribed formula (refer para 5.2.7 of Direction No.5 / 2011-12 dated February 28, 2011) for the period under construction i.e., from FY 2012-13 up to FY 2018-19 and claimed the same in the first tariff year i.e., FY 2018-19. The Authority notes that as per the provisions of Direction No. 5/ 2011-12, Airport Operators are eligible for FA (which is basically a return on the value invested in the construction phase of an asset including Equity invested) before the asset is put to use.

IDC

- (vii) Considering that KIA is a greenfield airport which commenced its commercial operations on December 9, 2018, wherein majority of the assets were not put to use and also taking cognizance of the fact that, the AO did not have any airport operations to support the investment in CAPEX during the period of construction, the Authority considers the AO's claim for FA to be justified and reasonable. It is pertinent to note here that the AO has also claimed IDC of ₹ 159.16 Crores, in addition to the FA.

In this background, the Authority has drawn inference from its previous Tariff Orders issued for BIAL (refer para 9.2.22 and Table 26 of Order No. 18 / 2018-19 issued on August 31, 2018 for the Second Control Period and para 3.3.52 of Order No.11/2021-22 dated August 28, 2021 issued for the Third Control Period) wherein it is observed that AERA had allowed Financing Allowance calculated as per the prescribed Airport Guidelines 2011 (i.e., Direction No.5 / 2011-12). Further, it has been noted that BIAL had claimed only FA as an addition to RAB and not IDC i.e., borrowing cost. The FA had been added to the basic infra cost & charges (without including borrowing cost) and the resultant value of the asset had been considered for capitalization and further allocation / segregation.

Based on the above factors, the Authority proposes to consider the FA of ₹ 289.31 Crores (after excluding FA claimed on Land Development Cost of ₹ 72.99 crores) claimed by AO as part of RAB. However, the Authority proposes not to consider ₹ 159.16 Crores of IDC (i.e., borrowing cost) added to the cost of the asset, as Financing Allowance has been proposed to be considered

for the assets capitalised by the Airport Operator (as explained in the above-mentioned paragraphs). Therefore, IDC has been excluded while computing the capitalised value of the assets of the Airport Operator for the First Control Period. (Refer to para 4.1.10 (vi) of *Asset Allocation report*).

Further the Authority proposes to consider the recalculated capitalized value of assets for further allocation / segregation.

4.5.7 The Authority also notes that the Airport Operator has not carried out any work relating to runway extension as per the decision of the Authority (refer para 6.6 and Decision no. 1.b of the Tariff Order of the First Control Period).

4.5.8 Based on the above factors, the Authority proposes to consider the actual Aeronautical additions of KIA after excluding Freehold land development cost, reimbursement cost of ANS equipment and New Cargo terminal. Further, the Authority notes that there are minor variances between the Aeronautical CAPEX additions as per the revised MYTP submission and the revised FARs submitted by AO. The details of the same are shown below:

Table 12: Aeronautical CAPEX as per MYTP vis-a-vis FARs

Particulars	(₹ in Crores)				Total
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	
Aero Capex additions - as per MYTP (A)	2,010.40	37.40	14.69	3.06	2,065.55
Aero Capex additions - as per FARs (revised by AO) (B)	2,005.06	40.06	14.53	3.09	2,062.74
Variance (C = A – B)	5.34	(2.66)	0.15	(0.02)	2.81

As explained in para 4.2.1, the Authority proposes to consider the Aeronautical additions as per the revised FARs for further analysis on classification and deriving revised RAB as on March 31, 2023.

4.5.9 **Reclassification of assets**

The Authority has commissioned an independent study on allocation of assets between Aeronautical and Non-aeronautical activities for the period FY 2018-19 to FY 2022-23 and used the recommendations of the Study, while truing up the RAB of KIA as on March 31, 2023.

The Authority has considered the opening RAB submitted by AO, Capital additions and corresponding depreciation based on the results of the Asset Allocation report (Refer Annexure 1 for the Summary of the report and Appendix 1 for the detailed report on Study on allocation of assets between Aeronautical and Non-aeronautical assets for KIA).

The Asset Allocation Study reviewed the various asset categories and developed a basis for segregation of various assets into Aeronautical, Non-aeronautical and Common. Based on the same, the Authority has reclassified some portion of assets submitted by the AO for true up of First Control Period, which has been detailed hereunder:

4.5.9.1 Landside Drains & Culverts

Allocation as per AO: Aeronautical

Observation: The Drains & Culverts built on Land side have been classified as Aeronautical assets by AO. As these assets are not located on the airside, these assets are reclassified as Common assets and have been allocated using the Terminal Building ratio (92:8).

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces the RAB to the extent of ₹ 0.86 Crores .

Reference: Para 4.4.1.1 of the *Asset Allocation report*.

4.5.9.2 Boundary Wall

Details of the Asset: Property Boundary Wall

Allocation as per AO: Aeronautical

Observation: It was noted that out of the total length of 24,459 m of Property wall, approximately 10,500 m (40%) is on the City side. Therefore, the Study has considered only 60% of the Property Boundary wall as Aeronautical and the remaining 40% is considered as Non-aeronautical.

Allocation proposed as per Authority: 60% Aeronautical

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 4.60 Crores

Reference: Para 4.4.1.2 of the *Asset Allocation report*.

4.5.9.3 Roads

(A) Details of the Asset: Car Approach Road and other roadwork.

Allocation as per AO: Aeronautical

Observation: AO has considered the Approach roads as Aeronautical. However, Approach roads namely East Entry Road, Car Approach Road, Pump House road and Secondary Approach Road are all serving mainly the Terminal Building and therefore, the same has been considered as “Common” and allocated in the ratio of Terminal Building (92:8).

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹0.64 Crores

Reference: Para 4.4.1.3 of the *Asset Allocation report*.

(B) Details of the Asset: Service Road (West Entry Road)

Allocation as per AO: Aeronautical

Observation: Service Road (West Entry Road) are part of the road network connecting to the Cargo Terminal, General Aviation, land earmarked for future expansion, Defence area etc. As these roads do not cater to any specific Aeronautical/ Non-aeronautical activities, the same has been classified as “Common” and allocated in the ratio of Terminal Building (92:8).

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.10 Crores.

Reference: Para 4.4.1.3 of the *Asset Allocation report*.

4.5.9.4 Electrical Installation EPC

(A) Details of the Asset: Earthing & wiring assets

Allocation as per AO: Aeronautical

Observation: Power supply infrastructure at the airport, provides power to air side, roads, terminal building and forecourts. The electrical equipment includes DG sets, Lighting Pole, power distribution board, low tension switchboards, high tension cables and Fire Protection System, etc. AO has considered these assets as Aeronautical, irrespective of whether these assets service at the airside or the terminal building. Since, certain assets available at the Terminal building, forecourts, etc, are used for both Aeronautical and Non-Aeronautical activities, the same have been identified and reclassified as Common assets and reallocated using the Terminal Building ratio (92:8).

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.59 Crores.

Reference: Para 4.4.1.4 of the *Asset Allocation report*.

(B) Details of Asset: CCTV cameras and security system

Allocation proposed by AO: Aeronautical

Observation: The assets pertaining to the installation of CCTV cameras across the airport, are used for both Aeronautical and Non- Aeronautical activities and hence, considered as Common assets as per the Study and segregated in the ratio of the Terminal Building (92:8).

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.14 Crores.

Reference: Para 4.4.1.4 of the *Asset Allocation report*.

4.5.9.5 Electrical Equipment

Details of Asset: Earthing, Lighting work & Video management software assets

Allocation proposed by AO: Aeronautical

Observation: The assets pertaining to Electrical fittings & cablings, including video management software & IP Phones have been considered as Aeronautical by AO. However, these assets cater to the needs of both Aeronautical and Non-aeronautical activities and therefore, have been reclassified as Common assets and re-allocated in the ratio of the Terminal Building (92:8)

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common, reduces RAB to the extent of ₹ 1.18 Crores.

Reference: Para 4.4.1.5 of the *Asset Allocation report*.

4.5.9.6 Buildings

Details of Asset: Construction of Ancillary Buildings in Operational Area and Related work

Allocation proposed by AO: Aeronautical

Observation: The assets pertaining to static tank, underground water tank, sewerage line and garbage dump have been considered as Aeronautical assets by AO. However, these assets are used for both Aeronautical and Non-aeronautical activities and therefore, the same are reclassified as Common assets and re-allocated in the ratio of the Terminal Building (92:8)

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.73 Crores.

Reference: Para 4.4.1.6 of the *Asset Allocation report*.

4.5.9.7 Furniture & fixtures

(A) Details of asset: Other Furniture

Allocation proposed by AO: Common (Terminal Building Ratio)

Observation: These Assets are used by both Aeronautical and Non-aeronautical employees and therefore have been re-allocated in the ratio of Employee Head Count (as against allocation in the ratio of Terminal Building) of the Airport Operator for the respective FYs in the First Control Period.

Allocation proposed as per Authority: Common (Employee Head Count Ratio)

Impact on RAB: Reclassifying these assets using Employee Head Count Ratio reduces RAB to the extent of ₹ 0.01 Crores.

Reference: Para 4.4.1.7 of the *Asset Allocation report*.

(B) Details of asset: Office Furniture

Allocation proposed by AO: Aeronautical

Observation: The furniture & fixtures are used by both Aeronautical and Non-aeronautical employees and therefore have been re-allocated in the ratio of Employee Head Count of the Airport Operator for the respective FYs in the First Control Period.

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common decrease RAB to the extent of ₹ 0.04 Crores.

Reference: Para 4.4.1.7 of the *Asset Allocation report*.

4.5.9.8 Computer & Accessories

Details of asset: IT related Assets

Allocation proposed by AO: Aeronautical

Observation: The Assets namely HP Laptops, Scanners, Printers are classified as Aeronautical. As these IT assets are used for both Aeronautical and Non-aeronautical activities, the same have been reclassified as Common assets. Further, as these assets are used by the employees of the Airport Operator, the same have been reallocated in the ratio of Employee Head Count of the Airport Operator for the respective FYs in the First Control Period.

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common decrease RAB to the extent of ₹ 0.01 Crores.

Reference: Para 4.4.1.8 of the *Asset Allocation report*.

4.5.9.9 Office Equipment

Details of asset: Air Conditioning, LED & other equipment

Allocation proposed by AO: Aeronautical

Observation: The assets such as Air Conditioners, Voice Recorders, LED, etc have been classified as Aeronautical by AO. As these assets are utilized for both Aeronautical and Non-aeronautical activities, the same are reclassified as Common assets and allocated in the ratio of Employee Head Count (as these are used by employees) of the Airport Operator for the respective FYs.

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common has NIL impact on RAB.

Reference: Para 4.4.1.9 of the *Asset Allocation report*.

4.5.9.10 Plant & Equipment

A) **Details of Asset:** Fuel Handling Equipment, Water Treatment Plant, Rodent Repellent

Allocation proposed by AO: Aeronautical

Observation: HSD Fuel Handling Equipment used in city side and Water & sewage treatment Plant and Rodent Repellent have been classified as Aeronautical assets by AO. As these assets are used for servicing both Aeronautical and Non-aeronautical activities within the Terminal Building, these are reclassified as Common assets and have been allocated in the ratio of the Terminal Building (92:8).

Allocation proposed as per Authority: Common

Impact: Reclassifying these assets from Aeronautical to Common decreases RAB to the extent of ₹ 0.12 Crores.

Reference: Para 4.4.1.10 of the *Asset Allocation report*.

B) **Details of Asset:** Air Conditioning & Other Office Equipment

Allocation proposed by AO: Aeronautical

Observation: The Assets related to Air Conditioning, Water coolers, UPS & modem, etc. has been classified as Aeronautical assets by AO. As these assets are used for facilitating the needs of employees, the same are reclassified as Common and have been allocated in the ratio of the Employee Head Count for the respective FY in the First Control Period.

Allocation proposed as per Authority: Common

Impact: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of NIL.

Reference: Para 4.4.1.10 of the *Asset Allocation report*.

(C) **Details of Asset:** Biogas Plant

Allocation proposed by AO: Aeronautical

Observation: The Biogas Plant is classified as Aeronautical by AO. The same has been considered as Non-Aeronautical as it does not cater to Aeronautical activities of the Airport.

Allocation proposed as per Authority: Non-Aeronautical

Impact on RAB: Reclassifying these assets from Aeronautical to Non-Aeronautical has reduces the RAB to the extent of ₹ 0.27 Crores.

Reference: Para 4.4.1.10 of the *Asset Allocation report*.

4.5.9.11 Old Assets

Details of asset: Vehicle, Computer & Accessories, Furniture & Fixtures & Office Equipment and other assets up to March 31, 2018 (Prior to the commencement of First Control Period)

Allocation proposed by AO: Aeronautical

Observation: As explained in para 4.1.14 (*refer Study on Allocation of Assets between Aeronautical and Non-Aeronautical assets*) the aforementioned assets relating to prior period (i.e., up to March 31, 2018) have been considered as Common and allocated in the Terminal Building Ratio (92:8).

Allocation proposed as per Authority: Common

Impact on RAB: Reclassifying these assets from Aeronautical to Common has NIL impact on RAB.

Reference: Para 4.4.1.11 of the *Asset Allocation report*.

4.5.9.12 Other Assets:

A) **Details of Asset:** Microsoft office, Tally & windows

Allocation proposed by AO: Common (Terminal Building Ratio)

Observation: The assets pertaining to Microsoft office, Tally & window software are classified as Common assets by AO and have been allocated in the ratio of Terminal Building determined by the Airport Operator (94.5:5.5). However, these assets are used by the employees of the Airport Operator and therefore have been re-allocated in the ratio of Employee Head Count of the Airport Operator for the respective FY in the First Control Period.

Allocation proposed as per Authority: Common (Employee Head Count Ratio)

Impact on RAB: Reclassifying these assets from Aeronautical to Common has NIL impact on the RAB.

Reference: Para 4.4.1.12 of the *Asset Allocation report*.

4.5.10 Subsequent to the above reclassifications, the adjusted RAB has been derived by the Authority as under:

Table 13: Adjusted RAB derived by the Authority post reclassifications

(₹ Crores)

Particulars	Reference	Reference to para in Consultation Paper	Amount
RAB as on March 31, 2023 as submitted by AO	A	4.2.1	1,777.86
IDC Excluded as per Study	B	4.5.6(vii)	(159.16)
Land Development cost relating to Freehold Land excluded from RAB.	C	4.5.6(ii)	(333.28)
Financing allowance related to Freehold land excluded from Study	D	4.5.6(vi)	(72.99)
RAB before Reclassification Adjustments	E= sum(A:D)		1,212.42
Reclassification Adjustments:-			
Reclassification of other assets:			

Particulars	Reference	Reference to para in Consultation Paper	Amount
Drains & Culverts	F	4.5.9.1	(0.86)
Boundary Wall	G	4.5.9.2	(4.60)
Roads	H	4.5.9.3	(0.74)
Electrical Installations EPC	I	4.5.9.4	(0.73)
Electrical Equipment	J	4.5.9.5	(1.18)
Buildings	K	4.5.9.6	(0.73)
Furniture & Fixtures	L	4.5.9.7	(0.05)
Computers & Accessories	M	4.5.9.8	(0.01)
Office Equipment	N	4.5.9.9	(0.00)
Plant & Equipment	O	4.5.9.10	(0.39)
Old Assets	P	4.5.9.11	(0.00)
Other Assets	Q	4.5.9.12	(0.00)
Total reclassification of Other assets Sum (F: Q)	R		(9.29)
Depreciation computation errors observed in FAR (refer note below)	S		(32.47)
Sale Value Wrongly Calculated	T		(0.03) [^]
Impact of Terminal Building ratio (Net Block)	U	4.5.11	(14.55)
Adjusted RAB as on March 31, 2023 (V = E + R + S + T+U)			1,156.08

Note: Depreciation determined is higher, due to some calculation errors noted in the FAR submitted by the AO, which is as follows:

- Depreciation for FY 2019-20 had been calculated by including the number of days for FY 2018-19 as well.
- Depreciation had not been calculated on the value of balance assets (which is retained by the Airport), in cases where only a part of the assets has been sold out.
- Depreciation had not been calculated for many assets from FY 2020-21, although there had been no sale of the assets.

[^] Sale value of Assets has been calculated after taking depreciation into consideration and hence, recalculated as per Study after examining the discrepancies.

4.5.11 Revision of Terminal Building ratio:

- The Authority notes that the AO has submitted the Terminal Building ratio as 94.5%:5.5% (Aeronautical: Non-aeronautical) as part of its MYTP, which was then later revised to 95%:5% vide email dated July 21, 2023. In this regard, the Authority has drawn inference of its decision no. 1c in the Tariff Order No. 26/2018-19 dated November 9, 2018 for the First Control Period, which states that “The Authority has tentatively accepted the allocation of assets in to aeronautical and non-aeronautical assets in the ratio of 95:5. A detailed study will be conducted to determine the actual usage before true up in the Second Control Period”. Accordingly, based on the Independent Study on allocation of Assets commissioned by the Authority for true up of the First Control Period for KIA, the Authority has determined the Terminal Building ratio of 92:8 (Aeronautical: Non-aeronautical), which

is also in line with the recommendations of IMG norms and the ratio considered by AERA in the past for other similar airports.

- ii Due to the revision in the Terminal Building Ratio from 94.5%: 5.5% (as considered by AO) to 92%: 8% the RAB as March 31, 2022 has been reduced by ₹ 14.55 Crores.

4.5.12 True up of Depreciation

The Authority notes that while submitting the True up for the First Control Period, the AO has taken cognizance of the rates of depreciation as per Order No. 35/ 2017-18 dated January 12, 2018 read with Amendment No. 01 to Order No. 35 on ‘Determination of Useful Life on Airport Assets’). Accordingly, the rates of depreciation approved by AERA have been applied by the AO from FY 2018-19 onwards. The Authority considers the same to be reasonable, as per the Order No. 35/ 2017-18.

For the additions to RAB, the AO has calculated the depreciation during year of capitalization based on number of days that the asset was put to use. The Authority proposes to consider the same.

The Authority has computed depreciation for the First Control Period, after making necessary adjustments to the assets excluded from RAB and the same is presented as follows:

Table 14: Depreciation considered by the Authority for true up of First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23*	Total
Depreciation approved by the Authority in the First Control Period	29.79	59.74	59.74	59.74	59.74	268.75
Depreciation as submitted by AO as per FAR** (A)	24.46	104.50	51.62	52.22	52.10	284.90
Depreciation impact on reclassification of assets (C)	(2.80)	(33.31)	19.82	19.80	19.78	23.28
Depreciation* considered by the Authority after reclassification and other adjustments = Sum (A: C)	21.66	71.19	71.44	72.02	71.88	308.18

** Depreciation shown in above table (₹ 284.90 cr.) is different from that shown under Table 8 (388.51 Cr.), as depreciation as per Table 8 is based on MYTP submission of the AO and Table 14 is based on FAR submitted by the AO. As stated in para 4.2.1, the figures in the FAR submitted by the AO have been considered for further analysis.

*Reference: Table 10 of the Study on Allocation of assets between Aeronautical and Non-aeronautical assets for KIA, Kannur.

The Authority proposes to consider depreciation as per Table 14 for true up of First Control Period.

4.5.13 Adjusted RAB (year-wise) of KIA derived by the Authority

Based on the analysis and adjustments, as detailed in the earlier paragraphs, the Authority has derived the Opening, Closing and Average RAB of KIA for the period from FY 2018-19 to FY 2022-23. The Authority has derived year-wise adjusted RAB for the First Control Period as shown in the table below:

Table 15: Adjusted RAB of KIA considered by the Authority for True up of First Control Period
(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Opening RAB [#] (A)	0.37	1,388.69	1,354.04	1,297.02	1,227.95	
Capital Additions [#] (+)	1,409.98	36.92	14.44	2.94	0.00	1,464.28
Depreciation (-) (refer Table 14)	21.66	71.19	71.44	72.02	71.88	308.18
Sales/ Disposal [#] (-)	0.00	0.37	0.02	0.00	0.00	
Closing RAB (B)	1,388.69	1,354.04	1,297.02	1,227.95	1,156.08*	
Average Regulatory Asset Base (RAB) (C) = (A+B)/2	694.53	1,371.37	1,325.53	1,262.49	1,192.01	

[#] Opening RAB, Capital Additions and disposals have been obtained from the Fixed Assets Register submitted by the AO.

* Refer Table 12 of Asset Allocation Study Report of KIA

The Authority has therefore considered the Average RAB for true up of the First period as per Table 15.

4.6 True up of Return on Land

4.6.1 The Authority notes that the AO had acquired 1,192.18 acres of land at a value of ₹ 316 Crores for development of phase-I of the airport from the Government of Kerala through Kerala Industrial Infrastructure Development Corporation (KINFRA), the nodal agency for land acquisition appointed by the Government and till date, carried out development of the airport on approx. 631 acres of such land.

4.6.2 Further, the AO has claimed return on the proportionate cost of land pertaining to Airport Operations i.e., ₹ 167.31 Crores (₹ 316 Crores * 631 acres / 1192 acres) as shown below:

Table 16: Return on Land submitted by AO for True up of First Control Period
(₹ Crores)

Particulars	FY 2018-19	FY -20	FY 2020-21	FY 2021-22	FY 2022-23*
Land Cost (₹ in Crores)	167.31	167.31	167.31	167.31	167.31
Aero Ratio (%)	94.5%	94.5%	94.5%	94.5%	94.5%
Aero Land ₹ in Crores)	158.11	158.11	158.11	158.11	158.11
Yearly cost of debt (%)	9.30%	9.30%	9.31%	9.36%	9.39%
Return on land cost (₹ in Crores)	4.85 [#]	15.80	15.82	15.89	15.93
Total Return on Land for the Control Period					68.29

* Projections figures for FY 2022-23

[#] Proportionate Return calculated for FY 2018-19 based on the date of commencement of airport operations i.e., December 9, 2018

4.6.3 With respect to AO's claim towards Return on Land for the First Control Period, the Authority has examined the relevant clauses prescribed in its Order No.42/2018-19, which is as follows:

- As per para 4.1.1 of the aforementioned order, the Authority decides that in case the land is provided to the airport free of cost, no return shall be given on the land.
- As per para 4.1.2, the Authority states that return on land shall be provided on the cost if (provided it is not free of cost) it is used for aeronautical purposes only.

- As per clause 4.1.8. of the aforementioned order, return on land may be allowed on a prospective basis only.

Based on the facts as stated above, the Return on Land should be provided prospectively and not retrospectively (as per clause 4.1.8 of the Order No. 42/ 2018-19), the Authority is of the opinion that the Return on Land should not be included as part of the true up of the First Control Period. Therefore, the Authority proposes not to consider Return on Land claimed by the AO as part of True up of the First Control Period.

4.7 True up of Fair Rate of Return (FRoR)

- 4.7.1 The Authority notes that the AO has submitted Cost of Debt as 9.3%, Cost of Equity as 16% and had claimed FRoR as 13.10% for true up of the First Control Period. .

The Authority while examining the FRoR submitted by the AO for true up of the First Control Period and has referred to its Decision No. 2b in the Tariff Order No. 26/2018-19 dated November 9, 2018 for the First Control Period, which states that the “FRoR will be trued up based on Actual debt-equity ratio, actual cost of debt and cost of equity which will be decided upon after completion of the proposed study on cost of equity at Major airports”. Accordingly, the Authority has taken into consideration the average Cost of Equity derived by the Independent Study report as 15.18% (refer para 7.2.2 and 7.2.4 of this Consultation Paper). Further, the independent study reports have used the Capital Asset Pricing Model (CAPM) and a notional gearing (Debt: Equity) ratio of 48:52 to determine the levered Equity beta and accordingly derived the abovementioned Cost of equity as 15.18% and Cost of Debt as 9% (refer para 7.2.7) Based on these factors, the Authority has derived the FRoR as 12.21% (refer para 7.2.8) and proposes to consider the same for true up of the First Control Period.

4.8 True up of Non-aeronautical revenue

- 4.8.1 The AO has submitted the actual Non-aeronautical revenue (NAR) for the First Control Period as follows:

Table 17: Non-aeronautical revenue submitted by AO for the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Monthly License Fee	0.35	1.12	1.18	1.85	3.96	8.46
Space Rental Charges	0.46	2.68	1.71	2.97	8.12	15.94
Lease rental Ind As 116	-	0.44	1.07	-	-	1.51
Pre-Booked Taxi Collection – Agency	-	-	0.60	0.30	-	0.90
Income from Pre-Booked Taxi - Own Operations	-	-	-	0.24	0.96	1.20
Sale of Visitors Entry Pass	0.50	0.62	0.03	0.06	0.26	1.47
Monthly Guarantee Fee	2.13	8.44	0.95	0.04	-	11.56
Revenue Share from Concessionaire (refer Table 18)	0.81	2.81	0.83	11.54	6.06	22.07
CAM Charges	0.20	2.27	0.51	0.39	0.46	3.83
Lounge Fee Collection- Own Lounge		0.02	0.00	0.00	0.00	0.02
Car Parking Revenue Share	0.41	1.48	0.23	0.50		2.62
Car Parking Toll Collection	-	-	-	0.47	1.78	2.25
ADP, AEP & AVP Charges	-	0.03	0.02	0.04	0.04	0.13

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Miscellaneous Income (Others @ 18%)	-	0.24	0.22	0.10	0.17	0.73
Fuel Throughput Royalty	0.65	3.76	-	-		4.41
Other Income including Interest Income	4.07	1.86	5.51	5.63	1.73	18.80
Total	9.58	25.76	12.85	24.15	23.54	95.88

Note: The CAM charges does not include utilities pertaining to Power and water charges from the concessionaire.

Table 18: Details of Revenue from Concessionaires for First Control Period

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Break up details of the Revenue Share from Concessionaire						
Retail	-	-	0.0	0.1	0.0	-
In Flight Catering	0.1	0.4	0.2	0.2	0.4	0.1
Food and Beverages	0.8	2.4	0.1	0.8	1.3	0.8
Miscellaneous	-	-	-	9.0	-	-
Pre-Paid Taxi	-	-	-	0.0	-	-
Forex	-	-	0.2	0.5	1.1	-
Duty Free	-	-	0.1	0.8	2.8	-
Hotel	-	-	-	-	0.1	-
Lounge	-	-	-	0.2	0.3	-
Other	-	-	0.2	(0.1)	-	-
Total	0.81	2.81	0.83	11.54	6.06	22.07

4.8.2 The Authority compared the actual Non-aeronautical revenue submitted by AO as per Table 17 with the projections given in the Tariff Order for the First Control Period and the same is as follows:

Table 19: NAR approved by the Authority in the Tariff Order for the First Control Period

(In Crores)

S. No.	Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
1	F&B services	1.04	2.53	3.07	3.69	4.43	14.76
2	Flight Catering Services	0.64	1.46	1.65	1.86	2.10	7.71
3	Land Lease Revenue	0.00	0.00	0.00	0.00	0.00	0.00
4	Space Lease Rental	0.59	1.30	1.44	1.58	1.74	6.65
5	Car Park Revenue	1.20	2.93	3.55	4.27	5.12	17.07
6	Public Admission Charges	0.38	0.93	1.13	1.36	1.63	5.43
7	Duty Free Shop	4.17	10.14	12.27	14.76	17.72	59.06
8	Advertising	0.12	0.28	0.30	0.33	0.37	1.40
	Sub-Total	8.16	19.57	23.41	27.85	33.11	112.10

4.8.3 The Authority notes that the significant variance between the actual NAR achieved by KIA during the First Control Period and that approved by the Authority in the Tariff Order for First Control Period, is due to the adverse impact of the COVID-19 pandemic on the aviation sector. Due to the constant decrease in the passenger traffic, many concessionaires had suspended their operations,

which had overall impacted the Non Aeronautical Revenue for the First Control Period.

Based on the above analysis, the Authority proposes to consider the actual Non-aeronautical revenue as presented in Table 17 for the purpose of true up of the First Control Period, in line with its Decision No. 4c in the Tariff Order No. 26/ 2018-19 dated November 09, 2018 which states “*The Authority has decided to true up the Non-Aeronautical Revenue based on the actual Non-Aeronautical revenue earned during the First Control Period.*”

4.9 True up of Aeronautical Operation and Maintenance (O&M) expenses

4.9.1 The component wise break up of Aeronautical Operation and Maintenance expenses submitted by AO for the First Control Period is as follows:

Table 20: O&M expenses submitted by AO for True up of the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Employee expenses	7.33	11.05	10.99	11.45	11.11	51.92
Total Airport Operating Expenses	23.44	46.60	43.97	44.60	54.28	212.90
Total Other Expenses	7.64	4.12	3.63	3.99	4.92	24.30
ORAT	1.52	-	-	-	-	1.52
Airport Inauguration expenses	11.72	-	-	-	-	11.72
Total	51.64	61.78	58.59	60.04	70.31	302.36

4.9.2 The Authority notes that in the Tariff Order of the First Control Period vide Order No. 26 / 2018-19 issued on November 09, 2018, it had approved the O&M expenses of ₹ 225.49 Crores for KIA, which is as follows:

Table 21: Aeronautical O&M expenses approved by the Authority in the Tariff Order for the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Land Lease Rental	0.01	0.01	0.01	0.01	0.01	0.05
Employee Costs	4.34	10.56	11.29	12.09	12.93	51.21
Power & Water	1.61	3.91	4.11	4.31	4.53	18.47
Repair & Maintenance	-	18.86	19.24	19.62	20.02	77.74
Administration	2.41	5.86	6.27	6.71	7.18	28.43
Marketing Costs	0.88	2.02	2.30	2.60	2.95	10.75
Security	2.41	5.86	6.27	6.71	7.18	28.43
Stores & Spares	-	2.52	2.57	2.62	2.68	10.39
Total	11.66	49.60	52.06	54.67	57.48	225.49

4.9.3 The Authority has commissioned an Independent Study through the Consultant appointed by AERA to determine efficient Aeronautical Operation and Maintenance Expenses for the period FY 2018-19 to FY 2022-23 and used the recommendations of the Study, while truing up the O&M expenses

for the First Control Period for KIA.

4.9.4 On comparing the actual expenses incurred by AO (line item wise) with the expenses approved in the Tariff Order for the First Control Period, the Authority notes the following:

- i. **Land lease rental:** The Authority notes that the AO has not claimed land lease rental in the true up of First Control Period whereas the Authority had approved ₹ 0.05 Crores in the tariff order for the First Control Period. AO explained that AERA had approved land lease rental expense in the Tariff Order of the First Control Period based on the assumption that AO would be leasing 1,176.48 acres of land from M/s. KINFRA at the rate of ₹ 100 per acre per annum (refer table 15 of the Tariff Order of the First Control Period). However, AO had subsequently acquired 1,192.18 acres of land from KINFRA for ₹ 316 Crores towards development of Phase I of the Airport. Further it is observed that, AO has taken on lease approx. 71 acres of land from the Kerala State Government (i.e., apart from acquiring 1,192.18 acres of land) and carried out development on such land (near the runway) but has not yet finalized and signed the lease agreement. Hence, the AO has not considered any land lease rental expense in the true up submission of the First Control Period.
- ii. **Employee benefit expenses:** The Authority notes that the actual Employee benefit expense incurred by AO (₹ 51.92 crores) is more or less in line with the amount approved in the Tariff Order (₹ 51.21 crores), for FY 2018-19 to FY 2022-23 of the First Control Period. In respect of higher employee costs incurred by KIA in the first 2 tariff years as compared to approved cost as per the tariff order, it has been observed that the AO had provided salary hike to the employees, in the first tariff year, i.e., FY 2018-19 effective from the date of commissioning of the airport and also, the employee numbers were increased in the next year, i.e., FY 2019-20 in anticipation of traffic growth. Hence, higher employee cost was incurred in the first 2 tariff years. However, the Authority notes that the employee headcount of KIA for certain departments seems to be on the higher side for the last 2 tariff years, as compared to other similar airports and therefore proposes to rationalize the same (refer para 4.9.5 (i)).
- iii. **Power & Water:** The Authority notes that the actual Power & Water expenses of ₹ 46.71 Crores are much higher than ₹ 18.47 Crores approved by the Authority in the Tariff Order for the First Control Period. It is noted that the major reason for such deviation is a significant spike in actual power cost incurred during FY 2019-20, i.e., the Pre-COVID year during which KIA achieved its highest traffic growth during the First Control Period. Subsequently, the power cost decreased in the next two tariff years on account of the impact of the pandemic and has again increased in the last tariff year, since the same has been projected based on expected traffic growth.

The Authority notes that the aforementioned utility charges (Power, fuel etc.) had been incurred by the AO, as the infrastructure had been built to handle passenger capacity of 9.34 MPPA. The Authority further notes, that due to the lower traffic during the First Control Period, KIA could have utilized only a limited portion of the Terminal Building and therefore, the higher power expenses are not justified. Based on the above factors, the Authority proposes to rationalized the power expenses and the same has been explained in para 4.9.5 (ii).

- iv. **Repairs and Maintenance (R&M):** The Authority notes that the total Repairs & Maintenance expenses of ₹ 76.31 Crores (including housekeeping expenses of ₹ 39.53 Crores) claimed by AO for the First Control Period, are within the limits of ₹ 77.74 Crores as approved by the Authority in the tariff order for the First Control Period.

The Authority notes that the total Repairs & Maintenance expenses are within the limit of 6% of Opening RAB. The Authority has reviewed the repair and maintenance expenses of KIA with other comparable airports as part of the Independent Study on Efficient Operation and Maintenance Expenses of KIA (refer Table 11 of O&M Study report of KIA). Based on the recommendations of the

Independent study, the Authority proposes to rationalize Repairs and Maintenance expenses and the same have been explained in para 4.9.5 (iii).

- v. **Administration expenses:** The Administration expenses of ₹ 24.76 Crores submitted by AO for true up of the First Control period are within the limits of ₹ 28.43 Crores as approved by the Authority in the tariff order for the First Control Period. Administration expenses for the First Control Period include various expenses such as consultancy charges, travelling, printing & stationery, legal & professional charges, postage & courier, employee training, CSR expenses, rent, miscellaneous administrative expenses, etc.

The Authority notes that the AO has incurred ₹ 1.23 Crores towards CSR expenses during the First Control Period (i.e., ₹ 0.37 Crores in FY 2018-19, ₹ 0.78 Crores in FY 2019-20 and ₹ 0.08 Crores in FY 2020-21). In this regard, the statutory provisions of the Companies Act, 2013 towards allowance of CSR expenses was reviewed and the extract of the same has been provided as under:

Section 135 (1) of Companies Act, 2013 states that 'Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one shall be an independent director.' Further section 135(5) states that 'The Board of every company referred in section 135(1), shall ensure that the company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility'.

The Authority notes that AO has incurred losses in all the five tariff years during First Control Period. Therefore, it is proposed to not consider the above expenses incurred by AO towards CSR. Hence, the Authority proposes to consider the Administration expenses of ₹ 23.53 Crores (₹24.76 Crores less ₹ 1.23 Crores) for the true up the First Control Period.

- vi. **Marketing Cost:** It is noted that AO has not claimed any amount towards marketing cost as part of true up in comparison to ₹ 10.75 Crores approved in the tariff order for the First Control Period. Hence, the Authority proposes to not consider any amount towards marketing cost for the First Control Period.
- vii. **Security Expenses:** It is noted that Security expenses claimed by the AO amounting to ₹ 2.09 Crores is much lower than the ₹ 28.43 Crores approved by the Authority in the tariff order for the First Control Period.

The Authority notes that the Security expenses claimed by the AO are lower than the approved amount due to the fact that the security services had not been outsourced to third parties as originally envisaged, due to lower passenger traffic during the First Control Period. However, it is observed that AO had engaged a third-party service provider (i.e., outsourced security services) for providing security services, in addition to CISF personnel, both in front of and inside the Terminal Building. Considering all the above factors, the Authority proposes to consider actual Security expenses of ₹ 2.09 Crores for true up of the First Control Period.

- viii. **Stores and Spares:** The Authority notes that the AO has not claimed any amount separately for Stores and Spares as against the amount of ₹ 10.39 Crores approved by the Authority in the tariff order for the First Control Period. However, the AO has claimed the expenses towards Stores and Spares under the Repair and Maintenance Expenses. Hence, the Authority proposes to consider Stores and Spares under the Repair and Maintenance expenses and not as separate line item for true up of the First Control Period.

- ix. **Other Airport Operating expenses:** The Authority notes that AO has claimed ₹ 76.92 Crores towards

Other Airport Operating expenses which were not approved by the Authority as per tariff order for the First Control Period. Other Airport Operating expenses claimed by AO include multiple expenses viz., Custom Cost Recovery Charges, Aviation Meteorological support services charges CNS-ATM services charges, Trolley retrieval services charges and Insurance expenses. As part of the O&M study, following analysis has been done for Other Airport Operating expenses:

- a) Customs cost recovery charges (amounting to ₹ 43.50 Crores) refer to the reimbursement of salary cost of customs officials posted at Kannur International Airport vide Circular No. 16/2013 – Customs dated April 10, 2013 issued by Central Board of Excise & Customs, Department of Revenue, Ministry of Finance. The Office of Commissioner of Customs issues a letter / raises a note along with the details of salary cost of customs staff posted at the Airport.

According to the norms for identifying the class of an airport, the minimum number of International Flights per annum and minimum number of passengers per annum should be 3,500 & 3 Lakh respectively for Class C Airport in the each of the preceding two financial years. After analysing the trend of the PAX and ATM of Kannur Airport, it is noted that the same qualifies as a Class C airport, for which the total staff as per the norms should be 28 (such as 8 Superintendent, 16 Inspector & 4 Sepoy), as against 36 staff claimed by the AO. Accordingly, the Custom cost recovery expenses have been rationalised by the Authority based on staffing norms applicable for Class C airport, as per the above-mentioned Circular (refer para 4.9.5 (iv)).

- b) Aviation Meteorological Support Service charges (amounting to ₹ 4.86 Crores) refer to the reimbursement of salary cost and support service charges payable on monthly basis to Indian Meteorological Department (IMD) by the AO for the aviation meteorological services provided to the airport and is based on a Memorandum of Understanding (MOU) entered into between KIAL and IMD.
- c) Communication, Navigation and Surveillance and Air Traffic Management Service charges (amounting to ₹ 22.21 Crores) refer to charges payable by AO to AAI on ‘quarterly cost recovery’ basis for CNS-ATM services rendered by AAI at Kannur International Airport and the same is based on the terms and conditions of the agreement entered into between AAI and KIAL (as per Clause 5.1.1 and 7.4 of the Agreement between KIAL and AAI).
- d) In respect of trolley retrieval services amounting to ₹ 1.98 Crores, AO as confirmed that the same have been outsourced to a third-party vendor and the expenses were incurred based on agreed terms and conditions of the agreement entered with the vendor. Further, insurance refers to insurance expenses incurred on various assets and equipment of the Airport.
- e) The AO vide email dated January 27, 2023 has provided the following explanation regarding the essentiality of aforementioned services and related charges:

“KIA is a greenfield airport, and these charges are governed as per the terms in the contract for greenfield airports signed between KIAL and the respective central government agencies. Such contracts were not executed during the submission of MYTP for the First Control Period and the historical figures for the same were not available and hence were unable to estimate the expenditure for the same during the time of submission. The services are provided on a cost recovery basis as per the terms and conditions. Further, such costs are only existent for a greenfield airport and hence KIA was not able to benchmark the same since a comparable greenfield airport with similar passenger and aircraft traffic profile was not available. These charges are inevitable for any airport since such services are critical for carrying out operations at any airport. Hence, we request you to consider the same on actuals.”

In respect of Customs cost recovery charges and Aviation Meteorological Support Service charges, KIAL has availed the services of the concerned Government Authority / Department for the functioning of smooth conduct of airport operations and incurred the expenses based on agreed terms. Hence, the Authority proposes to allow actual expenses of ₹ 48.37 Crores for true up of the First Control Period.

However, it is pertinent to note that CNS-ATM services are currently being provided by AAI at Kannur International Airport and the 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 assets, expenses and revenues from ANS. Based on the same, the Authority proposes not to consider the CNS-ATM charges of ₹ 22.21 Crores claimed by the AO for true up of the First Control Period.

However, the Authority proposes to consider trolley retrieval service charges and insurance (on assets) for the true up of the First Control Period.

Based on all the above, the Authority proposes to consider Other Airport Operating expenses of ₹ 54.71 Crores for the true up of the First Control Period.

- x. **CISF Induction Fee:** The AO has claimed an unapproved amount of ₹ 9.80 Crores towards CISF Induction fee during FY 2018-19. Upon further clarification, AO has submitted the following explanation:

“KIAL had not included the expenses related to CISF in line with Authority’s direction in the first control period. However, KIAL based on demand letter dated May 7, 2018 placed a security deposit of Rs.982.03 Lakh with the Ministry of Home Affairs (MoH), towards deployment of CISF staff induction. Subsequently, KIAL requested vide letter dated October 29, 2019 for a refund of such deposit from MoH. The MoH had responded vide letter dated December 2, 2019, that upon clearance from Ministry of Civil Aviation (MoCA) for refunding the deposit the same shall be processed. As per the discussions held with the MoCA on June 4, 2021, KIAL was informed that the matter was taken up with the MoH and they stated that the fund was deposited in the consolidated fund of India and the fund is non-refundable.

KIAL is of the view that the Security Deposit was paid from its own resources and this deposit was to be recouped from PSF collections after commencement of operations. Due to low passenger volumes since Government of India is not allowing foreign carriers, PSF collections were inadequate to recoup the Security Deposit and meet the Cost of Deployment of CISF personnel and their related expenses. Hence KIAL is of the view that since security function is also a sovereign function and considering the fact that PSF cannot be used for AO’s own expenditure, CISF cost is to be borne by the Government of India”.

The Authority notes that KIAL is claiming the disputed amount deposited earlier with the Government and subsequently not refunded, as an ‘expense’ only for Aeronautical purposes (i.e., regulatory filing) since the same is not recoverable from PSF collections. However, it is observed that in the audited financials of KIA for the period up to FY 2021-22, the amount is classified as ‘Security deposit’ and hence, the same cannot be considered differently i.e., as an ‘expense’ only for the purpose of regulatory filing. The Authority notes that there is a bright possibility of the AO recovering the deposit amount from PSF collections in the next Control Period, with expected increase in the passenger volumes. Furthermore, it is pertinent to note that, paras 8.4 and 3.a. of the tariff order of First Control Period mentions the following about CISF costs:

8.4 *“The Authority has noted that KIAL has included CISF cost as part of security expenses while computing operation and maintenance expenditure proposed to be incurred during the first control period. Since CISF costs form part-of PSF (security), the Authority has proposed to exclude such amounts from security expenses while computing O&M expenditure proposed to be incurred during the first control period.”*

3.a *“The Authority has decided to exclude expenses relating to the staff of CISF.”*

Based on the above factors, the Authority proposes not to consider the CISF Induction fee of ₹ 9.80 Crores for the true up of the First Control Period.

- xi. **Cargo Related Expenses:** The AO has claimed unapproved Cargo related expenses of ₹ 0.62 Crores for the First Control Period, i.e., actual expenses of ₹ 0.21 Crores towards Cargo handling and other related costs for the FY 2021-22 and Unaudited figures of ₹ 0.41 Crores for the last tariff year, i.e., FY 2022-23.

In this respect, it is observed that the AO has selected the Cargo O&M vendor i.e., Cargo Service Centre India Private Limited, based on competitive bidding process and after carrying out necessary technical / financial evaluation of all the bid proposals, the AO had subsequently entered into a Contract with the vendor (i.e., O&M agreement) on February 2, 2021 for cargo handling operations.

It is pertinent to note here that, AO started Cargo operations in October 2021 out of an interim cargo facility and the operations are presently continuing from the same facility. The Authority notes that the international imports were commenced only in May 2022 and the international cargo represents approx. 99% of the total cargo volume handled by KIA. Based on the same, the Authority proposes to consider the actual Cargo related expenses of ₹ 0.62 Crores claimed by AO for the true up of the First Control Period.

- xii. **ORAT:** The AO has claimed unapproved amount of ₹ 1.52 Crores towards Operational Readiness and Airport Transfer (ORAT) in FY 2018-19 and provided detailed break-up and reports relating to completion of ORAT process. Upon further clarification, KIAL vide email dated January 27, 2023 provided the following explanation:

“These costs are related to the Operational readiness and Airport Transfer (ORAT) which involves series of testing activities carried out before an airport starts its operations. KIA being a greenfield airport, ORAT was required prior to start of operations. However, the expenditure related to the same was not available during the time of submission and hence was not included as part of projections. Therefore, we request you to consider the same on actuals.”

Upon examination of the above explanation provided by AO and AERA’s Tariff Order issued for BIAL (refer para 5.5.24 and 7.5.32 of Order No. 11 / 2021-22 for the Third Control Period of BIAL, Bengaluru) the Authority notes that ORAT was considered as part of CAPEX along with pre-operative expenses and included in the RAB. It is pertinent to note here that the ORAT process was conducted by BIAL’s internal team, and the expenses included costs relating to BIAL’s core team, delivery specialists, transportation cost, training charges, provision of various facilities, consumables, etc. (refer para 7.2.65 and Table 133 of Order No. 11 / 2021-22).

However, in respect of KIA, it has been identified that the ORAT process was handled by a third-party service provider, i.e., GMR Airport Developers Ltd and the entire amount of ₹ 1.52 Crores pertains to the professional fees / charges paid to the third-party service provider. Based on the same, the Authority proposes to consider ORAT under O&M expenses of FY 2018-19 and not as part of RAB for the true up of the First Control Period.

- xiii. **Airport Inauguration Expenses:** It has been noted that the AO has claimed ₹ 11.72 Crores towards

Airport inauguration expenses as part of true up which was not specifically approved by AERA in the tariff order of the First Control Period. The AO has also submitted a detailed break-up of the same and vide email dated January 27, 2023, the following explanation in support of its claim:

“KIA is a greenfield airport which is sandwiched between two international airports (Mangalore and Calicut) within a ~100-150 km radius. Calicut and Mangalore have been in operation for past few decades and have a strong presence in their respective catchments (which include the catchment area for Kannur airport also). Therefore, being a greenfield airport, AO had to carry out various initiatives as part of airport inauguration to attract the passengers to the airport. The initiatives supported in achieving the PAX movement of 1.6 million in first operational year for a greenfield airport such as KIA in a competitive environment. Hence, we request you to consider the expenses on actuals.”

It is noted that approx. 92% of the expenses pertain to marketing cost i.e., advertisement & promotion / branding expenses both prior to and after the commencement of the operations during the first tariff year, i.e., FY 2018-19. In this regard, the Authority has drawn inferences from the Tariff Order No. 64/2020-21 (para 6.2.41) issued for MIAL on February 27, 2021 pertaining to treatment of advertising expenses and notes the following:

- Airport is an essential utility service and its use does not necessarily depend on advertisements given or lack of it;
- Most of these advertisements carry the promoter's logo in addition to the logo of the airport and perhaps is a way to promote promoter's interest while publicizing the airport;
- Advertising cost is a corporate overhead, as advertisements given promote non-aeronautical services as well as aeronautical services rendered by the Airport Operator.

The AO has allocated the advertisement & branding cost as fully Aeronautical. The Authority notes that the inauguration expenses have been incurred for the first time by the Airport Operator. However, on comparing the same with other similar airports, the same seems to be on the higher side. Therefore, the Authority proposes to consider ₹ 5.86 Crores (which is about 50% of the expense claimed by AO), for true up of the First Control Period (refer para 4.9.5 (v)).

4.9.5 Rationalisation of Aeronautical O&M expenses

Based on the recommendations of the Independent Study on Efficient O&M expenses and its assessment of the reasonableness of O&M expenses, the Authority notes that certain expenses claimed by the AO during the First Control Period (FY 2018-19 to FY 2022-23) such as Employee expenses, Power, fuel & water expenses, Repairs & Maintenance expenses and Airport Inauguration expenses are not in line with normal operating efficiency levels. Accordingly, the Authority proposes to rationalise the same and the details are as follows:

i. Employee Expenses

Based on the analysis, the Authority notes that the Employee Head Count and corresponding cost should be rationalised. The department-wise breakup of employees submitted by the AO, has been examined by the Authority for the First Control Period along with the basis of computing the Employee Head Count ratio. The details are shown below:

Table 22: Employee details submitted by AO

Department	Classification	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
MD's Office	Common	4	5	4	4	4
Liaison Office	Non-Aeronautical	0	1	1	1	1

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Department	Classification	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Human Resources	Common	3	3	2	3	2
Finance	Common	5	5	6	6	6
Admin & Land	Common	4	3	2	2	2
Secretarial	Aeronautical	3	3	3	3	1
Engineering-Civil & Electrical	Aeronautical	18	17	17	15	14
IT & Electronics	Aeronautical	5	4	4	4	4
Commercial	Non-Aeronautical	2	3	5	5	6
Operations	Aeronautical	29	28	28	27	24
Airport Security	Common	31	31	29	35	33
ARFF	Aeronautical	67	62	62	60	55
Corporate Affairs	Common	1	1	0	0	0
Total		172	166	163	165	152
Direct Aeronautical Employees		122	114	114	109	98
Common employees		48	48	43	50	47
Direct Non- Aeronautical Employees.		2	4	6	6	7
Common employee's apportionment						
Aeronautical		47.23	46.37	40.85	47.39	43.87
Non- Aeronautical		0.77	1.63	2.15	2.61	3.13
Total		48	48	43	50	47
Head Count after apportionment of Common employees						
Total Number of Aero Employees		169	160	155	156	142
Total Number of Non-Aero Employees		3	6	8	9	10
Employee Head Count ratio (Aeronautical: Non-aeronautical)		98.39%	96.61%	95.00%	94.78%	93.33%

The Authority notes that Security department head count submitted by the AO for the First Control Period are on the higher side as compared to the level of operations, lower traffic growth and the employee headcount of other similar airports.

Upon further analysis of the Headcount of Security personnel for each Financial Year, it was noted that the same includes Baggage Screener Executives and Trainees, who are generally engaged for monitoring passenger flow through screening checkpoints to ensure order and efficiency at the airport. The Headcount of Baggage Screener Executives included as part of Security for the First Control Period, were 25 for FY 2018-19, 23 for FY 2019-20 and FY 2020-21 and 8 for FY 2021-22 and FY 2022-23. As these Screeners cater to the essential requirements of the passengers, the expenses incurred towards them have been considered as Aeronautical.

It is noted that the majority of the Headcount included under Security Personnel for the FY 2018-19, FY 2019-20 and FY 2020-21 pertains to Screener Executives. Therefore, the Authority proposes to consider the actual Headcount of Security Personnel, submitted by the AO for the aforementioned tariff years. However, in the last 2 tariff years, the Headcount of Screeners is much lesser. Further, it is

noted that Headcount of Security personnel for the last 2 tariff years are on the higher side when compared with the level of operations, lower traffic growth and the employee numbers of other similar airports. Based on the above factors, it is proposed to consider 50% of the Security headcount (other than Screeners) for the last 2 tariff years i.e., FY 2021-22 and FY 2022-23

Further, the Authority notes that the employees of Secretarial department and IT & Electronics department have been classified as 'Aeronautical'. The Authority, based on the recommendations of the O&M Study report, proposes to reclassify the same as 'Common' in line with the approach adopted by the Authority for other similar airports. Based on the above factors, the Aeronautical Employee Head Count and the corresponding ratios for all the FYs have been recomputed and the same are as follows:

Table 23: Employee Head Count and ratio proposed by the Authority

Department	Classification	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
MD's Office	Common	4	5	4	4	4
Liaison Office	Non- Aeronautical	0	1	1	1	1
Human Resources	Common	3	3	2	3	2
Finance	Common	5	5	6	6	6
Admin & Land	Common	4	3	2	2	2
Secretarial	Common	3	3	3	3	1
Engineering-Civil & Electrical	Aeronautical	18	17	17	15	14
IT & Electronics	Common	5	4	4	4	4
Commercial	Non- Aeronautical	2	3	5	5	6
Operations	Aeronautical	29	28	28	27	24
Airport Security	Common	31	31	29	20	19
ARFF	Aeronautical	67	62	62	60	55
Corporate Affairs	Common	1	1	0	0	0
Total		172	166	163	150	138
Direct Aeronautical Employees						
		114	107	107	102	93
Common employees						
		56	55	50	42	38
Direct Non- Aeronautical Employees						
		2	4	6	6	7
Common employee's apportionment						
Aeronautical		55	53	47	39	35
Non- Aeronautical		1	2	3	3	3
Total		56	55	50	42	38
Head Count after apportionment of Common employees						
Total Number of Aero Employees		169	160	154	141	128
Total Number of Non-Aero Employees		3	6	9	9	10
Employee Head Count ratio (Aeronautical: Non-aeronautical)		98.28%	96.40%	94.69%	94.44%	93.00%

Based on the above rationalisation in employee headcount and reclassification of two departments, the corresponding reduction in employee cost is shown as follows:

Table 24: Employee Cost as per AO vs Revised cost derived by the Authority

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
As per AO						
Total Employee Head Count as per AO (in Nos.)	172	166	163	165	152	
Total Employee cost as per AO	7.45	11.44	11.57	12.08	11.90	54.44
Aero ratio applied by AO	98.39%	96.61%	95.00%	94.78%	93.33%	
Aeronautical Employee Cost claimed by AO (A)	7.33	11.05	10.99	11.45	11.11	51.93
As derived by the Authority						
Total Employee Head Count revised as per Study (in Nos)	172	166	163	150	138	
Aero ratio applied as per Table 23	98.28%	96.40%	94.69%	94.44%	93.00%	
Aeronautical Employee Cost considered by the Authority (B)	7.32	11.03	10.95	10.35	10.05	49.70
Amount proposed not to be considered by the Authority (C = A-B)	0.01	0.02	0.04	1.10	1.06	2.23

Based on all above factors, the Authority proposes to consider the Employee cost of ₹ 49.70 Crores as per Table 24 for true up of the First Control Period.

ii. Rationalisation of Power, fuel & water expenses

The Authority notes that as against ₹ 18.47 crores approved by the Authority towards Utility expenses (refer Table 21) in the Tariff Order of the First Control Period, the AO has submitted actual power expenses of ₹ 46.72 Crores for the First Control Period. The higher expense is attributable to the designated capacity of the Airport which is 9.34 MPPA and the same does not complement with the actual passenger throughput (which was only 1.35 MPPA during FY 2022-23). Further, the Authority notes that the total passenger traffic of KIA is projected to reach only up to 2.89 MPPA by the end of the Second Control Period.

Based on the above factors, the Authority proposes to rationalise the Utility expenses (Power, Water etc.), based on the recommendations of the Independent Study report on Efficient O&M expenses of KIA, by considering the expenses of MIA as the base (since its more comparable to KIA) and has derived the proportionate cost of KIA (refer 5.5.3 of O&M Study Report of KIA) on the basis of PAX traffic which works out to ₹ 25.34 Crores (i.e., ₹ 58.41 (Utility expense of MIA/ PAX) x 4.34 MPPA (PAX of Kannur Airport)). The Authority proposes to allow ₹ 25.34 Crores as against ₹ 46.72 Crores claimed by AO and reduce the differential amount of ₹ 21.38 Crores (i.e., ₹ 46.72 Crores minus ₹ 25.34 Crores) over four tariff years starting from FY 2019-20 since the airport commenced its operations and was functional only for approx. four months in the first tariff year, i.e., FY 2018-19. The details of the same are shown below:

Table 25: Rationalisation of Power, fuel & water expenses proposed by the Authority

(₹ in Crores)

Particulars	FY	FY	FY	FY	FY	TOTAL
	2018-19	2019-20	2020-21	2021-22	2022-23	
Power, fuel & water expenses claimed by AO (A)	3.58	12.92	9.07	9.82	11.33	46.72
Power, fuel & water expenses derived by the Authority (B)	3.58	7.37	3.85	4.45	6.09	25.34
Amount proposed not to be considered by the Authority (C = A - B)	-	5.55	5.22	5.37	5.24	21.38

The Authority is of the view that the AO should implement energy saving measures, by optimizing power consumption in areas within the Terminal Building, where there is no passenger movement. Also, the Authority takes cognizance of the Green Energy initiatives proposed by the AO for the current Control Period, which may help in achieving efficiency in power consumption over a period of time.

iii. Rationalisation of Repairs & Maintenance expenses

The Authority, based on the recommendations of the Independent Study report on Efficient O&M expenses of KIA, proposes to rationalise the Repairs & Maintenance expenses (other than housekeeping charges) by considering the expenses of MIA as the base (since its more comparable to KIA) and has derived the proportionate cost of KIA based on the PAX traffic, which works out to ₹ 27.61 Crores (i.e., ₹ 63.62 (expense of MIA / PAX Traffic) x 4.34 MPPA (PAX of KIA) . Based on the above factors, the Authority proposed to allow ₹ 27.61 Crores *as against* ₹ 36.78 Crores claimed by AO and reduce the differential amount of ₹ 9.17 Crores (i.e., ₹ 36.78 Crores minus ₹ 27.61 Crores) over four tariff years starting from FY 2019-20 since the airport commenced its operations and was functional only for approx. four months in the first tariff year, i.e., FY 2018-19 (*refer 4.2.3 of O&M Study Report of KIA*). The details of the same are shown below:

Table 26: Rationalisation of Repairs & Maintenance expenses proposed by the Authority

(₹ in Crores)

Particulars	FY	FY	FY	FY	FY	Total
	2018-19	2019-20	2020-21	2021-22	2022-23	
Repairs & Maintenance expenses – as per Actuals submitted by AO						
Housekeeping charges	3.13	8.98	8.44	9.08	9.89	39.52
Other Repairs and maintenance	2.70	6.61	8.25	9.51	9.71	36.78
Total Repairs & Maintenance expenses claimed by AO (A)	5.83	15.59	16.69	18.59	19.60	76.30
Repairs & Maintenance expenses – as per the Authority						
Housekeeping charges	3.13	8.98	8.44	9.08	9.89	39.52
Other Repairs and maintenance	2.7	4.15	5.45	6.86	8.45	27.61

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Total Repairs & Maintenance expenses considered by the Authority (B)	5.83	13.13	13.89	15.94	18.34	67.13
Amount proposed not to be considered by the Authority (C = A-B)	-	2.46	2.80	2.65	1.26	9.17

iv. **Other Airport Operating expenses**

The Authority proposes to rationalize the Custom Cost Recovery expenses claimed by AO, based on the Staffing Norms defined for Class C Airport, as per the Circular No. 16/2013 – Customs dated April 10, 2013 issued by Central Board of Excise & Customs, Department of Revenue, Ministry of Finance. Accordingly, the Customs Recovery costs have been determined as ₹ 33.70 Crores (considering proportionate salary costs of 28 officers as per norms, as against 36 officers claimed by AO) for the period from FY 2018-19 to FY 2022-23, as against ₹ 43.50 Crores claimed by AO. (refer 4.2.4 of O&M Study Report of KIA). The details of the same are shown below:

Table 27: Adjustments for Other Airport Operating Expenses proposed by the Authority
(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	TOTAL
Total Other Airport Operating expenses – considered for True up (A)	2.96	10.80	11.41	13.66	15.88	54.71
Other Airport Operating expenses considered by the Authority						
Customs Cost Recovery Charges (B)	1.96	6.69	6.81	8.39	9.87	33.72
Aviation Meteorological Support Services (C)	0.24	0.98	1.08	1.19	1.37	4.86
Trolley Retrieval Services (D)	-	0.50	0.55	0.35	0.58	1.98
Insurance (E)	0.19	0.67	1.00	1.30	1.22	4.38
Total Other Airport Operating expenses proposed by the Authority (F= B+ C+ D+ E)	2.39	8.84	9.44	11.23	13.04	44.94
Amount proposed not to be considered by the Authority (G = A - F)	0.57	1.96	1.97	2.43	2.86	9.78

v. **Airport Inauguration Expenses**

Based on its analysis, the Authority proposes to rationalise the Airport inauguration expenses claimed by AO which are mostly in the nature of advertisement, branding and promotion, as the same is oriented towards enhancing Aeronautical and Non-aeronautical revenue. Taking cognizance of the fact that such expenses have been incurred for the first time by AO, the Authority proposes to consider the same for true up of the First Control Period. However, on a comparison of such expenses incurred by other similar airports, it appears ₹ 11.72 Crores claimed by AO is on the higher side. Therefore, the Authority proposes to consider ₹ 5.86 Crores (which is about 50% of the expense claimed by AO), for true up of the First Control Period. The details of the same are shown below:

Table 28: Adjustment to Airport inauguration expenses proposed by the Authority

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	TOTAL
Airport inauguration expenses – as per Actuals submitted by AO (A)	11.72	-	-	-	-	11.72
Airport inauguration expenses – considered by the Authority (B)	5.86	-	-	-	-	5.86
Amount proposed not to be considered by the Authority (C = A - B)	5.86	-	-	-	-	5.86

4.9.6 Based on the above analysis, the Authority proposes to consider the following revised Aeronautical O&M expenses (prior to reallocation) for True up of the First Control period.

Table 29: Revised Aeronautical O&M expenses of KIA for True up of the First Control period post rationalisation

(₹ Crores)

Particulars	Ref.	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	TOTAL
Land lease rental		-	-	-	-	-	-
Employee costs	Table 24	7.32	11.03	10.95	10.35	10.05	49.70
Power, Fuel & Water	Table 25	3.58	7.37	3.85	4.45	6.09	25.34
Repair & Maintenance	Table 26	5.83	13.13	13.89	15.94	18.34	67.13
Administration expenses	4.9.4 (v)	7.29	3.42	3.69	4.04	5.09	23.53
Marketing Cost	4.9.4 (vi)	-	-	-	-	-	-
Security	4.9.4 (vii)	-	0.44	0.43	0.47	0.75	2.09
Stores & Spares	4.9.4 (viii)	-	-	-	-	-	-
Other Airport Operating Expenses	Table 27	2.39	8.84	9.44	11.23	13.04	44.92
CISF Induction fee	4.9.4 (x)	-	-	-	-	-	-
Cargo related expenses	4.9.4 (xi)	-	-	-	0.21	0.41	0.62
ORAT	4.9.4 (xii)	1.52	-	-	-	-	1.52
Airport inauguration expenses	Table 28	5.86					5.86
Total		33.79	44.23	42.25	46.69	53.75	220.71

4.9.7 Reallocation of O&M expenses by the Authority

The Authority has drawn the inference from the Independent Study on Efficient Operation and Maintenance expenses of Kannur International Airport, that the common O&M expenses have been segregated by the AO between Aeronautical and Non-aeronautical expenses based on appropriate ratio. This ratio has been determined based on the underlying proportion of their expected utilisation for Aeronautical and Non-aeronautical services and activities at the Airport.

The Authority has analyzed the submission made by the AO on allocation of Common expenses into Aeronautical and Non-aeronautical on a case-to-case basis and applied appropriate re-classification and re-allocation of the expenses, wherever it noted any discrepancies in the allocation of expenses by the AO (refer Table 27 for basis for allocation of O&M expenses of KIA as per the O&M Study report). Further, the following expenses have already been rationalised by the Authority and hence have not been considered for further re-allocation.

a) Employee Cost

- b) Power, Fuel & water Expenses
- c) Other Repairs and Maintenance expenses (under Repair & Maintenance)
- d) Cargo related Expenditure
- e) Custom Cost Recovery Expenses (under Other Airport Operating Expenses)
- f) ORAT and Airport Inauguration Expenses

The re-allocation of the other O&M expenses has been explained in the following paragraphs.

a) Administrative and other expenses

Observation: The submissions by AO have been analysed and it is observed that the Administrative and other expenses include certain expenses such as Consultancy charges, Legal & professional fees, Insurance on vehicles, etc., which directly relate to the Airport premises, certain others such as Employee Training expenses, Printing & Stationery, Vehicle running expenses, Travelling & conveyance, etc. are relatable to employees and rent is relatable to Terminal Building. Therefore, the components of the Administrative and other expenses related to the entire Airport have been allocated in the Gross Fixed Assets ratio, those relatable to employees in the revised Employee Head Count ratio and rent has been allocated in the Terminal Building ratio of 92:8.

Impact: The impact of the reallocation results in the reduction of Administrative and other expenses by ₹ 0.38 Crores for the First Control Period.

Reference: Para 5.5.2 of the Study on Efficient Operation and Maintenance Expenses for KIA, Kannur

b) Repairs and Maintenance expenses

Observation: The aeronautical Repairs & Maintenance expenses of KIA (excluding housekeeping) have already been rationalised. Therefore, the Authority does not propose to further re-allocate the same. However, the housekeeping charges claimed by AO (which is part of total Repairs and Maintenance) have been re-allocated in the Terminal Building ratio of 92:8.

Impact: The impact of the reallocation results in increase of Repairs and Maintenance expenses by ₹ 1.04 Crores for the true up period.

Reference: Para 5.5.3. of the Study on Efficient Operation and Maintenance Expenses for KIA, Kannur.

c) Security Expenses

Observation: It is observed that the Security expenses, which directly relate to the Airport premises, have been allocated by AO in the ratio of Employee Headcount. However, the Authority proposes to reallocate the same in the Gross Fixed Assets ratio considering the nature of expenses and in line with allocation for other similar airports

Impact: The impact of the reallocation results in reduction of Security expenses by ₹ 0.05 Crores for the true up period.

Reference: Para 5.5.4 of the Study on Efficient Operation and Maintenance Expenses for KIA, Kannur.

d) Other Operating Expenses

Observation: It is noted that the Other Operating expenses include expenses such as Aviation Meteorological Support Services, Trolley retrieval service charges, which are essential for the operations of the airport and have been considered as 100% Aeronautical by AO. However, it is observed that the Insurance expenses claimed under this head have been incurred towards various assets and hence, related to the entire Airport. Based on the same, the Insurance expenses have been allocated in the Gross Fixed

Assets ratio.

Impact: The impact of the reallocation results in increase of Other Operating expenses by ₹0.01 Crores for the true up period.

The impact based on the above re-allocation of O&M expenses have been summarised in the following table:

Table 30: Impact of re-allocation of O&M expenses determined by the Authority for True up of First Control Period

(₹ Crores)

O&M expenses	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Employee Cost	-	-	-	-	-	-
Administration Expenses	0.27	0.06	0.02	0.03	0.01	0.38
Power, Fuel & Water	-	-	-	-	-	-
R&M Expenses	0.08	0.24	0.22	0.24	0.26	1.04
Security expenses	-	0.01	0.00	(0.00)	0.04	0.05
Other Operating Expenses	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)
Cargo Related Expenditure	-	-	-	-	-	-
ORAT & Inauguration Expenses	-	-	-	-	-	-
Total	0.35	0.31	0.23	0.26	0.30	1.45

4.9.8 Based on the above re-classification and change in allocation ratio, the Authority has proposed the following revised Aeronautical O&M expenses (post rationalization and reallocation) for the First Control Period:-

Table 31: Aeronautical O&M expenses proposed to be considered by the Authority for the True up of the First Control period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
O&M Expenses post rationalisation as proposed by the Authority (A)						
Land lease rental	-	-	-	-	-	-
Employee costs	7.32	11.03	10.95	10.35	10.05	49.70
Power, Fuel & Water	3.58	7.37	3.85	4.45	6.09	25.34
Repair & Maintenance	5.83	13.13	13.89	15.94	18.34	67.13
Administration expenses	7.29	3.42	3.69	4.04	5.09	23.53
Marketing Cost	-	-	-	-	-	-
Security	-	0.44	0.43	0.47	0.75	2.09
Stores & Spares	-	-	-	-	-	-
Other Airport Operating Expenses	2.39	8.84	9.44	11.23	13.02	44.92
CISF Induction fee	-	-	-	-	-	-
Cargo related expenses	-	-	-	0.21	0.41	0.62
ORAT	1.52	-	-	-	-	1.52
Airport inauguration expenses	5.86	-	-	-	-	5.86
Aeronautical O&M expenses post rationalisation (A) (refer Table 29)	33.79	44.23	42.25	46.69	53.75	220.71

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Impact on reallocation proposed by the Authority (B)						
Employee Cost	-	-	-	-	-	-
Administration Expenses	0.27	0.06	0.02	0.03	0.01	0.38
Power, Fuel & Water	-	-	-	-	-	-
R&M Expenses	0.08	0.24	0.22	0.24	0.26	1.04
Security expenses	-	0.01	0.00	(0.00)	0.04	0.05
Other Operating Expenses	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)
Cargo Related Expenditure	-	-	-	-	-	-
ORAT & Inauguration Expenses	-	-	-	-	-	-
Total downward/ upward impact of reallocation proposed by the Authority (B)	0.35	0.31	0.23	0.26	0.30	1.45
O&M Expenses post rationalisation and reallocation as proposed by the Authority (C=A-B)						
Land lease rental	-	-	-	-	-	-
Employee costs	7.32	11.03	10.95	10.35	10.05	49.70
Power, Fuel & Water	3.58	7.37	3.85	4.45	6.09	25.34
Repair & Maintenance	5.75	12.89	13.67	15.70	18.08	66.09
Administration expenses	7.02	3.36	3.67	4.01	5.08	23.15
Marketing Cost	-	-	-	-	-	-
Security	-	0.43	0.43	0.47	0.71	2.04
Stores & Spares	-	-	-	-	-	-
Other Airport Operating Expenses	2.39	8.84	9.44	11.23	13.02	44.91
CISF Induction fee	-	-	-	-	-	-
Cargo related expenses	-	-	-	0.21	0.41	0.62
ORAT	1.52	-	-	-	-	1.52
Airport inauguration expenses	5.86	-	-	-	-	5.86
Aeronautical O&M expenses post rationalisation & Reallocation = (C= A- B)	33.44	43.92	42.02	46.43	53.45	219.26

4.9.9 Based on its analysis, the Authority proposes to true up the O&M expenses for the First Control period as per Table 31.

4.10 True up of Aeronautical Revenue

4.10.1 AO has submitted the actual Aeronautical revenue for the First Control Period, which is as follow:

Table 32: Aeronautical revenue submitted by AO for the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Landing revenues	1.63	10.93	5.11	8.27	12.88	38.82
Parking revenues	0.38	1.79	4.23	4.22	2.86	13.48
UDF revenues	3.54	51.24	14.67	29.46	52.94	151.85
Passenger service fees	-	-	-	-	-	-
Inline X-ray baggage revenues	0.95	8.26	2.82	4.83	7.34	24.20
TNLC Collection	0.52	3.89	1.59	2.26	4.35	12.61
CUTE/ CUSS/ BRS revenues	0.25	1.86	0.55	1.04	1.93	5.63

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Aerobridge revenues	0.41	2.52	1.04	1.68	2.21	7.86
Ground handling revenues	1.08	6.11	2.52	2.12	3.19	15.02
Cargo concession revenues	-	0.03	0.09	0.90	2.20	3.22
License Fee for Unpaved Land-BKFFPL	0.64	4.24	4.24	4.24	1.57*	14.93
Total	9.39	90.87	36.86	59.02	91.47	287.62

*The decrease in License Fee for Unpaved Land (BKFFPL) of FY 2022-23 is due to fair valuation of lease rental as per Ind AS 116

4.10.2 The Authority compared the actual Aeronautical revenue submitted by the AO as per Table 32 with the projections approved in the Tariff Order for the First Control Period and the same are as follows:

Table 33: Actual Aeronautical revenue submitted by AO for the First Control period vis-à-vis the projections approved in the Tariff Order for the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Aeronautical revenue as per Tariff Order for the First Control Period (A)	79.88	182.13	206.29	232.64	262.05	962.99
Actual Aeronautical revenue (B) -refer Table 32	9.39	90.87	36.86	59.02	91.47	287.62
Variance (A-B)	70.49	91.26	169.43	173.62	170.58	675.37

4.10.3 The Authority notes that there is a major variance between Projected and Actual Aeronautical revenue during the First Control Period, which is attributable to lower passenger traffic and ATM due to the adverse impact of the COVID-19 pandemic on the Aviation sector.

4.10.4 The Authority reviewed the Aeronautical revenue submitted by the AO with the Audited figures for the Financial Years (FY 2018-19 to FY 2021-22) and Unaudited Figures of FY 2022-23 and proposes to consider the Aeronautical revenue as per Table 32 for True up of First Control Period. The Authority notes the actual Aeronautical revenue achieved by Kannur International Airport for the period FY 2018-19 to FY 2022-23 is based on the actual traffic data available in AAI's website.

4.11 True up of Taxation

4.11.1 AO has submitted taxation for the First Control Period as follows:

Table 34: Taxation submitted by AO for the First Control Period

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	TOTAL
Aeronautical Revenue	8.32	84.74	35.89	57.93	88.96	275.83
Less: Operating expenses	51.64	61.78	58.59	60.04	68.50	300.55
EBIDTA	(43.33)	22.96	(22.70)	(2.11)	22.97	(22.21)
Less: Book depreciation	20.05	91.94	91.91	92.44	92.20	388.55
Less: Interest	30.58	81.60	84.15	88.78	100.21	385.32
PBT	(93.96)	(150.58)	(198.76)	(183.33)	(171.91)	(798.55)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	TOTAL
Tax	-	-	-	-	-	-

4.11.2 The Authority notes that AO has incurred losses during all the five tariff years during the Second Control Period, due to which the taxes are NIL. The Authority proposes to consider the tax as NIL for True up of First Control Period.

Table 35: Taxation considered for KIA as per the Authority

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Aeronautical Revenue (refer Table 32)	9.39	90.87	36.86	59.02	91.47	287.62
Less: Operating expenses (refer Table 20)	(51.64)	(61.78)	(58.59)	(60.04)	(70.31)	(302.36)
EBITDA	(42.25)	(29.09)	(21.73)	(1.02)	21.16	(72.93)
Less: Depreciation	(20.05)	(91.94)	(91.91)	(92.44)	(52.10)	(348.44)
Less: Interest	(30.58)	(81.60)	(84.15)	(88.78)	(100.21)	(385.32)
PBT	(92.88)	(144.45)	(197.79)	(182.24)	(131.15)	(748.51)
Tax	0.00					

4.11.3 The Authority proposes to consider tax as per Table 35 for True up of First Control Period and carry forward the losses while determining Aeronautical Taxes for the Second Control Period.

4.12 True up of Aggregate Revenue Requirement (ARR) for the First Control period

4.12.1 Based on its analysis of the various building blocks, the Authority has determined the ARR and Under recovery for True up of the First Control period and same is presented in the table below:

Table 36: ARR proposed to be considered by the Authority for true up of the First Control period

(₹ Crores)

Particulars	Formula	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Average RAB (refer Table 15)	a	694.53	1,371.37	1,325.53	1,262.49	1,192.01	
FRoR (refer para 4.7.1)	b	12.21%	12.21%	12.21%	12.21%	12.21%	
Return on Average RAB	(c) = (a) * (b)	26.02#	167.44	161.85	154.15	145.54	655.01
Depreciation (refer Table 14)	(d)	21.66	71.19	71.44	72.02	71.88	308.18
O&M expenses (refer Table 31)	(e)	33.44	43.92	42.02	46.43	53.45	219.26
Tax (refer Table 35)	(f)	-	-	-	-	-	-
Add: Under recovery of Previous Control Period	(g)	-	-	-	-	-	-
Gross ARR	(h) = (c+ d+ e+ f+ g)	81.12	282.55	275.31	272.60	270.87	1,182.45
NAR (refer Table 17)		9.58	25.76	12.85	24.15	23.54	95.88
Less 30% NAR	(i)	2.87	7.73	3.86	7.25	7.06	28.76
Net ARR	(j) = (h - i)	78.25	274.82	271.45	265.35	263.81	1,153.68

Particulars	Formula	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Actual Aeronautical Revenue (refer Table 32)	(k)	9.39	90.87	36.86	59.01	91.47	287.62
Surplus/ Deficit	l = (k-j)	(68.85)	(183.95)	(234.59)	(206.34)	(172.34)	(866.08)
Period of Discounting	(m)	4.31	4.00	3.00	2.00	1.00	
Discount Factor (@12.21%)	(n)	1.64	1.59	1.41	1.26	1.12	
Under/ (Over) recovery of Second Control Period as on March 31, 2024	(o) = $l*(1+b)^n$	(113.09)	(291.63)	(331.44)	(259.80)	(193.39)	(1,189.34)
True up of Under Recovery of Second Control Period as on March 31, 2024		1,189.34					

Return computed proportionately for 113 days from the date of commercial operations up to March 31, 2019

4.12.2 The ARR proposed by the Authority is ₹ 1,189.34 Crores (refer Table 36), as against ₹ 2,109.91 (refer Table 4) crores submitted by AO. The variance is on account of the following:

- i. Re-classification of assets and Exclusion of Land Development Cost from RAB ₹ 333.28 Crores along with the FA related to Land Development Cost of ₹ 72.99 Crores, due to which there is a reduction of ₹ 477.70 Crores in the Return on RAB and Depreciation derived by the Authority.
- ii. Rationalisation of O&M expenses amounting to ₹ 83.10 Crores by the Authority, based on the recommendations of the O&M Study report.
- iii. Non consideration of Return on Land amounting to ₹ 68.29 Crores for the First Control Period.

4.12.3 The Authority notes that Kannur International Airport had been declared as a Major Airport due to its designed capacity of 9.34 MPPA, although its actual passenger throughput volume was lesser than the threshold limit of 3.5 MPPA defined under the AERA Act 2008 read with AERA (Amendment) Act 2019 (refer para 1.1.2). Further, it is noted that the actual Aeronautical revenue achieved by the Airport during the First Control Period is significantly lesser than the Aeronautical revenue projected by the Authority in the Tariff Order for the First Control period (refer Table 33) due to adverse impact of the COVID -19 pandemic, soon after the commencement of its commercial operations in December 2018.

4.13 Authority's proposals regarding true up for the First Control Period

Based on the material before it and its examination, the Authority proposes the following with respect to True up of the First Control Period for KIA, Kannur:

- 4.13.1 To consider true up of depreciation for the First Control period as per Table 14.
- 4.13.2 To consider true up of RAB for the First Control period as per Table 15.
- 4.13.3 To consider true up of FROr for the First Control period as per para 4.7.1
- 4.13.4 To consider true up of Non-aeronautical revenue for the First Control Period as per Table 17.
- 4.13.5 To consider true up of Aeronautical O&M expenses for the First Control Period as per Table 31.
- 4.13.6 To consider true up of Aeronautical revenue for the First Control Period as per Table 32.
- 4.13.7 To consider true up of Aeronautical Taxation for the First Control Period as per Table 35
- 4.13.8 To consider ARR and Under recovery for True up of KIA for the First Control Period as per Table

36 and readjust the same in the ARR for the Second Control Period.

5 TRAFFIC FORECAST FOR THE SECOND CONTROL PERIOD

5.1 AO's submission of Traffic for the Second Control Period

5.1.1 The historical Passenger traffic, ATM and Cargo traffic at the Airport have been shown in the table below:

Table 37: Historical Passenger, ATM and Cargo traffic at KIA

Year	Passenger			ATM			Cargo		
	DOM	INT	TOTAL	DOM	INT	TOTAL	DOM	INT	TOTAL
2018-19*	1,35,175	89,127	2,24,302	1,467	578	2,045	-	-	-
2019-20	7,77,660	8,05,940	15,83,600	9,742	5,389	15,131	-	-	-
2020-21	1,84,990	2,96,094	4,81,084	3,985	2,321	6,306	-	-	-
2021-22	2,76,492	5,22,630	7,99,122	5,674	4,136	9,810	21	1,538	1,559
2022-23	4,03,995	8,53,091	12,57,086	5,791	6,233	12,024	66	3,846	3,912

DOM- Domestic, INT- International

*FY 2018-19 includes 113 days starting from December 9, 2018 to March 31, 2019

5.1.2 The traffic growth rates and traffic as submitted by AO for the Second Control Period are as follows:

Table 38: Traffic growth rates and traffic proposed by AO

Year	Passenger Traffic			ATM			Cargo		
	DOM	INT	TOTAL	DOM	INT	TOTAL	DOM	INT	TOTAL
GROWTH RATES									
2023-24	114%	19%	50%	67%	37%	52%	94%	40%	41%
2024-25	22%	12%	16%	19%	10%	15%	7 %	11%	11%
2025-26	17%	7%	12%	17%	0 %	9 %	7 %	11%	11%
2026-27	11%	7%	9%	8%	-2%	4%	7 %	11%	11%
2027-28	9%	7%	8%	9%	7%	8%	7%	12%	12%
PROJECTED TRAFFIC									
2023-24	8,64,613.44	10,18,482.50	18,83,095.94	9,697.00	8,559.00	18,256.00	127.92	5,369.04	5,496.95
2024-25	10,56,123.96	11,37,467.29	21,93,591.26	11,529.00	9,415.00	20,944.00	136.97	5,985.05	6,122.02
2025-26	12,39,137.99	12,16,530.40	24,55,668.39	13,526.00	9,398.00	22,924.00	146.66	6,642.92	6,789.59
2026-27	13,78,267.41	12,95,991.31	26,74,258.72	14,654.00	9,247.00	23,901.00	157.04	7,345.07	7,502.11
2027-28	15,08,719.77	13,80,791.08	28,89,510.85	16,041.00	9,852.00	25,893.00	168.16	8,252.07	8,420.22

* Growth rates are computed based on Actual Traffic of FY 2022-23

5.2 Authority's examination of AO's submission of Traffic Forecast for the Second Control Period

5.2.1 The 5-year and 3-year CAGRs have been computed for the respective periods up to FY 2022-23, starting from FY 2018-19. The table below provides the details of the CAGR for Passenger traffic, ATM and Cargo:

Table 39: CAGR for Passenger traffic, ATM and Cargo

Particulars	5-year*	3-year**
	CAGR	CAGR
Passengers:		
Domestic	31%	48%
International	76%	70%
Total Passenger Traffic	54%	27%
ATM:		
Domestic	41%	20%
International	81%	64%
Total ATM	56%	38%

* For the period FY 2018-19 to FY 2022-23

** For the period FY 2020-21 to FY 2022-23

Note: CAGR for cargo isn't provided due to 0% CAGR for both 5-year and 3-year Period.

- 5.2.2 The Authority has noted the wide variation in traffic in the recent past, which causes CAGR for 5 years period to be the highest for International Air Traffic Movement.
- 5.2.3 There is a growth of 46.11% and 63.23% in domestic passenger traffic and international passenger traffic respectively for FY 2022-23 (over previous financial year). Similarly, a growth of 2.1% and 50.70%, respectively in domestic ATM and international ATM for FY 2022-23 (over previous financial year).
- 5.2.4 The AO has projected a growth of 114% in domestic passenger traffic and of 19% in international passenger traffic in FY 2023-24. Likewise, it has projected a growth of 67% in domestic ATM and 37% in international ATM in FY 2023-24.
- 5.2.5 The revised traffic forecasts have been computed by the Authority, after considering the study and analysis by the following agencies regarding the impact of COVID-19 pandemic on the Aviation sector:

Computation of revised traffic forecasts by the Authority, considering the impact of COVID-19 pandemic

The revised traffic forecasts have been computed by the Authority, after considering the study and analysis by the following agencies regarding the impact of COVID-19 pandemic on the Aviation sector:

5.2.6 Airport International Council (ACI)

ACI in its recent report has analysed the impacts of COVID-19 pandemic on airports and its path to recovery:

- *Despite strong headwinds, the industry is continuing to recover as more countries ease travel restrictions and open their markets, including Japan in the Asia-pacific region. This coupled with the propensity for air travel will drive the industry's recovery, expected to reach 2019 levels in 2024.*
- *Markets like Colombia, Mexico and Nigeria welcomed a surge in demand and exceeded their 2019 levels. The United States (87% of 2019), Spain (82%), Brazil (80%) and India (75%) were among other major aviation markets also making strides to close the gap with 2019 passenger levels in the first half of 2022.*
- *Global passenger traffic in the year 2022 is expected to be 6.8 billion, representing a loss of 33.1%*

compared to the projected baseline, which is 74.4% of 2019 traffic.

- Full recovery to 2019 levels at the global level is forecast for 2024.

5.2.7 International Air Transport Association (IATA)

IATA in its report on January 9, 2023 had announced the air travel recovery continued through November 2022:

- Total traffic in November 2022 (measured in revenue passenger kilometers or RPKs) rose 41.3% compared to November 2021. Globally, traffic is now at 75.3% of November 2019 Levels.
- International traffic rose 85.2% versus November 2021. The Asia-Pacific continued to report the strongest year-over-year results with all regions showing improvement compared to the prior year. November 2022 international RPKs reached 73.7% of November 2019 Levels.
- Domestic traffic for November 2022 was up 3.4% compared to November 2021 with travel restrictions in China continuing to dampen the global result. Total November 2022 domestic traffic was at 77.7% of the November 2019 Level

Conclusion on traffic forecasts based on the above assumptions

5.2.8 The Authority has taken into consideration the forecasted data published by ACI and IATA cited in para 5.2.6 and 5.2.7 above for arriving at the revised traffic projections.

5.2.9 The Authority also compared the actual traffic achieved during 2022-23 (with that of the corresponding period in FY 2019-20 (Pre-COVID period) and notes that the actual International Passenger Traffic and International ATM of FY 2022-23 has surpassed the Pre- COVID levels. The details of the same are as follows:

Table 40: Comparison of Passenger, ATM and Cargo traffic at KIA between FY 2019-20 vs 2022-23

Traffic	FY 2019-20			FY 2022-23			Traffic of FY 2022-23 as a% of FY 2019-20 traffic		
	DOM	INT	TOTAL	DOM	INT	TOTAL	DOM	INT	TOTAL
PAX	7,77,660	8,05,940	15,83,600	4,03,995	8,53,091	12,57,086	52%	106%	79%
ATM	9,742	5,389	15,131	5,791	6,233	12,024	59%	116%	79%
Cargo	0	0	0	66	3,846	3,912	0%	0%	0%

5.2.10 The Authority, as a part of its examination has reviewed the route development initiatives submitted by the AO as part of its MYTP, which is expected to improve connectivity to existing and new destinations and upgrading of aircraft on certain routes.

The AO has submitted that it has been in discussions with the airlines to deploy capacity at Kannur. As part of KIA's route development initiatives following actions have already been taken up by the airlines:

- Upgraded aircraft (A320) by Indigo in CNN-BLR route
- Start of operations in CNN-BOM route by Indigo
- Start of operations in CNN-AUH route by Indigo
- Start of operations in CNN-AUH route by Air India
- Start operations in CNN-DXB route by Air India Express
- Scheduled operations in CNN-JED route by Air India Express

The AO has submitted that there is significant untapped potential in KIA’s catchment and its route development initiatives are expected to facilitate airlines to tap into this potential and result in faster traffic growth in the coming years.

- 5.2.11 The Authority has taken cognizance of the CAGR (5-year and 3-year) derived by it as per Table 39, positive outlook provided by the Expert Agencies, the GoI ’s decision to resume commercial flights, the encouraging trend in the traffic numbers reported in FY 2023-24 (YTD August 2023) and the route development initiatives undertaken by the AO (as explained in the above para). Based on the above factors, the Authority proposes to consider the Passenger traffic (Domestic and International) and Domestic ATM projected by the Airport Operator for the Second Control Period. Further, the Authority proposes to consider a growth of 7% for International ATM for FY 2025-26 and FY 2026-27 as against 0% and -2%, projected by the AO for the respective years.
- 5.2.12 With respect to Cargo Volume, the Authority notes that the Cargo Operations had not commenced before FY 2021-22 mainly due to COVID 19 pandemic. Further, considering the positive trend in the combined Cargo volume for the FY 2022-23, the Authority proposes to consider the Cargo volume projections submitted by the AO for all five tariff years of the Second Control Period.
- 5.2.13 Based on the above analysis, the traffic growth rates and the corresponding traffic for Passengers, ATM and Cargo as considered by the Authority for the Second Control Period are given in the table below:

Table 41: Traffic proposed to be considered by the Authority for the Second Control Period

Domestic Passengers (in lacs)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Domestic PAX submitted by AO	4.04	8.65	10.56	12.39	13.78	15.09	60.47
Domestic PAX proposed by the Authority	4.04	8.65	10.56	12.39	13.78	15.09	60.47
Y-o-Y growth of Domestic PAX submitted by AO		114%	22%	17%	11%	9%	
Y-o-Y growth of Domestic PAX proposed by the Authority		114%	22%	17%	11%	9%	
International Passengers (in lacs)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
International PAX submitted by AO	8.53	10.18	11.37	12.17	12.96	13.81	60.49
International PAX proposed by the Authority	8.53	10.18	11.37	12.17	12.96	13.81	60.49
Y-o-Y growth of International PAX submitted by AO		19%	12%	7%	7%	7%	
Y-o-Y growth of International PAX proposed by Authority		19%	12%	7%	7%	7%	
Total passengers (in lacs)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Total PAX as per AO's submission	12.57	18.83	21.94	24.56	26.74	28.90	120.96
Total (Domestic and International) proposed by the Authority	12.57	18.83	21.94	24.56	26.74	28.90	120.96
Y-o-Y growth of Total PAX submitted by AO		50%	16%	12%	9%	8%	
Y-o-Y growth of Total PAX proposed by Authority		50%	16%	12%	9%	8%	

TRAFFIC FORECAST FOR THE SECOND CONTROL PERIOD

Domestic ATM (in '000)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Domestic ATM submitted by AO	5.79	9.70	11.53	13.53	14.65	16.04	65.45
Domestic ATM proposed by the Authority (A)	5.79	9.70	11.53	13.53	14.65	16.04	65.45
Y-o-Y growth of Domestic ATM submitted by AO		67%	19%	17%	8%	9%	
Y-o-Y growth of Domestic ATM proposed by Authority		67%	19%	17%	8%	9%	
International ATM (in '000)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
International ATM submitted by AO	6.23	8.56	9.42	9.40	9.25	9.85	46.47
International ATM proposed by the Authority (D)	6.23	8.56	9.42	10.07	10.78	11.53	50.36
Y-o-Y growth of International ATM submitted by AO		37%	10%	0%	-2%	7%	
Y-o-Y growth of International ATM proposed by Authority		37%	10%	7%	7%	7%	
Total ATM (in '000s)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Total ATM (Domestic and International) as per AO's submission	12.02	18.26	20.94	22.92	23.90	25.89	111.92
Total ATM (Domestic and International) proposed by the Authority (A+D)	12.02	18.26	20.94	23.60	25.43	27.57	115.81
Y-o-Y growth of Total ATM submitted by AO		52%	15%	9%	4%	8%	
Y-o-Y growth of Total ATM proposed by Authority		52%	15%	13%	8%	8%	
Domestic Cargo (MT in '000)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Domestic Cargo submitted by AO	0.07	0.13	0.14	0.15	0.16	0.17	0.74
Domestic Cargo proposed by the Authority	0.07	0.13	0.14	0.15	0.16	0.17	0.74
Y-o-Y growth of Domestic Cargo submitted by AO		94%	7%	7%	7%	7%	
Y-o-Y growth of Domestic Cargo proposed by Authority		94%	7%	7%	7%	7%	
International Cargo (MT in '000)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
International Cargo submitted by AO	3.85	5.37	5.99	6.64	7.35	8.25	33.59
International Cargo proposed by the Authority	3.85	5.37	5.99	6.64	7.35	8.25	33.59
Y-o-Y growth of International Cargo submitted by AO		40%	11%	11%	11%	12%	
Y-o-Y growth of International Cargo proposed by Authority		40%	11%	11%	11%	12%	
Total Cargo (MT in '000)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Total Cargo submitted by AO	3.91	5.50	6.12	6.79	7.50	8.42	34.33
Total Cargo proposed by the Authority	3.91	5.50	6.12	6.79	7.50	8.42	34.33

TRAFFIC FORECAST FOR THE SECOND CONTROL PERIOD

Y-o-Y growth of Total Cargo submitted by AO		41%	11%	11%	11%	12%	
Y-o-Y growth of Total Cargo proposed by Authority		41%	11%	11%	11%	12%	

5.3 Authority’s Proposal regarding Traffic Forecast for the Second Control Period

Based on the available facts and analysis there upon, the Authority proposes the following with regard to traffic forecast for the Second Control Period

- 5.3.1 To consider the Passenger traffic, ATM and Cargo traffic for the Second Control Period for KIA as per Table 41.
- 5.3.2 To true up the traffic volume (Passengers, ATM and Cargo) on the basis of actual traffic in the Second Control Period while determining tariffs for the Third Control Period.

6 CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) OF KIA FOR THE SECOND CONTROL PERIOD

6.1 Background

- 6.1.1 RAB is an essential element in the process of tariff determination. The return to be provided on the RAB constitutes a considerable portion of the Aggregate Revenue Requirement for an Airport Operator. To encourage the participation of the private sector in airport development and operations, the investors must be fairly compensated for the capital outlays involved. At the same time, to safeguard the interests of the airport users, it must be ensured that the capital additions are efficient, their needs justified, and the return on investment are provided solely on the assets related to the core operations (i.e., Aeronautical services) of the Airport.
- 6.1.2 The Independent Consultant appointed by the Authority has performed an in-depth analysis of the submissions made by the Airport Operator towards Aeronautical Capital Additions, Depreciation and RAB. In this respect, the Independent Consultant has performed the following functions:
- i. Conducted Site visit on February 28, 2023 to witness the physical progress of the projects.
 - ii. Sought and verified various technical reports, Drawings and Plans, BOQs, cost estimates and break-up, detailed justification, copies of Letter of Intent (LOI)/ Letter of Award (LOA), Purchase Orders and Work Orders, etc., provided by the Airport Operator and
 - iii. Sought documentary evidence and verified the process of approval of CAPEX projects including the process for award of various work orders to the contractors for such projects.
- 6.1.3 Based on the site visits and the review of documents as stated above, the Authority has rationalized the CAPEX projects, submitted by the Airport Operator by shifting the capitalization of some of the projects to the Third Control Period, based on the essentiality and necessity for Airport operations.
- 6.1.4 In the background of the facts stated above, the Authority has examined the entire CAPEX plan in detail for KIA, considering the historical traffic trends and future traffic estimates such that only essential, reasonable and efficient CAPEX is considered as part of RAB for the Second Control Period with a view to encourage the investment and maintain a balanced approach between the sustainable operations of the Airport Operator and the interest of the airport users. Further, the Authority takes cognizance of the fact that, if any excessive CAPEX is allowed in this Control Period, it would be against the regulatory framework, as tariff would have no link to the services/ facilities created at the Airport and the resultant high aeronautical charges would be unfair to the ultimate users.
- 6.1.5 Towards this objective, the Authority has examined in detail the Aeronautical Capital Expenditure, Depreciation and RAB submitted by the Airport Operator and has presented its views in the following order:
- i. Aeronautical Capital expenditure proposed for Second Control Period
 - ii. Aeronautical Depreciation for the Second Control Period
 - iii. Regulatory Asset Base for the Second Control Period

6.2 AO's submission of Capital Expenditure (CAPEX) proposed for the Second Control Period

- 6.2.1 The Authority notes that the Airport Operator has submitted Aeronautical Capital Expenditure of ₹ 64.66 Crores in the MYTP for the Second Control Period, which is as follows:

Table 42: Capital Expenditure projects submitted by AO for the Second Control Period

(₹ Crores)

Asset Category	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Freehold Land	-	-	-	-	-	-
Leasehold Land	-	-	-	-	-	-
Pavements	-	-	-	-	-	-
Building, Roads, Bridges, Drains and Culverts	-	-	-	-	1.60	1.60
Fire Department Equipment	-	-	-	-	-	-
Plant & Equipment	-	-	-	2.50	-	2.50
Furniture & Fittings	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-
Computer & Accessories	-	-	-	-	-	-
Office Equipment	-	-	-	-	-	-
Electrical Equipment	-	20.00	8.40	8.15	2.50	39.05
Other Assets	7.23	5.38	0.35	0.70	7.85	21.51
Total Aeronautical CAPEX	7.23	25.38	8.75	11.35	11.95	64.66

Authority's examination of Capital Expenditure (CAPEX) for the Second Control Period

6.2.2 The Authority has examined KIA's submission as per MYTP with respect to CAPEX proposed for the Second Control Period. The Authority has grouped the proposed CAPEX for the Second Control Period into the following for evaluation:

- A. Capital additions projects shifted from the First Control Period to the Second Control Period.
- B. Capital Addition projects proposed by the AO for the Second Control Period.

6.2.3 Based on its analysis of the construction of Integrated Cargo Terminal in para 4.5.6 (v), the Authority proposes to consider capitalisation of the Integrated Cargo Terminal Building amounting to ₹ 32.20 Crores in FY 2023-24. Accordingly, the Capital Addition projects considered by the Authority for its examination for the Second Control Period of KIA, is shown in the table below:

Table 43: Revised CAPEX proposed for the Second Control Period

Particulars	Amount (₹ Crores)
A. Capital additions projects shifted from the First Control Period to the Second Control Period (Integrated cargo Terminal detailed in para 4.5.6 (v))	32.20
B. Capital Addition projects proposed by the AO for the Second Control Period (Refer Table 42)	64.66
Total CAPEX proposed by the AO for the Second Control Period (A+B)	96.86

6.2.4 The capital additions have been explained project-wise in the table below:

Table 44: Project wise revised Capital Expenditure submitted by the Airport Operator for the Second Control Period

(₹ Crores)

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA) / IDC	Total CAPEX (incl. FA)
A. Capital additions projects shifted from the First Control Period to the Second Control Period					
A1.	Building, Roads, Bridges, Drains & Culverts				
	Construction of Integrated Cargo Terminal	2023-24	32.20	-	32.20
	Cargo Terminal Commissioning	2027-28	1.60	-	1.60
	Total – Building, Roads, Bridges, Drains & Culverts		33.80	-	33.80
B. Capital Addition projects proposed by the AO for the Second Control Period					
B1.	Plant & Equipment				
	BDDS Equipment	2026-27	2.50	-	2.50
	Total – Plant & Equipment		2.50	-	2.50
B2.	Electrical Equipment				
	CAT-1 runway approach lighting system	2024-25	20.00	-	20.00
	2nd feeder line (33 KV Feeder from KSEB)	2026-27	5.00	-	5.00
	Green Energy Initiative	2025-26	2.50	-	2.50
		2026-27	2.50	-	2.50
		2027-28	2.50	-	2.50
	Enhancement of Power source (10 to 15 MW)	2025-26	5.00	-	5.00
	Lift Connectivity	2026-27	0.65	-	0.65
	Extra UPS for AGL-2 years after	2025-26	0.90	-	0.90
	Total – Electrical Equipment		39.05	-	39.05
B3.	Other Assets				
	Software Development & Implementation-ERP	2023-24	3.19	-	3.19
		2024-25	0.25	-	0.25
	Software Development & Implementation-AODB	2023-24	2.58	-	2.58
		2026-27	0.20	-	0.20
	Ancillary Hardware	2023-24	0.09	-	0.09
		2024-25	0.10	-	0.10
		2025-26	0.10	-	0.10
		2026-27	0.10	-	0.10
	Website & Mobile App re-designing	2023-24	0.30	-	0.30
		2024-25	0.15	-	0.15
	CBT Software for ASTI	2023-24	0.37	-	0.37
		2024-25	0.18	-	0.18
	Digi Yatra	2024-25	1.50	-	1.50
	Centralised AOCC (with Video Wall etc)	2026-27	0.40	-	0.40
		2023-24	0.05	-	0.05

CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) OF KIA FOR THE SECOND CONTROL PERIOD

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA) / IDC	Total CAPEX (incl. FA)
	Passenger Facilities (enhanced WiFi, Information KIOSK, Passenger App, ChatBot etc)	2024-25	0.15	-	0.15
	Video Analytics Software	2024-25	0.25	-	0.25
	Body Scanners	2027-28	6.00	-	6.00
	Gate Operating System	2027-28	1.50	-	1.50
	BHS Upgradation	2025-26	0.25	-	0.25
	BMS Upgradation along with EMS	2024-25	0.45	-	0.45
	Cargo Software	2027-28	0.25	-	0.25
	Additional CCTV at grey area identified by CISF and Security Dept	2024-25	1.50	-	1.50
	Biometric AEP System	2023-24	0.50	-	0.50
		2024-25	1.00	-	1.00
	Total – Other Assets		21.51	-	21.51
Capital Expenditure proposed for the Second Control Period			96.86	-	96.86

6.2.5 The Authority while analyzing the Aeronautical Expenditure proposed by the AO for the Second Control Period, has appropriately rationalized the proposed CAPEX taking into consideration, the essentiality and necessity of the CAPEX which is required for the smooth operation of the Airport as explained in the following paragraphs.

6.2.6 The Authority notes that the Airport Operator is not required to conduct Airport User Consultation Committee (AUCC) meeting as the CAPEX for the Second Control Period is lesser than the threshold limit defined under Direction 5 of the AERA Guidelines, 2011.

6.2.7 The Authority’s examination of the major Capital Expenditure projected for the Second Control Period has been explained in detail in the ensuing paragraphs:

A. Capital additions projects shifted from the First Control Period to the Second Control Period:

A1: Buildings, Roads, Bridges, Drains & Culverts – Construction of Integrated Cargo Terminal

The Authority notes that the AO has claimed ₹ 32.20 Crores for Integrated Cargo Terminal during the First Control Period and has proposed ₹ 1.60 Crores towards commissioning of Cargo Terminal in the Second Control Period.

The Authority has given its detailed analysis regarding the above project on construction of Cargo Terminal in para 4.5.6 (v). The new Cargo terminal is expected to add 5,000 Sq.m. and an additional 12,000 MT of volume. Based on its analysis of the status of completion of the project (which was 80% complete as on March 31, 2023, as confirmed by the AO vide email dated May 11, 2023), the Authority proposes to consider capitalization of Cargo Terminal Building in FY 2023-24. Further, the Authority notes that the AO has submitted in its MYTP that Cargo terminal would be commissioned in FY 2027-28 and has submitted capitalization of the cost of commissioning the Cargo Terminal in FY 2027-28. However, upon further clarification, the AO has informed vide email dated October 5, 2023 that the commissioning of the cargo terminal was projected initially as FY 2027-28 due to lower cargo traffic and lack of belly capacity at KIA due to several routes being non-operational by the

primary airlines. However, the AO is currently envisaging faster recovery of ATMs as they are negotiating with the airlines for deployment of capacity. Based on the above factors, the AO has confirmed vide email dated October 5, 2023 that the Cargo Terminal may be commissioned in FY 2024-25 and the Authority proposes to consider the same.

Based on the above factors, the Authority proposes to consider ₹ 32.20 Crores towards construction of Integrated Cargo Terminal in FY 2023-24 and ₹ 1.60 Crores towards commissioning of Cargo Terminal in FY 2024-25.

B. Capital Addition projects proposed by the AO for the Second Control Period:

B1: Plant & Equipment- BDDS Equipment

The Authority notes that the AO has proposed ₹ 2.50 Crores towards BDDS Equipment for capitalization in FY 2026-27. As per AVSEC Order no. 13/2017, Airport Operators are required to provide BDDS Equipment to ASG/ APSU for security of the Airport. Currently, KIA has bomb detection and disposal unit. However, required equipment is not available to attend a bomb threat at the airport and the AO has to take assistance of nearby Police team in the event of any bomb threat. Considering the safety and security of the Airport, the Authority proposes to consider the above capital expenditure as justifiable.

B2: Electrical Equipment

i. CAT-1 Runway Approach Lighting System

The Authority notes that the AO has proposed ₹ 20 Crores towards installation of CAT-1 Runway Approach Lighting System for capitalization in FY 2024-25. Currently, KIA has only 420m simple approach lighting system.

The Authority through its Independent Consultant examined the need through BOQ and other estimates provided by the AO, to assess the reasonableness of the cost of the project, during the visit to Kannur International Airport on February 28, 2023. It was observed that the full-fledged lighting system needs to be installed in order to improve the safety of the landings as majority landings are from Runway 25. Considering the topography of land (average depth of land from runway level is more than 50m), the Authority notes that special arrangements are needed for fixing the lights and for its maintenance. Based on the above factors, the Authority proposes to consider the capital expenditure as justifiable.

ii. Enhancement of Power Sources

The Authority notes that the AO has proposed ₹ 5 Crores for Enhancement of Power Sources to be capitalized in FY 2025-26. The Authority notes that the existing power source at 33KV substation of Kannur airport is 2 numbers of 5 MW 33KV/11KV Transformers. Considering the increase in power requirement due to additional loads during the next 5 years, the AO is proposing to add 1 no. of 5 MW 33KV/11KV Transformer along with connected works such as 33KV/11KV panels, construction of building, connected electrical works etc.

The Authority notes that the Airport Operator is taking initiatives towards providing Solar Power plants and Energy Management Systems. Also, as no major infrastructure enhancements have been planned during the Second Control Period, there is no urgent requirement for this project. Based on the above factors, the Authority proposes to shift the capitalization of this project to the next Control Period.

iii. Second Power Feeder Line (33KV from KSEB)

The Authority notes that the AO has proposed ₹ 5 Crores for Second Power Feeder Line to be capitalized in the FY 2026-27. Currently, the power supply at Kannur Airport is fed through 33KV underground cable from KSEB (Kerala State Electricity Board) substation at Mattanur. The Authority notes that second feeder line is essential for major airports for safety of the operations, specifically at night and for enhancing the passenger comfort. Based on its examination of the details of the project the Authority considers the proposed capital expenditure as justifiable.

iv. Green Energy Initiatives

The Authority notes that the AO has proposed ₹ 7.50 Crores towards Green Energy Initiatives to be capitalized equally from FY 2025-26 to FY 2027-28. The AO envisages to reduce the power and fuel expenditure by shifting the dependency on traditional power sources to 100% green energy by FY 2030. The Authority notes that as per the Study conducted by ANERT (commissioned by the AO), the estimated cost for 5,200 KW (5.2 MW) solar plant, including the levelling of the ground is approximately ₹ 30 Crores. The AO is planning to undertake this project in a phased manner and proposes to construct the solar plant with 1.5 MW capacity in the current Control Period, at an estimated cost of ₹ 7.50 Crores.

The Authority also notes that present rate for Ground Mounted Solar Power Plant is approx. ₹4 Crores to ₹5 Crores per MW, based on the experience with other similar airports. The rate, however, is subject to increase or decrease depending on various factors such as the cost of land levelling, type of solar panel, efficiency of the solar inverter, solar brand, location of panels etc. Further, in the initial stage, all other works related to Solar Plant such as development of land, cable trench, transformer yard need to be completed by the AO. Although the implementation of this project is proposed to be undertaken by the AO in phases, the commissioning of Solar Plant (with respect to related works as mentioned above) has to be completed in one go. Considering the terrain conditions of the Kannur Airport, it is presumed that the land grading charges may be high. Based on the above factors, the Authority proposes to consider the aforementioned CAPEX of ₹ 7.50 Crores for capitalization from FY 2025-26 to FY 2027-28, treat the asset as "Common" and apportion it to Aeronautical activities in the ratio of Terminal Building, i.e., 92:8 (refer para 6.2.9 on Terminal Building ratio).

B3: Other Assets

The Authority has examined the need for implementation of various IT applications for automation of Airport operations. While examining the same, justification was sought from the AO that the requirement for IT applications arises at this stage of operations, which will enhance operational efficiency and optimise the overall performance of the Airport.

i Software Development and Implementation- ERP

The Authority notes that the AO has proposed ₹ 3.44 Crores towards development and implementation of ERP Software for capitalisation in FY 2023-24 and FY 2024-25. The Authority notes that the AO has awarded the ERP implementation contract to M/s TCS for an overall cost of ₹ 11.66 Crores. Out of the total Contract value, application amount of ₹ 3.19 Crores and additional implementation cost of ₹ 0.25 Crores is proposed for capitalization in the Second Control Period. The Authority notes that ERP software will be used for both Aeronautical and Non-Aeronautical areas and therefore proposes to consider the same as "Common" and apportion to Aeronautical activities in the ratio of Terminal Building, i.e., 92:8.

ii Software Development and Implementation-AODB (Airport Operational Database)

The Authority notes that the AO has proposed ₹ 2.78 Crores towards development and implementation of AODB Software for capitalisation in FY 2023-24 and FY 2026-27. Further, the proposed AODB system which is currently under implementation contains only basic modules such as Flight schedule management, Passenger counts, Aero Billing and related dashboards. However, in FY 2026-27, the AO has proposed to add another module, which is Resource Management System (RMS) to the AODB system. The Authority notes that the use of AODB software is essential for airports to enhance the operational efficiency, improve resource management, ensure smooth passenger flow, optimise the overall performance of the Airport and that the AO has awarded the implementation of AODB to M/s WAISL for an overall cost of ₹ 6.93 Crores. Out of the total contract value, the AO has proposed capitalization of application amount of ₹ 2.58 Crores and additional implementation cost of ₹ 0.20 Crores in the Second Control Period and the Authority considers the same to be justifiable. The Authority proposes to consider the aforementioned capital expenditure as 100% Aeronautical.

iii Digi Yatra

The Authority notes that Digi Yatra is an initiative of MoCA to provide a paperless and hassle-free journey to passengers through biometric authentication. The AO has proposed ₹ 1.50 Crores towards installation of Digi Yatra at Kannur International Airport. The Authority notes that the AO has planned to install the same only at limited gates and has therefore, projected the cost as ₹ 1.50 Crores (which is in line with the cost incurred at other similar airports). Based on the above factors, the Authority considers the proposed CAPEX to be reasonable.

iv E-Boarding Software

The AO has proposed ₹ 0.15 Crores towards E-Boarding Software to be capitalized in FY 2023-24. The Authority notes that AO is planning to implement Digi Yatra which includes E-boarding also and therefore, the Authority proposes to not consider this CAPEX for the Second Control Period.

v Biometric Airport Entry Permit (AEP)

The Authority notes that the AO has proposed ₹ 1.50 Crores towards installation of Biometric AEP during the Second Control Period, based on the cost incurred by Cochin Airport. However, the detailed estimate for this work is yet to be prepared by the AO. The Authority notes that the cost of this system depends on various parameters such as the number of employees to whom the entry cards are to be given, the number of entry and exit gates. Therefore, it may not be appropriate to determine the cost of this system based on the expenditure incurred other airports. Further, some of the works connected with this system may be covered within the scope of Digi Yatra. However, the Authority finds the requirement of the AO to be justifiable and proposes to consider the aforementioned CAPEX on actual incurrence basis, at the time of true up of the Second Control Period subject to reasonableness and efficiency.

vi Installation of Additional CCTV at grey areas

The Authority notes that the AO has proposed ₹ 1.50 Crores towards installation of additional CCTV cameras in areas identified by CISF and security department. The Authority notes that CISF has identified multiple grey areas at Kannur International Airport where CCTV coverage is not adequate. The Authority notes that CCTV cameras are to be installed as per norms and no record of BCAS inspection is available pointing out the deficiency of CCTV cameras. In the absence of documents justifying the requirement and cost estimates, the Authority proposes to consider the above CAPEX on actual incurrence basis, at the time of true up of the Second Control Period, while determining

tariff for the Third Control Period for Kannur International Airport, subject to reasonableness and efficiency.

vii Body Scanners

The Authority notes that as per BCAS guidelines, all hypersensitive airports are required to install Body Scanners and Kannur Airport falls under the category of sensitive airports.

The Authority further notes that the AO has projected ₹ 6 Crores for 2 numbers of body scanners and has proposed to capitalize it in FY 2027-28. The Authority finds the same to be reasonable and therefore, proposes to consider the same for capitalization in FY 2027-28.

viii Gate Operating System

The Authority notes that the AO has proposed ₹ 1.50 Crores towards Gate Operating System to be capitalized in FY 2027-28. The Authority notes that the AO has installed Visual Docking Guidance System (VDGS) at the airport which helps the aircrafts in navigating and stopping on the allotted parking stand. Integrating Gate Operating system with AVDGS will help in enhancing the Apron safety for inbound/ outbound aircraft. Gate Operating System will also help the airport in marking the On-Block and Off-Block time correctly which are currently being operated manually. The AO has obtained the quotation from M/s ADB Safegate amounting to ₹ 1.50 Crores for installation of Gate Operating System. The Authority notes that the current passenger throughput is not high and Airport has sufficient number of Passenger Boarding Bridges. Therefore, the Authority proposes to shift this CAPEX to the next Control Period.

ix BMS Upgradation with EMS

The Authority notes that the AO has proposed ₹ 0.45 Crores towards BMS upgradation with EMS to be capitalized in FY 2024-25. The Authority notes that Building Energy Management System (BEMS) is a more sophisticated Energy Management System (EMS) than Building Management System (BMS). While BMS provides the ability to monitor and control all systems centrally, BEMS provides monitoring and information specifically focused on systems involving energy use and demand that facilitates managers to reduce energy consumption. Such upgraded systems are available in new buildings, aiming to enhance operational efficiency. The Authority notes that the software caters to both aeronautical and non-aeronautical infrastructure. Based on the above factors, the Authority proposes to consider capitalization of this asset in FY 2024-25, treat the asset as "Common" and apportion it to Aeronautical activities in ratio of Terminal Building, i.e., 92:8.

x Website and Mobile App re-designing

The Authority notes that the AO has proposed ₹ 0.30 Crores towards Website and Mobile App re-designing. The Authority notes that upgradation of Website and Mobile App software is required at regular intervals for its smooth functioning. The Authority further notes that the software would be used for both Aeronautical and Non-Aeronautical purposes and therefore, the Authority proposes to consider it as "Common" and apportion the same to Aeronautical activities in the ratio of Terminal Building, i.e., 92:8.

xi Ancillary Hardware, Passenger Facilities, Lift Connectivity

The Authority notes that the AO has proposed ₹ 0.49 Crores towards Ancillary Hardware, ₹0.20 Crores towards Passenger facilitation and ₹ 0.65 Crores towards Lift Connectivity to be capitalized from FY 2023-24 to FY 2027-28. The Authority notes that the AO has not provided details for the above-mentioned capital expenditures. Hence, reasonableness of the project cannot be examined. However, the requirement of Hardware for installation of software cannot be dispensed off. Based on

the above factors, the Authority proposes to consider the above-mentioned capital expenditures on actual incurrence basis, at the time of true up of the Second Control Period subject to its reasonableness and efficiency.

- 6.2.8 The Authority has drawn inference from other PPP airports, regarding a trend amongst airport operators, wherein the capital projects are proposed in one Control Period and the same is postponed to the next Control Period. The Authority is of the view that such a practice is not in the interest of airport users as they start paying higher tariffs in anticipation of enhanced services against the proposed capital expenditure, which is eventually postponed to the next Control period by the AO. , Therefore, in order to ensure the efficiency and timely execution of the projects, the Authority proposes to re-adjust (reduce) 1% of the uncapitalized project cost from the ARR / target revenue, in case any particular capital project is not completed/ capitalized as per the approved capitalization schedule, while determining tariffs for the next Control Period. The Authority, further proposes that if the delay in the completion of the project is beyond the timeline mentioned in the capitalization schedule approved by the Authority, due to any reason beyond the control of the AO or its contracting agency and is properly justified, then the same would be considered by the Authority while truing up the actual cost at the time of determination of tariff for the next Control Period. The re-adjustment in the ARR/ Target Revenue is to protect the interest of the stakeholders who are paying for services provided by the AO.

Asset Allocation

- 6.2.9 The Authority notes that AO has submitted the Terminal Building ratio of 95%: 5% for Kannur International Airport, for the Second Control Period, for apportionment of common assets/ expenses for the current Control Period (refer para 4.5.11).

Considering the passenger profile at the Airport, the Authority is of the view that the Terminal Building ratio of 5% (Non-aeronautical area to total area) is lesser as compared to the similar airports such as Varanasi, Amritsar, Trichy, Calicut and Raipur. Therefore, the Authority proposes to consider the Terminal Building ratio of 92%:8% (Aeronautical: Non-aeronautical) as reasonable for apportionment of common assets within the Terminal Building and common O&M expenses for the Second Control Period (as stated in para 6.2.2 of the Asset Allocation Report). The same is in line with the ratio approved by the Authority for Kannur International Airport for the First Control Period, optimum Non-aeronautical area allocation of 8%-12% as recommended by IMG norms (for airports having passenger traffic of less than 10 MPPA) and that approved for other similar airports for the Second Control Period.

- 6.2.10 Based on the above, the Authority proposes the capital expenditure for the Second Control Period as per the table below:

Table 45: Capital Expenditure (Project-wise) proposed by the Authority for the Second Control Period

(₹ Crores)

S. No	Capital Expenditure Project	Year of Capitalisation		Capitalisation		
		Submitted by AO	Proposed by Authority	Submitted by AO (1)	Proposed by Authority (2)	Difference (3)= (2) - (1)
A. Capital additions projects shifted from the First Control Period to the Second Control Period						
A1.	Building, Roads, Bridges, Drains & Culverts					
	Construction of Integrated Cargo Terminal	2022-23	2023-24	32.20	32.20	-
	Cargo Terminal Commissioning	2027-28	2024-25	1.60	1.60	-

CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) OF KIA FOR THE SECOND CONTROL PERIOD

S. No	Capital Expenditure Project	Year of Capitalisation		Capitalisation		
		Submitted by AO	Proposed by Authority	Submitted by AO (1)	Proposed by Authority (2)	Difference (3)= (2) - (1)
	Total – Building, Roads, Bridges, Drains & Culverts			33.80	33.80	-
B. Capital Addition projects proposed by the AO for the Second Control Period						
B1.	Plant & Equipment					-
	BDDS Equipment	2026-27	2026-27	2.50	2.50	-
	Total – Plant & Equipment			2.50	2.50	-
B2.	Electrical Equipment					-
	CAT-1 runway approach lighting system	2024-25	2024-25	20.00	20.00	-
	2nd feeder line (33 KV Feeder from KSEB)	2026-27	2026-27	5.00	5.00	-
	Green Energy Initiative	2025-26	2025-26	2.50	2.30	(0.20)
		2026-27	2026-27	2.50	2.30	(0.20)
		2027-28	2027-28	2.50	2.30	(0.20)
	Enhancement of Power source (10 to 15 MW)	2025-26	-	5.00	-	(5.00)
	Lift Connectivity	2026-27	-	0.65	-	(0.65)
	Extra UPS for AGL-2 years after	2025-26	2025-26	0.90	0.90	-
	Total – Electrical Equipment			39.05	32.80	(6.25)
B3.	Other Assets					-
	Software Development & Implementation- ERP	2023-24	2023-24	3.19	2.94	(0.25)
		2024-25	2024-25	0.25	0.23	(0.02)
	Software Development & Implementation- AODB	2023-24	2023-24	2.58	2.58	-
		2026-27	2026-27	0.20	0.20	-
	Ancillary Hardware	2023-24	-	0.09	-	(0.09)
		2024-25	-	0.10	-	(0.10)
		2025-26	-	0.10	-	(0.10)
		2026-27	-	0.10	-	(0.10)
		2027-28	-	0.10	-	(0.10)
	Website & Mobile App re-designing	2023-24	2023-24	0.30	0.27	(0.03)
	E-Boarding Software	2023-24	-	0.15	-	(0.15)
	CBT Software for ASTI	2023-24	2023-24	0.37	0.37	-
		2024-25	2024-25	0.18	0.18	-
	Digi Yatra	2024-25	2024-25	1.50	1.50	-
	Centralised AOCC (with Video Wall etc)	2026-27	2026-27	0.40	0.40	-
	Passenger Facilities (enhanced WiFi, Information KIOSK, Passenger App, ChatBot etc)	2023-24	-	0.05	-	(0.05)
		2024-25	-	0.15	-	(0.15)
	Video Analytics Software	2024-25	2024-25	0.25	0.25	-
	Body Scanners	2027-28	2027-28	6.00	6.00	-
Gate Operating System	2027-28	-	1.50	-	(1.50)	
BHS Upgradation	2025-26	2025-26	0.25	0.25	-	
BMS Upgradation along with EMS	2024-25	2024-25	0.45	0.41	(0.04)	
Cargo Software	2027-28	2027-28	0.25	0.25	-	

CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) OF KIA FOR THE SECOND CONTROL PERIOD

S. No	Capital Expenditure Project	Year of Capitalisation		Capitalisation		
		Submitted by AO	Proposed by Authority	Submitted by AO (1)	Proposed by Authority (2)	Difference (3)= (2) - (1)
	Additional CCTV at grey area identified by CISF and Security Dept	2024-25	-	1.50	-	(1.50)
	Biometric AEP System	2023-24	-	0.50	-	(0.05)
		2024-25	-	1.00	-	(1.00)
	Total – Other Assets			21.51	15.83	(5.68)
Capital Expenditure proposed for the Second Control Period				96.86	84.93	(11.93)
Year-wise Capitalization of Assets is as follows (₹ Crores):						
FY 2023-24*	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total	
38.36	24.17	3.45	10.40	8.55	84.93	

*₹ 32.20 Crores of CAPEX pertains to FY 2023-24 and has been 80% completed.

6.2.11 The Authority has proposed to consider the capitalization of Aeronautical expenditure for Kannur International Airport for the Second Control Period as ₹ 84.93 Crores.

6.3 Depreciation for the Second Control Period

The Airport Operator's submission of Depreciation for KIA for the Second Control Period

- 6.3.1 The Airport Operator follows the policy of determining the rates of depreciation based on the 'useful life' of different asset classes. While submitting the Multi-Year Tariff Proposal for the Second Control Period for KIA, the Airport Operator has considered the rates of depreciation approved by the Authority vide Order No. 35 dated January 12, 2018, and Amendment No. 01 to Order No. 35 / 2017-18 on 'Determination of Useful Life on Airport Assets'.
- 6.3.2 Depreciation has been computed separately on opening block of assets and on the proposed additions.
- 6.3.3 For the additions to RAB, the Airport Operator has calculated the depreciation from the Financial Year, which is subsequent to the year in which the capitalization has been made.
- 6.3.4 The depreciation amount submitted by the Airport Operator for the Second Control Period has been presented in the table below:

Table 46: Depreciation submitted by the Airport Operator for KIA for the Second Control Period
(₹ Crores)

Asset Category	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Freehold Land	11.11	11.11	11.11	11.11	11.11	55.55
Leasehold Land	0.86	0.86	0.86	0.86	0.86	4.29
Pavements	9.06	9.06	9.06	9.06	9.06	45.31
Building, Roads, Bridges, Drains and Culverts	27.93	27.93	27.93	27.93	27.93	139.67
Fire Department Equipment	2.02	2.02	2.02	2.02	2.02	10.09
Plant & Equipment	3.32	3.32	3.32	3.32	3.51	16.81
Furniture & Fittings	1.42	1.42	0.98	-	-	3.82
Vehicles	0.06	0.06	0.04	0.04	0.03	0.24
Computer & Accessories	0.05	-	-	-	-	0.05
Office Equipment	0.05	-	-	-	-	0.05
Electrical Equipment	24.29	24.29	25.96	26.66	27.34	128.54
Other Assets	0.06	1.52	2.59	2.66	2.84	9.67
Financing Allowance- Depreciation	14.54	14.54	14.54	14.54	14.54	72.71
TOTAL	94.78	96.14	98.42	98.21	99.24	486.79

Authority's examination of Depreciation for the Second Control Period

- 6.3.5 The Authority noted that Opening RAB has been revised from ₹ 1,777.86 Crores (submitted by the Airport Operator, refer para 4.2.1) to ₹ 1,156.08 Crores (refer Table 13) based on adjustments made to the RAB and mentioned as per the para 7.4 and Table 19 of the "Study on allocation of assets between Aeronautical and Non-Aeronautical Assets for KIA". The Authority further, notes that on account of revision to the Opening RAB, the depreciation for the Second Control Period will also be revised accordingly.
- 6.3.6 The Authority has considered the depreciation as 50%, on the proposed additions to the RAB in the year of capitalization (assuming the asset may have been capitalized in the middle of the year).
- 6.3.7 Considering the above changes in the value of opening gross block of assets and proposed capital expenditure, the Authority proposes the following depreciation for the Second Control Period.

Table 47: Depreciation proposed by the Authority for KIA for the Second Control Period
(₹ Crores)

Asset Category	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Freehold Land	-	-	-	-	-	-
Leasehold Land	1.05	1.05	1.05	1.05	1.05	5.23
Pavements	9.60	9.60	9.60	9.60	9.60	48.02
Building, Roads, Bridges, Drains and Culverts	27.84	28.38	28.40	28.40	28.40	141.44
Fire Department Equipment	2.21	2.21	2.21	2.21	2.20	11.04
Plant & Equipment	1.94	1.93	1.93	2.08	1.58	9.46
Furniture & Fittings	1.44	1.42	1.38	0.16	0.03	4.43
Vehicles	0.03	-	-	-	-	0.03
Computer & Accessories	0.06	0.05	0.00	-	-	0.12
Office Equipment	0.05	0.00	0.00	0.00	-	0.06
Electrical Equipment	27.99	29.88	29.48	30.45	31.35	149.15

CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) OF KIA FOR THE SECOND CONTROL PERIOD

Asset Category	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Other Assets	1.05	2.40	2.80	2.94	4.02	13.22
TOTAL	73.27	76.94	76.87	76.89	78.24	382.21

6.4 Regulatory Asset Base (RAB) for the Second Control Period

AO's submission of RAB for the Second Control Period

6.4.1 The AO has submitted RAB for the Second Control Period as follows:

Table 48: RAB proposed by the Airport Operator for KIA for the Second Control Period

(₹ Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Opening RAB (1)	2,045.39	1,957.83	1,887.08	1,797.56	1,710.85	
Capital Additions (2)	7.23	25.38	8.9	11.5	12.1	65.11*
Depreciation (3)	-	-	-	-	-	-
Closing RAB (4) = [(1) + (2) - (3)]	94.78	96.14	98.42	98.21	99.24	486.79
Average RAB = [(1) + (4)]/2	1,957.83	1,887.08	1,797.56	1,710.85	1,623.71	
Opening RAB (1)	2,001.61	1,922.46	1,842.32	1,754.20	1,667.28	

*Difference of ₹ 0.45 Crores was noted in CAPEX considered by the AO for computing RAB. Further, CAPEX pertaining to Cargo Terminal amounting to ₹ 32.20 Crores has been shifted from the First Control Period to the Second Control Period.

Authority's examination of RAB for the Second Control Period

6.4.2 Combining all its propositions, RAB proposed to be considered by the Authority for determination of Aeronautical tariff for the Second Control Period is as follows:

Table 49: RAB proposed by the Authority for KIA for the Second Control Period

(₹ Crores)

Particulars	Ref.	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Opening RAB (1)		1,156.09	1,121.17	1,068.41	994.99	928.50	
Capital Additions (2)	Table 45	38.36*	24.17	3.45	10.40	8.55	84.93
Depreciation (3)	Table 47	73.27	76.94	76.87	76.89	78.24	382.21
Closing RAB (4) = [(1) + (2) - (3)]		1,121.17	1,068.41	994.99	928.50	858.81	
Average RAB = [(1) + (4)]/2		1,138.63	1,094.79	1,031.70	961.75	893.65	

* This includes ₹ 32.20 Crores of CAPEX pertaining to Cargo Terminal shifted from the First Control Period to the Second Control Period.

6.4.3 The Authority proposes to consider RAB for the Kannur International Airport for the Second Control

Period as detailed in Table 49.

6.5 Authority's proposal regarding Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base (RAB) for the Second Control Period

Based on the material before it and based on its analysis, the Authority proposes the following with regard to CAPEX, Depreciation and Regulatory Asset Base for the Second Control Period.

- 6.5.1 To consider the Terminal Building ratio of 92:8 in line with the recommendation of Assets Allocation Study report IMG norms and as approved by AERA for other similar Airports.
- 6.5.2 To adopt the capitalization of Aeronautical Expenditure for the Second Control Period in accordance with Table 45.
- 6.5.3 To reduce (adjust) 1% of the uncapitalized project cost from the ARR in case any particular capital project is not completed capitalized as per the approved capitalization schedule. The same will be examined during the true up of the Second Control Period, at the time of determination of tariff for the Third Control Period.
- 6.5.4 To true up the Aeronautical Capital expenditure based on actuals, cost efficiency and reasonableness, at the time of determination of tariff for Third Control Period.
- 6.5.5 To adopt Aeronautical Depreciation as per Table 47 for the Second Control Period.
- 6.5.6 To true up the Depreciation of the Second Control Period based on the actual asset additions and actual date of capitalization during the tariff determination of the Third Control Period.
- 6.5.7 To consider average RAB for the Second Control Period for KIA as per Table 49.
- 6.5.8 To true up the RAB based on actuals at the time of tariff determination for the Third Control period.

7 FAIR RATE OF RETURN (FRoR) FOR THE SECOND CONTROL PERIOD

7.1 AO's submission of FRoR for the Second Control Period

Cost of equity

7.1.1 The Airport Operator has evaluated the applicable Cost of equity. Based on this study, the Airport Operator has considered the Cost of equity as 16.00%.

7.1.2 The AO made the following submissions regarding equity and cost of equity for the Second Control Period:

“AO has considered a cost of equity of 16% in line with the decision of AERA for KIA in the First Control Period tariff order. Since the KIA received only one year of full operation due to the unprecedented impact of the pandemic, we request AERA to consider the same cost of equity for the second control period also.

Further, AO expects an additional equity infusion to the tune of INR 150 Crore in the FY 2024 which shows the stakeholder's keen interest in taking every possible initiative to recover from the pandemic impact on the airport.”

Cost of debt

7.1.3 The Cost of debt of KIA is the actual weighted average cost of debt incurred by AO on Security Deposit, the existing Term Loan and Funded Interest Term Loan (FITL).

7.1.4 The Airport Operator submitted that the Cost of debt for the First Control Period was 9.3% p.a. The audited financial statements of Kannur International Airport Limited for the year disclosed that it has an interest rate of 9.3% p.a. Further, it had also raised Funded Interest Term Loan from addition to FY 2021 for interest rate of 10.30 % p.a.

7.1.5 The AO is obligated to start the repayment of loans, borrowed in the first control period for funding its capital expenditure and interest servicing, from January 2023. The borrowing cost of this facility is 9.3% p.a.

7.1.6 The AO's submission of outstanding debt and cost of debt for the Second Control Period are as given in the table below.

Table 50: Cost of Debt computation as per Airport Operator's submission for the Second Control Period

Debt (in INR cr.)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Total Closing Debt	1,192.83	1,133.42	1,048.17	940.43	819.21
Average Debt	1,207.36	1,163.12	1,090.80	994.30	879.82
Cost of Debt (%)	9.40%	9.40%	9.40%	9.40%	9.40%

The Weighted average cost of capital

7.1.7 Based on the above, the Authority proposes to consider the following FRoR for the Second Control Period for AO:

Table 51: Cost of equity computation as per Airport Operator's submission

Particulars	%
Weighted Average Cost of Debt (A)	9.40%
Share of Equity (B)	56.50%
Cost of Equity (C)	16%
FRoR for the Second Control Period (B*C+A*(1-B))	13.10%

7.2 Authority's Examination of FRoR for the Second Control Period

Cost of equity

- 7.2.1 The Authority had commissioned independent studies for the evaluation of the cost of capital separately, in case of each PPP Airport, namely DIAL, MIAL, GHIAL, BIAL, and CIAL through a premier institute, namely IIM Bangalore and proposes to use these study reports as a basis, to the extent applicable and relevant, to ascertain the Cost of equity of the AO for the Second Control Period.
- 7.2.2 The independent study reports have drawn from the international experience of airports and their conclusions have been evaluated to the extent comparable with KIA in terms of hybrid till, ownership structure, size, scale of operations and regulatory framework. The median and average Cost of equity arrived at by the independent study reports are 15.16% and 15.18%, respectively, as shown in the table below:

Table 52: Computation of Cost of equity as per IIM Bangalore independent study reports

Particulars	CIAL	MIAL	BIAL	DIAL	GHIAL	Average
Risk-free rate (A)	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%
Equity beta (B)	0.9427	0.9391	0.9732	0.9296	0.9442	0.94576
Equity risk premium (C)	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%
Cost of equity $A + B * C$	15.16%	15.13%	15.40%	15.05%	15.17%	15.18%
Average Cost of Equity						15.18%

- 7.2.3 The above independent study reports have used the Capital Asset Pricing Model (CAPM) and a notional gearing (Debt: Equity) ratio of 48:52 to determine the levered Equity beta and accordingly, derive the Cost of equity.
- 7.2.4 Based on the above reports, the Authority proposes the Cost of equity of 15.18% for KIA for the Second Control Period.

Cost of debt

- 7.2.5 The Authority noted that the Airport Operator has considered Cost of debt at 9.40% for the Second Control Period based on its current borrowing rate from Joint lending agreement and loan agreement of Canara Bank, SIB, and Federal bank at the interest rate of 9.30% p.a. and Funded Interest rate of 10.30% p.a.
- 7.2.6 Further the Authority has also noted that average bank lending rate of public sector banks and scheduled commercial banks as per the Reserve Bank of India's publication of June 2023 has been in the range of 9.19% to 9.82% p.a.¹ The Authority has also noted that the average cost of debt of other five PPP

¹ <https://www.rbi.org.in/rbi-sourcefiles/lendingrate/LendingRates.aspx>

airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL is 8.96%.

7.2.7 Accordingly, the Authority has considered the Cost of Debt of 9% for the computation of the Fair Rate of Return.

Fair Rate of Return

7.2.8 Based on the above, the Authority proposes to consider the following FRoR for the Second Control Period for KIA:

Table 53: Fair Rate of Return proposed by the Authority for the Second Control Period

Parameter	%
Weighted average gearing of equity(A)	52.00%
Weighted average gearing of debt (B)	48.00%
Cost of equity (C)	15.18%
Cost of debt (D)	9.00%
Fair Rate of Return for the Second Control Period (E= A*C+(1-A) *D)	12.21%

7.3 Authority’s proposals regarding FRoR for the Second Control Period

Based on the materials before it and based on its analysis, the Authority proposes the following:

- 7.3.1 To consider the Cost of equity at 15.18% as per the CAPM formula.
- 7.3.2 To consider the notional debt to equity (gearing) ratio of 48%:52% in line with the target gearing ratio being considered in the case of other PPP airports.
- 7.3.3 To consider the cost of debt of 9% for the Second Control Period,
- 7.3.4 To consider FRoR of 12.21% for the Second Control Period based on above mentioned Cost of equity, Cost of debt and gearing ratio.

8 INFLATION FOR THE SECOND CONTROL PERIOD

8.1 AO's submission of Inflation for the Second Control Period

8.1.1 The AO has submitted the estimation of the WPI inflation based on RBI's Survey of Professional Forecasters on Macroeconomic Indicators dated 08 June 2022. i.e., 10% (the estimated WPI inflation) for the Second Control Period:

8.2 Authority's examination on inflation for the Second Control Period

8.2.1 The Authority proposes to consider the recent "Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 83" released on August 10, 2023 published by the Reserve Bank of India (RBI). Accordingly, the Authority proposes to consider the mean of WPI inflation forecasts (All Commodities) for FY 2024 till FY 2028 as given in the 83rd round of survey of professional forecasters on macroeconomic indicators of RBI.

8.2.2 The Authority has assumed that the inflation rate would be stable and remain constant from FY 2025 till FY 2028. Accordingly, the following table shows the inflation rates as proposed by the Authority for the Second Control Period.

Table 54: Inflation rates proposed by the Authority for the Second Control Period for Kannur Airport

Particulars	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
WPI inflation	0.10%	4.0%	4.0%	4.0%	4.0%

8.3 Authority's proposal regarding inflation for the Second Control Period

Based on the material before it and its analysis, the Authority proposes the following with regard to Inflation for the Second Control Period:

8.3.1 To consider Inflation in the Second Control Period for Kannur Airport as detailed in Table 54.

9 OPERATION AND MAINTENANCE (O&M) EXPENSES FOR THE SECOND CONTROL PERIOD

9.1 AO’s submission of Operation and Maintenance (O&M) Expenses for the Second Control Period

9.1.1 AO in its MYTP submission has stated that the Aeronautical Operation and Maintenance (O&M) expenses for the Second Control Period has been estimated based on the following assumptions:

- Employee costs, Administration, Security, Vehicle running and other operational expenses have been segregated into Aeronautical and Non-Aeronautical activities in the proportion of number of employees providing Aeronautical and Non-aeronautical services.
- Repair and Maintenance Expenses, and housekeeping expenses have been segregated into Aeronautical and Non-Aeronautical activities, based on the ratio of terminal building
- Power, Fuel and water charges have been considered based on actuals.
- Custom cost recovery charges, Aviation MET charges, CNS-ATM charges and Cargo handling expenses have been considered as Aeronautical expenses.
- FY 2022-23 has been considered as the base year and relevant growth percentages have been applied over the same to estimate expenses for the other Financial Years.

The AO has submitted the following categories of O&M expenses in its MYTP submission:

Table 55: O&M expenses (category wise) claimed by the Airport Operator in the MYTP for the Second Control Period

Type of O&M Expense	Expense Category
Employee Expenses	Manpower Expenses
Aeronautical Operating Expenses	Repair and Maintenance Expenses
	Security Expenses
	Power & Fuel Expenses
	Utility Expenses
	Operation & Maintenance Expenses
	Housekeeping Expenses
	Operating Expenses
	Insurance
	Communication, Navigation and Surveillance expenses
	Trolley Retrieval Services and Aviation Meteorological Services
	Other Expenses
Administrative Expenses	
Legal, professional and consultancy charges	
Postage, printing & Stationery expenses	
Rent	
	Travelling Expenses

9.1.2 The AO has segregated the O&M expenses into Aeronautical, Non-aeronautical and Common expenses. Allocation ratios have been used to further segregate the Common expenses into Aeronautical and Non-aeronautical categories. The basis adopted by the AO for allocation and segregation of O&M expenses is as follows:

Table 56: Segregation of O&M expenses into Aeronautical and Non-aeronautical expenses and the basis of allocation as per Airport Operator's submission

Expense Category	Expense classification	Allocation Basis	Aeronautical	Non-aeronautical
Manpower Expenses	Common	Employee Head Count Ratio	93.33%	6.67%
Security Expenses	Common	Employee Head Count Ratio	93.33%	6.67%
Other Operational Expenses	Common	Employee Head Count Ratio	93.33%	6.67%
Repair and Maintenance Expenses	Common	Terminal Building Ratio	94.5%	5.5%
Other Utility Expenses	Common	Terminal Building ratio	94.5%	5.5%
Operation & Maintenance Expenses	Common	Terminal Building ratio	94.5%	5.5%
Housekeeping Expenses	Common	Terminal Building ratio	94.5%	5.5%
Insurance	Common	Terminal Building ratio	94.5%	5.5%
Power & Fuel Expenses	Aeronautical	-	100%	0%
Communication, Navigation and Surveillance expenses	Aeronautical	-	100%	0%
Trolley Retrieval Services	Aeronautical	-	100%	0%
Aviation Meteorological Services	Aeronautical	-	100%	0%
Cargo handling and other cargo related expenses	Aeronautical	-	100 %	0%
Consultancy charges	Aeronautical	-	100 %	0%
Rent	Common	Terminal Building ratio	94.5%	5.5%
Postage, printing & Stationery expenses	Common	Employee Head Count Ratio	93.33%	6.67%
Legal, Professional and Recruitment charges	Common	Employee Head Count Ratio	93.33%	6.67%
Travelling Expenses	Common	Employee Head Count Ratio	93.33%	6.67%
Administrative Expenses	Common	Employee Head Count Ratio	93.33%	6.67%
Insurance	Common	Terminal Building Ratio	94.5 %	5%
Marketing Cost	Aeronautical	-	100 %	0%

9.1.3 The total Aeronautical O&M expenses submitted by the AO for the Second Control Period have been presented as follows:

Table 57: Total Aeronautical Operation and Maintenance (O&M) expenses submitted by the Airport Operator for Second Control Period

(₹ Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
<u>Aeronautical Operating Expenses</u>						
Manpower expenses	11.16	11.72	12.31	12.92	13.57	61.68
Repair and Maintenance expenses	1.64	1.76	1.94	2.13	2.35	9.83
Security	0.56	0.62	0.68	0.75	0.82	3.43
Power and Fuel	13.15	14.43	15.87	17.46	19.20	80.11
Operations & Maintenance Expenses	11.26	11.00	12.10	38.31	39.64	112.31
Other utility expenses	0.69	0.75	0.82	0.90	0.99	4.15
House Keeping	11.54	12.69	13.96	15.36	16.89	70.45
Other operational expenses	0.13	0.07	0.08	0.08	0.09	0.45
Aviation Meteorological Support Services	1.19	1.19	1.19	1.19	1.19	5.95
Communication, Navigation and Surveillance and Air Traffic Management Services	1.63	1.08	0.54	0.66	0.41	4.32
Land lease expenses	-	-	-	-	0.01	0.01
Trolley Retrieval Services	0.42	0.46	0.51	0.56	0.62	2.57
Aeronautical Operating Expenses (A)	53.38	55.77	59.99	90.32	95.78	355.25
<u>Other Expenses</u>						
Cargo handling charges	0.33	0.37	0.41	0.45	0.50	2.05
Other cargo related expenditure	0.10	0.11	0.12	0.13	0.15	0.61
Administrative Expenses	6.90	7.59	8.35	9.19	10.10	42.14
Marketing cost	0.88	2.02	2.30	2.60	2.95	10.75
Consultancy Charges	2.42	2.66	2.93	3.22	3.54	14.77
CSR Expenditure	-	-	0.25	0.88	1.40	2.53
Employee Training expenses	0.18	0.20	0.22	0.24	0.27	1.12
Rent	0.03	0.03	0.03	0.03	0.03	0.17
Other Expenses (B)	8.43	10.32	11.68	13.53	15.40	59.36
Total Aeronautical O&M Expenses (A+B)	61.81	66.09	71.67	103.85	111.19	414.61

9.1.4 The growth rates assumed by the Airport Operator for total Aeronautical O&M expenses have been presented in the tables below:

Table 58: Growth rates for total Aeronautical Operation and Maintenance (O&M) expenses submitted by the AO for the Second Control Period

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Aeronautical Operating Expenses (A)					
Manpower expenses	5%	5%	5%	5%	5%

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Repair and Maintenance expenses	3%	7%	10%	10%	10%
Security	10%	10%	10%	10%	10%
Power and Fuel	7%	10%	10%	10%	10%
Operations & Maintenance Expenses	15%	-2%	10%	217%	3%
Other utility expenses	20%	7%	10%	10%	10%
House Keeping	10%	10%	10%	10%	10%
Other operational expenses	81%	-45%	10%	10%	10%
Trolley Retrieval Services	10%	10%	10%	10%	10%
Other Expenses (B)					
Cargo handling charges	20%	11%	11%	11%	12%
Other cargo related expenditure	10%	10%	10%	10%	10%
Administrative Expenses	10%	10%	10%	10%	10%
Marketing cost	-	130%	14%	13%	13%
CSR Expenditure	-	-	-	259%	58%
Employee Training expenses	10%	10%	10%	10%	10%

9.2 Authority's examination regarding the Operation and Maintenance (O&M) Expenses for the Second Control Period

The Authority has examined the basis and estimation of O&M expenses submitted by the AO for the Second Control Period. The Authority notes that the AO has analyzed O&M expenses considering infrastructure requirements, personnel costs, equipment maintenance, utilities, security measures and other costs. The Authority has conducted a detailed analysis of O&M expenses submitted by the AO and its allocation into Aeronautical and Non-Aeronautical expenses.

Allocation Ratios

9.2.1 The following ratios have been analyzed and recomputed by the Authority for appropriate segregation of Common expenses between Aeronautical and Non-Aeronautical for the Second Control Period.

Terminal Building Ratio

9.2.2 The Authority observed that AO has considered the terminal building ratio of 94.5%:5.5% based on the terminal building ratio approved in the tariff order for the First Control Period. The Authority examined the Terminal Building ratio submitted by the AO and proposes to consider the Terminal Building Ratio of 92%:8% for the Second Control Period, in accordance with the recommendations of IMG norms (which has recommended the Non-aeronautical area within the terminal building for airports having passenger traffic of less than 10 MPPA to be in the range of 8% to 12% of the total terminal area), Independent Study report on Allocation of Assets of KIA and the ratio considered by AERA in the past for other similar airports.

Gross Fixed Assets Ratio

9.2.3 The Authority notes that AO has submitted the Gross Fixed Assets Ratio based their Terminal Building ratio and allocation of assets into Aeronautical and Non-Aeronautical. The Authority based on the revised Opening RAB, Terminal Building Ratio and allocation of assets into Aeronautical and

Non-Aeronautical has re-computed the Gross Fixed Assets Ratio as follows:

Table 59: Gross Fixed Assets ratio proposed by the Authority for the Second Control Period

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Aeronautical Gross Block (A)	1,502.59	1,488.41	1,467.68	1,474.63	1,472.78
Non-Aeronautical Gross Block (B)	79.93	79.93	79.93	79.93	79.93
Total Gross Block (C=A+B)	1,582.52	1,568.34	1,547.62	1,554.57	1,552.72
Gross Fixed Assets Ratio (A/C)	94.95%	94.90%	94.84%	94.86%	94.85%
Average Gross Fixed Assets Ratio	94.88%				

Employee Head Count Ratio

9.2.4 The AO has segregated the Manpower Expenses between Aeronautical and Non-Aeronautical in the employee ratio of 93.33%:6.67% for the Second Control Period, which has been derived based on the headcount of Aeronautical and Non-Aeronautical staff within the airport. The Aeronautical Employee Headcount claimed by the AO is presented below:

Table 60: Aeronautical Employee Head Count submitted by the Kannur International Airport Operator for the Second Control Period

Particulars	Classification	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
MD's Office	Common	4	4	4	4	4
Human Resources	Common	2	2	2	2	2
Finance	Common	6	6	6	6	6
Admin & Land	Common	2	2	2	2	2
Secretarial	Aeronautical	1	1	1	1	1
Engineering-Civil & Electrical	Aeronautical	14	14	14	14	14
IT & Electronics	Aeronautical	4	4	4	4	4
Operations	Aeronautical	24	24	24	24	24
Airport Security	Common	31	31	31	31	31
ARFF	Aeronautical	55	55	55	55	55
Total Aeronautical Employee Head count submitted by AO		142	142	142	142	142
Non-aeronautical employees		10	10	10	10	10
Total Employee Headcount of submitted by AO		152	152	152	152	152
Employee Headcount Ratio submitted by AO		93.33%	93.33%	93.33%	93.33%	93.33%
5-year Average of Total Employee Headcount Ratio submitted by AO		93.33%				

The Airport Operator has not projected any growth in the Employee Headcount for the Second Control Period. The AO has considered the Aeronautical Employee Headcount of FY 2022-23 for the entire Second Control Period. Based on the above factors, the Authority has considered the Aeronautical Headcount derived by it for FY 2022-23 (which is 128 as per Table 23) for projecting the Employee Headcount for the Second Control Period.

The Employee Headcount Ratio derived by the Authority for the Second Control Period is shown in the Table below:

Table 61: Aeronautical Employee Head Count of the Airport Operator and the Revised EHCR proposed by the Authority for the Second Control Period

Department	Classification	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
MD's Office	Common	4	4	4	4	4
Liaison Office	Non- Aeronautical	1	1	1	1	1
Human Resources	Common	2	2	2	2	2
Finance	Common	6	6	6	6	6
Admin & Land	Common	2	2	2	2	2
Secretarial	Common	1	1	1	1	1
Engineering-Civil & Electrical	Aeronautical	14	14	14	14	14
IT & Electronics	Common	4	4	4	4	4
Commercial	Non- Aeronautical	6	6	6	6	6
Operations	Aeronautical	24	24	24	24	24
Airport Security	Common	19	19	19	19	19
ARFF	Aeronautical	55	55	55	55	55
Total		138	138	138	138	138
Direct Aeronautical Employees						
Direct Aeronautical Employees		93	93	93	93	93
Common employees						
Common employees		38	38	38	38	38
Direct Non- Aeronautical Employees						
Direct Non- Aeronautical Employees		7	7	7	7	7
Common employee's apportionment						
Aeronautical		35	35	35	35	35
Non- Aeronautical		3	3	3	3	3
Total		38	38	38	38	38
Head Count after apportionment of Common employees						
Total Number of Aero Employees		128	128	128	128	128
Total Number of Non-Aero Employees		10	10	10	10	10
Revised Employee Headcount Ratio of AO, derived by the Authority		93.00%	93.00%	93.00%	93.00%	93.00%
5-year Average of Revised Employee Headcount Ratio of AO, derived by Authority		93%				

The Authority proposes to consider the Employee Headcount ratio of 93:7, as shown in the above table.

Summary of Allocation ratios proposed by the Authority for the Second Control Period

9.2.5 The Allocation ratios proposed by the Authority for the Second Control Period are as follows:

Table 62: Allocation ratios proposed by the Authority for the Second Control Period

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Terminal Building Ratio	92%	92%	92%	92%	92%
Gross Fixed Assets Ratio	94.95%	94.90%	94.84%	94.86%	94.85%
Employee Head Count Ratio	93%	93%	93%	93%	93%

Classification and Allocation of O&M expenses

9.2.6 The Authority's proposal for allocation of total Aeronautical O&M expenses of KIA as compared to that submitted by the Airport Operator has been summarized in the table below:

Table 63: Allocation of Total Aeronautical O&M expenses for Airport Operator proposed by the Authority for the Second Control Period

Expense Category	Allocation claimed by AO	Allocation proposed by Authority
Manpower Expenses	93.33%	93%
Security Expenses	93.33%	93%
Operating Expenses	93.33%	93%
Repair and Maintenance Expenses	94.50%	92%
Utility Expenses	94.50%	92%
Operation & Maintenance Expenses	94.50%	92%
Housekeeping Expenses	94.50%	92%
Power & Fuel Expenses	100%	100%
Communication, Navigation and Surveillance expenses	100%	-
Trolley Retrieval Services	100%	100%
Aviation Meteorological Services	100%	100%
Cargo handling and other cargo related expenses	100%	100%
Land Lease Expenses	100%	100%
Rent	94.50%	92%
Postage, printing & Stationery expenses	93.33%	93%
Legal, Professional and Recruitment charges	93.33%	93%
Travelling Expenses	93.33%	93%
Administrative Expenses	93.33%	93%
Marketing Cost	100%	Gross Fixed Assets Ratio

Examination of O&M Expenses and its allocation into Aeronautical and Non-Aeronautical expenses

9.2.7 The Authority has examined the O&M expenses submitted by the AO for the Second Control Period. The Authority has considered the unaudited financials of FY 2022-23, as the basis for determining the projected O&M expenses for the Second Control Period of KIA.

The Authority in the following paragraphs presents its analysis of each expense category and its

corresponding allocation, organized in the following sequence:

- a) Inflationary increase
- b) Manpower expense and its allocation
- c) Repairs and Maintenance and its allocation
- d) Security expense and its allocation
- e) Power and Fuel expense and its allocation
- f) Utility expense and its allocation
- g) Operation and Maintenance and its allocation
- h) Housekeeping and its allocation
- i) Cargo related expense and its allocation
- j) Administrative expense and its allocation
- k) Marketing expense and its allocation

Inflationary increase

9.2.8 The Authority, on examination of the submission made by AO, notes that WPI Inflation of 10% has been considered towards all expenses. However, the Authority in its detailed analysis in Chapter 8, proposes to consider WPI inflation of 4% Y-o-Y published in the results of the 83rd round of the Survey of Professional Forecasters on Macroeconomic Indicators released on August 10, 2023.

Manpower expenses

9.2.9 The Authority, while examining the Airport Operator's submission towards Manpower expenses notes the following:

- i. **Manpower Expenses** – The Airport Operator has submitted the following projected salary cost per employee per annum and increase in the total employee headcount:
 - a. Salary cost projected per annum - The Airport Operator has submitted a weighted average employee cost of ₹ 7.14 lacs per annum for FY 2021-22 and projected an increase of 5% year-on-year (Y-o-Y) for the Second Control Period. As per the submission of the Airport Operator, the weighted average employee cost of ₹ 7.14 lacs per annum has been derived after considering the actual salary cost of all employees such as Managing Director, Engineers, Human Resource, Finance, IT, Security, etc.

Based on the above factors, the Authority proposes to consider the weighted average employee salary cost of ₹ 7.14 lacs per annum in FY 2021-22 as reasonable. Further, the Authority proposes to consider the growth rate of 5% Y-o-Y in the Manpower expenses, submitted by the AO for the Second Control Period.
 - b. Employee Headcount - – Based on the analysis provided under para 9.2.4, the Authority proposes to consider the Employee Headcount as shown in Table 61.

The Employee cost proposed by the Authority for KIA for the Second Control Period, based on the Aeronautical Employee Headcount derived by the Authority, is as follows:

Table 64: Manpower Cost of Aeronautical Employees proposed by the Authority, based on the revised Head Count for the Second Control Period

Particulars	Unit	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Aeronautical Employee Headcount claimed by AO	No.	142	142	142	142	142	
Growth % claimed by the AO	%	5%	5%	5%	5%	5%	
Manpower Cost of employees claimed by the AO	₹ in Crores	11.16	11.72	12.31	12.92	13.57	61.68
Aeronautical Employee Head count proposed by the Authority	No.	128	128	128	128	128	
Growth % proposed by the Authority	%	5%	5%	5%	5%	5%	
Manpower Cost of employees proposed by the Authority	₹ in Crores	10.10	10.60	11.13	11.69	12.27	55.80

Employee Training Expenses

9.2.10 The Authority notes that AO has segregated the Employee Training expenses in the Employee ratio, i.e., 93.33:6.67, which the Authority proposes to re-allocate in the Employee ratio of 93:7 (Refer Table 62).

Repair and Maintenance expenses

9.2.11 The Authority examined the expenses towards Repairs and Maintenance and notes that the AO has proposed Repair and Maintenance expenses of ₹ 9.83 Crores for the Second Control Period showing an increase of 3% and 7% in first 2 tariff years of the Second Control Period and an increase of 10% year-on-year for remaining 3 years on repair and maintenance expenditure for the Second Control Period. The R&M expenses proposed by the Kannur International Airport are within the limit of 6% of Opening Net Block (RAB) of each tariff year in the Second Control Period.

Based on the above factors, the Authority proposes to consider the R&M expenses submitted by the AO for the Second Control Period.

9.2.12 Further, the Authority notes that the AO has segregated the other repair and maintenance expenses in the Terminal Building Ratio, i.e., 94.5:5.5. However, the Authority proposes to consider re-allocate the Repairs and Maintenance expenses in the ratio of 92:8.

Security expenses

9.2.13 The Authority notes that AO has proposed a 10% year-on-year increase in the Security expenses for the Second Control Period. Considering that Security expense increases based on growth in traffic, the Authority notes that the 10% growth proposed by AO as reasonable and proposes to consider the same.

The Authority observes that the AO has segregated Security expenses in the Employee ratio, i.e., 93.33:6.67 and considers the same as reasonable.

Power & Fuel Expenses

9.2.14 The Authority notes that AO has considered the Power & fuel expenses as Aeronautical, which the

Authority finds to be reasonable.

- 9.2.15 The Authority notes that AO has proposed a 7% increase in the Power & Fuel expenses in the first tariff year and further 10% year-on-year increase for the remaining 4 tariff years in the Second Control Period. The AO has proposed the Power & Fuel expenses of ₹ 80.11 Crores considering the 7% growth in first tariff year of Second Control Period and 10% year-on-year growth in remaining 4 tariff years.

Table 65: Recovery of utility costs from Concessionaires

(₹ Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Power & Fuel Costs claimed by AO (A)	13.15	14.43	15.87	17.46	19.20	80.11
Utility costs recovered from Concessionaires by AO (B)	0.95	1.05	1.15	1.27	1.39	5.81
% of recovery from Concessionaire (B/A)	7.22%	7.28%	7.25%	7.27%	7.24%	7.25%

The AO has projected the power and fuel costs amounting to ₹ 80.11 Crores which also includes the utilities costs incurred by Concessionaires, which has been recovered by the AO (which is 7.25% of the total power costs incurred by AO as per above table). The Authority notes that the power recovery percentage is significantly lower than that of comparable airports. The Authority is of the view that with the gradual increase in the Non-Aeronautical operations, the AO should increase the power recovery from the Concessionaires. Accordingly, the Authority proposes to consider power recoveries at a notional rate of 25%, while determining tariff for the next Control Period.

Based on the above factors, the Authority proposes to consider the growth of 5% year-on-year for the Power & Fuel expenses for the Second Control period.

Operation & Maintenance Expenses

- 9.2.16 The Authority notes that the AO has submitted ₹ 112.31 Crores of Operation and Maintenance Expenditure for the Second Control Period which includes the Operation and Maintenance Expenses amounting to ₹ 62.31 Crores (which mainly consists of AMC and other miscellaneous expenses) and Runway surface maintenance of ₹ 50 Crores to be incurred during FY 2026-27 and FY 2027-28 (₹ 25 Cr. to be incurred in each of the above 2 Financial Years).

The Authority is of the view that the runway resurfacing/ recarpeting may be carried out at an interval of 7 to 10 years (as per the practice generally followed in all airports). However, the periodicity depends on various factors such as weather conditions, surface movements, materials used for resurfacing etc. Considering the fact that Kannur is in a heavy rainfall area and the runway has been constructed over high depth of earth filling on undulated hilly surface, there may be chances of secondary and unequal settlement which can deteriorate the runway surface. Although, the runway work was completed in the year 2017, it was put to use only by the end of FY 2018-19. Further, the Authority notes that Kannur International Airport began its commercial operations in December 2018 and soon after, its operations were curtailed due to COVID-19 pandemic, whereby, the runway has not been utilized fully. Also, currently, there seems to be no deterioration in the runway surface. Hence, the Authority proposes not to consider the expenses towards Runway surface maintenance in

this Control Period.

However, if due to any urgent requirement, the AO undertakes the work of runway resurfacing/ recarpeting in the Second Control Period the same may be considered on actual incurrence basis, subject to efficiency and reasonableness, by the Authority at the time of true up of the Second Control Period, while determining tariff for the next Control Period.

The Authority notes that AO has segregated the Operation & Maintenance expenses in the Terminal Building Ratio, i.e., 94.5:5.5, which the Authority has re-allocated based on the Terminal Building Ratio of 92:8 (Refer Table 62).

Post re-allocation of Operation and Maintenance expenses in the Terminal Building ratio of 92:8, the Authority has derived the Operation and Maintenance expenses of ₹ 60.66 Crores, which it proposes to consider for the Second Control Period.

Other utility Expenses

- 9.2.17 The Authority notes that the AO has submitted ₹ 4.15 Crores of other utility expenses which represents the water charges and has projected the growth of 10% year-on-year growth for the Second Control Period. The Authority proposes to consider the inflationary effect on the utility expenses year-on-year across the Second Control Period, as followed in other similar airports.

The Authority notes that AO has segregated the other utility expenses in the Terminal Building Ratio, i.e., 94.5:5.5, which the Authority has re-allocated based on the Terminal Building Ratio of 92:8 (Refer Table 62).

Aviation Meteorological Services, Land lease expenses, Trolley Retrieval Services and Cargo handling expenses

- 9.2.18 The Authority notes that the AO has submitted ₹ 5.95 Crores of Aviation Meteorological Services. The Aviation Meteorological Service charges refers to the reimbursement of salary cost and support service charges payable on monthly basis to Indian Meteorological Department (IMD) by the AO for the aviation meteorological services provided to the airport and is based on the Memorandum of Understanding (MOU) entered between AO and IMD. The AO has availed the Aviation Meteorological Services for the smooth functioning of the Airport and based on the agreed terms. Based on the above factors, the Authority proposes to consider the same as reasonable.

The Authority notes that the AO has considered the Aviation Meteorological Services, Land lease expenses, Trolley retrieval services and cargo handling charges as Aeronautical, which the Authority finds to be reasonable.

Administrative Expenses

- 9.2.19 The Authority notes that the AO has submitted ₹ 42.14 Crores for Administrative expenses towards postage & courier, printing & stationery, legal & professional, recruitment, travelling, consultancy and insurance charges. The Authority notes that the AO has projected 10% year-on-year growth for the Administrative expenses. The Administrative expenses submitted by the Airport Operator for the Second Control Period is as follows:

Table 66: Administrative expenses submitted by Airport Operator for the Second Control Period

(₹ Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Administrative Expenses	0.14	0.16	0.17	0.19	0.21	0.87
Insurance	1.43	1.57	1.73	1.90	2.09	8.71
Consultancy	2.42	2.66	2.93	3.22	3.54	14.77
Miscellaneous Expenses	0.40	0.44	0.48	0.53	0.58	2.43
Postage & Courier Charges	0.06	0.07	0.07	0.08	0.09	0.36
Printing & Stationery Charges	0.18	0.19	0.21	0.24	0.26	1.08
Legal & Professional Fees	1.45	1.59	1.75	1.93	2.12	8.83
Recruitment Expenses	0.14	0.16	0.17	0.19	0.21	0.87
Travelling Expenses	0.69	0.76	0.84	0.92	1.01	4.21
Total	6.90	7.59	8.35	9.19	10.10	42.14

9.2.20 The Authority has analyzed each component of the Administrative Expenses and the same is as follows:

Table 67: Administrative Expenses proposed by the Authority

(₹ Crores)

Particulars	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total	Basis considered by the Authority
Administrative Expenses	0.14	0.16	0.17	0.19	0.21	0.86	Administrative expenses pertains to office expenses such as, communication charges, telephone charges, bank charges, meeting expenses, newspapers and periodicals, refreshment, etc. The AO has proposed 10% year-on-year growth, which the Authority considers to be reasonable.
Insurance	1.43	1.57	1.73	1.90	2.09	8.71	Insurance costs pertains to insurance of all the assets at the Airport. The AO has allocated the insurance cost based on TB Ratio and has considered growth of 10% year-on-year. The Authority proposes to re-allocate the cost based on Gross Fixed

OPERATION AND MAINTENANCE (O&M) EXPENSES FOR THE SECOND CONTROL PERIOD

Particulars	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total	Basis considered by the Authority
							Assets Ratio, as it covers all the assets of the Airport.
Consultancy	1.21	1.33	1.46	1.60	1.77	7.36	Consultancy expenses projected by the AO pertains to appointment of consultants for route development initiatives, airline marketing, debt restructuring, and assessment of capital expenditure projects in Second Control Period (SCP). The AO has projected an increase of 10% year-on-year for the SCP. The Authority notes that the AO has projected Consultancy expenses for the SCP based on the actual expenses of FY 2022-23 which majorly consist of consultancy fees for route development, tariff determination, marketing plan for target carriers, traffic projections etc. As these are one-time service requirements, which may not be recurring in the current control period, the same may not be an appropriate basis for projecting consultancy expenses for the Second Control Period. Therefore, the Authority proposes to consider ₹ 7.39 Crores (which is about 50% of the Consultancy expenses claimed by the AO) for the Second Control Period.
Miscellaneous Expenses	0.08	0.09	0.10	0.10	0.12	0.48	Miscellaneous expenses projected by the AO pertains to refreshments and miscellaneous expenses. The AO has shown the increase of 10% year-on-year for the SCP. The Authority notes that AO has incurred only ₹ 0.07 Crores towards

OPERATION AND MAINTENANCE (O&M) EXPENSES FOR THE SECOND CONTROL PERIOD

Particulars	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total	Basis considered by the Authority
							Miscellaneous expenses for FY 2022-23. On the above basis, the Authority has derived the Miscellaneous expenses for the Second Control period, by considering 10% Y-o-Y growth on the actual expense of FY 2022-23.
Postage & Courier Charges	0.06	0.06	0.06	0.07	0.07	0.32	Postage & Courier and Printing & Stationery expenses pertains to the office expenses and the AO has shown the increase of 10% year-on-year for the SCP. The Authority proposes to increase the estimates by 4% annually, in line with the Inflation rate (WPI) from FY 2024-25.
Printing & Stationery Charges	0.18	0.18	0.19	0.20	0.21	0.96	
Legal & Professional Fees	1.36	1.41	1.46	1.52	1.58	7.32	The AO has submitted the increase of 10% year-on-year for Legal & Professional charges. The Authority notes that the legal expenses are not considered as a passthrough expense. Therefore, the Authority proposes to exclude the Legal expenses and consider only the Professional expenses (which includes Ind AS consultancy Fee , Consent Fee of Pollution Control Board, Audit Fee etc.) for the Second Control Period. The Authority proposes to increase the estimates by 4% annually, in line with the Inflation rate (WPI) from FY 2024-25, considering the fact that these may include long term contracts.
Recruitment Expenses	-	-	-	-	-	-	Recruitment expenses pertains to hiring of employees and AO has shown increase of 10% year-on-year.

Particulars	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total	Basis considered by the Authority
							The Authority notes that the AO has projected the only same Employee Headcount for all the tariff years for the SCP. As there is no increase in projected headcount, the Authority proposes not to consider the recruitment expenses for the Second Control Period.
Travelling Expenses	0.69	0.72	0.74	0.77	0.80	3.72	Travelling expenses pertains to travel of employees and other consultants and AO has shown increase of 10% year-on-year. The Authority proposes to increase the estimates by 4% annually, in line with the Inflation rate (WPI) from FY 2024-25.
Total	5.13	5.50	5.91	6.36	6.84	29.74	

The Authority notes that the AO has segregated the Administrative expenses in the Employee ratio of 93.33:6.67, which the Authority proposes to re-allocate in the revised Employee ratio of 93:7.

Marketing Cost

- 9.2.21 The Authority notes that the AO has considered the Marketing Cost as Aeronautical. Since, marketing cost promotes both Aeronautical and Non-Aeronautical revenues, the Authority proposes to re-allocate the marketing cost in Gross Fixed Assets Ratio for the Second Control Period.

The Authority notes that the AO has submitted ₹ 10.75 Crores towards Marketing cost in the Second Control Period and has projected the growth of 130% in Marketing cost during FY 2024-25 and 13%-14% from FY 2025-26 to FY 2027-28. The Authority had approved the marketing cost of ₹ 10.75 Crores in the Tariff Order of the First Control Period, but the AO had not incurred any expense towards marketing during the First Control Period due to COVID-19 pandemic. Therefore, the AO has submitted the same in the Second Control Period, as it needs to spend on marketing activities to enhance the visibility of the Airport. Based on the above factors, the Authority proposes to consider Marketing costs for the Second Control Period. Further, the Authority has derived the Marketing costs as ₹ 10.20 Crores, after the re-allocation of the marketing cost as Common and its apportionment to Aeronautical expenses in the ratio of Gross Fixed Assets.

CSR Expenditure

- 9.2.22 The Authority notes that the CSR Expenditure is estimated in accordance with the statutory requirements under the Companies Act, 2013, viz., 2% of the average profits of the preceding 3 financial years. The Authority further notes that the AO has incurred losses of ₹ 748.51 Crores during the First Control Period which can be carried forward up to 8 years. Considering the traffic growth

and carry forward of losses, the Authority is of the view that the AO may not be able to generate sufficient profits in the Second Control Period. Since, CSR Expenditure is dependent upon the profitability of the individual years of operation, the same may be evaluated and trued up at the time of determination of tariff for the next Control Period.

Rent

- 9.2.23 The Authority notes that the AO has submitted ₹ 0.17 Crores of rent expenses for the liaison office of Kannur International Airport in Thiruvananthapuram. The Authority has reviewed the rent agreement and notes that the expenses projected by the AO is as per the terms of the agreement and hence, the Authority proposes to consider the same for the Second Control Period.

The Authority notes that AO has segregated the Rent in the Terminal Building Ratio, i.e., 94.5:5.5, which the Authority has re-allocated in the Terminal Building Ratio of 92:8 (Refer Table 62).

Housekeeping expenses

- 9.2.24 The Authority notes that the AO has submitted ₹ 70.45 Crores of Housekeeping expenses, which includes housekeeping charges for Integrated Terminal Building, ATC Building, administrative office and other ancillary buildings. The Authority notes that the AO has awarded the contract for housekeeping services to various vendors and projected 10% year-on-year growth towards Housekeeping expenses for the Second Control Period. The Authority notes that the housekeeping contract does not include any clause on the escalation of rates. Therefore, the Authority proposes to consider the actual cost as per the contract for the First Tariff year and adjust it with inflationary increase for the remaining 4 tariff years.

Communication, Navigation and Surveillance and Air Traffic Management Services (CNS-ATM)

- 9.2.25 The Authority notes that AO has submitted ₹ 4.32 Crores towards CNS-ATM Services. The Authority notes that AO has projected the CNS-ATM charges showcasing the negative growth in first 3 tariff years of the Second Control Period. The Authority notes that AAI provides the CNS-ATM services at the Kannur International Airport on 'quarterly cost recovery' basis and the same is based on the terms and conditions of the agreement entered into between AAI and AO (as per Clause 5.1.1 and 7.4 of the Agreement between AO and AAI). As per the agreement, the AO is required to reimburse AAI for the difference in cost incurred in providing CNS-ATM services and revenue earned for the same services.

This Consultation Paper discusses the determination of tariffs for Aeronautical services at the Airport excluding ANS, as tariff for ANS is presently regulated by the Ministry of Civil Aviation for all the airports. Therefore, all the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining the 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 assets, expenses and revenues from ANS. Hence, the Authority proposes to not consider the CNS-ATM charges proposed by the AO.

Cargo handling expenditure

- 9.2.26 The Authority notes that the AO has submitted ₹ 2.05 Crores towards Cargo handling expenditure for the Second Control Period. The AO had started its Cargo operations in October 2021, from an interim cargo facility and the operations are presently continuing from the same facility. It is noted that the international imports had commenced only in May 2022 and the international cargo represents approx. 99% of the total cargo volume handled by the AO. The Authority notes that the AO has

projected the Cargo handling charges based on the projected Cargo volume for the Second Control Period. The AO has derived the cargo related expenditure based on the projected Cargo volume and the existing tariff for Cargo operations. Based on the above factors, the Authority proposes to consider the Cargo handling expenditure as reasonable.

Other Cargo handling expenditure

9.2.27 The Authority notes that the AO has submitted ₹ 0.61 Crores towards Other Cargo handling expenditure for the Second Control Period. The Authority notes that the expense includes internet charges and outsourcing charges with respect to Cargo Operations. Based on the above factors, the Authority proposes to consider the same as reasonable.

9.2.28 Based on the above observations, the Authority, has derived the total Aeronautical O&M expenses of KIA for the Second Control Period and the same is as follows:

Table 68: Operation and Maintenance (O&M) Expenses proposed by the Authority for Airport Operator for the Second Control Period

Particulars	FY	FY	FY	FY	FY	Total
	2023-24*	2024-25	2025-26	2026-27	2027-28	
<i>(₹ Crores)</i>						
<u>Aeronautical O&M Expenses</u>						
Manpower expenses	10.10	10.60	11.13	11.69	12.27	55.80
Repair and Maintenance expenses	1.60	1.72	1.89	2.08	2.29	9.57
Security	0.56	0.62	0.68	0.75	0.82	3.43
Power and Fuel	10.38	10.85	11.34	11.85	12.38	56.79
Operations & Maintenance Expenses	10.97	10.71	11.78	12.96	14.25	60.66
Other utility expenses	0.68	0.70	0.73	0.76	0.79	3.66
House Keeping	9.90	10.30	10.71	11.14	11.58	53.62
Other operational expenses	0.13	0.07	0.08	0.08	0.09	0.45
Aviation Meteorological Support Services	1.19	1.19	1.19	1.19	1.19	5.95
Communication, Navigation and Surveillance and Air Traffic Management Services	-	-	-	-	-	-
Land lease expenses	-	-	-	-	0.01	0.01
Trolley Retrieval Services	0.42	0.46	0.51	0.56	0.62	2.57
Cargo handling charges	0.33	0.37	0.41	0.45	0.50	2.05
Other cargo related expenditure	0.10	0.11	0.12	0.13	0.15	0.61
Administrative Expenses	5.13	5.50	5.91	6.36	6.84	29.74
Marketing cost	0.84	1.92	2.18	2.47	2.80	10.20
CSR Expenditure	-	-	-	-	-	-
Employee Training expenses	0.18	0.20	0.22	0.24	0.27	1.12
Rent	0.03	0.03	0.03	0.03	0.03	0.17
Total Aeronautical O&M Expenses	52.52	55.35	58.91	62.73	66.88	296.38

* Projections for FY 2023-24 have been derived based on unaudited financials of FY 2022-23.

9.2.29 As can be seen above, the total O&M expenses proposed by the Authority for Second Control Period is ₹ 296.38 Crores.

9.2.30 Based on above considerations, the Authority proposes the following growth rates in Operation and

Maintenance (O&M) expenses for Aeronautical Operating expenses, as compared to the projections submitted by the Airport Operator.

Table 69: Growth rates in O&M expenses considered by the Authority for the Second Control Period

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Manpower expenses	-	5%	5%	5%	5%
Repair and Maintenance expenses	-	7%	10%	10%	10%
Security	-	10%	10%	10%	10%
Power and Fuel	-	5%	5%	5%	5%
Other utility expenses	-	4%	4%	4%	4%
House Keeping	-	10%	10%	10%	10%
Trolley Retrieval Services	-	7%	7%	8%	8%
Other cargo related expenditure	-	5%	5%	5%	5%
Administrative Expenses	-	7%	10%	10%	10%
Employee Training expenses	-	10%	10%	10%	10%

9.2.31 The Authority expects AO to bring in efficiencies in the incurrence of O&M expenses for the benefit of airport users and in line with AERA Act, AERA Guidelines and ICAO Principles.

9.3 Authority’s proposal regarding O&M expenses for the Second Control Period

Based on the material before it and on its examination, the Authority proposes the following with regard to O&M expenses for the Second Control Period:

9.3.1 To consider O&M Expenses for the Second Control Period as per Table 68.

9.3.2 To consider the O&M expenses incurred by the Airport Operator during the Second Control Period subject to reasonableness and efficiency, at the time of tariff determination for the next Control Period.

10 NON-AERONAUTICAL REVENUE FOR THE SECOND CONTROL PERIOD**10.1 AO's submission of Non-aeronautical revenue for the Second Control Period**

10.1.1 The AO has submitted that the Non-Aeronautical Revenues for the Second Control Period have been forecasted based on agreements entered with various Concessionaires, traffic projections and inflation. The AO has submitted NAR under the following streams:

- i. **Monthly Lease Rental:** Lease rentals are charges paid to AO for the area leased for the specific business operation. The lease rental has been calculated on the basis of existing contractual terms with the respective nonaeronautical business entity. Lease rentals are assumed to have an escalation of 10% annually.
- ii. **Space Rentals:** The AO has assumed an escalation rate of 10% on the existing contracts of Space Rental.
- iii. **Revenue share from Concessionaire:** This signifies the share of total revenue accrued to the entity that is payable to AO. The revenue share from concessionaires is assumed to increase in the same growth rate as that of passenger traffic. It is also assumed that the average purchase value will increase by 5% to account for the retail inflation.
- iv. **Minimum Monthly Guarantee (MMG):** MMG contracts majorly consist of retail contracts. The concessionaire is supposed to pay a fixed monthly guarantee to AO till the traffic crosses the threshold as prescribed in the respective contract. The projections for MMG are done on the basis of respective contract terms.
- v. **Common Area Maintenance (CAM):** CAM charge is collected by AO from concessionaires for maintenance of area allotted to the concessionaire. This is projected as per the terms in the contract. It is assumed to have an annual escalation of 10%.
- vi. **Interest Income:** Interest income has been forecasted based on deposit rates and the last year's closing cash and cash equivalent balance.

10.1.2 Based on the above factors, the Non-aeronautical revenue submitted by the Airport Operator for KIA is given in the table below:

Table 70: Non-aeronautical revenue submitted by Airport Operator for KIA for the Second Control Period.

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
1. Passenger Related Services						
Car Parking Revenue Share	1.18	1.38	1.54	1.68	1.81	7.58
Car Parking Toll Collection	1.12	1.30	1.46	1.59	1.71	7.17
Pre-Booked Taxi Collection – Agency	0.71	0.82	0.92	1.01	1.09	4.55
Sale of Visitors Entry Pass	0.06	0.06	0.06	0.06	0.06	0.30
2. Revenue Share from Concessionaire						
	9.06	17.49	20.60	23.57	26.74	97.46
3. Other Revenue						
Monthly License	3.10	3.07	3.22	3.45	3.69	16.54
Monthly Guarantee Fee	0.83	0.86	0.94	1.04	1.14	4.81
Space Rental Charges	4.61	5.34	5.88	6.46	7.11	29.40
CAM Charges	0.84	0.91	0.99	1.07	1.16	4.97

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Utility Charges	0.95	1.05	1.15	1.27	1.39	5.81
Other Income including interest Income	5.24	10.14	10.26	12.48	13.91	52.02
Total Non-aeronautical Revenue (1+2+3)	27.70	42.42	47.02	53.66	59.82	230.62

10.1.3 The growth assumed by the AO have been presented in the table below:-

Table 71: Growth rates assumed by AO for Non-aeronautical revenue

Particulars (in INR Crore)	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1. Passenger Related Services					
Car Parking Revenue Share	39.07%	16.49%	11.95%	8.90%	8.05%
Car Parking Toll Collection	39.07%	16.49%	11.95%	8.90%	8.05%
Pre-Booked Taxi Collection – Agency	39.07%	16.49%	11.95%	8.90%	8.05%
Sale of Visitors Entry Pass	0.00%	0.00%	0.00%	0.00%	0.00%
2. Revenue Share from Concessionaire	49.52%	93.07%	17.75%	14.40%	13.47%
3. Other Revenue					
Monthly License	26.87%	-0.92%	4.83%	6.93%	7.13%
Monthly Guarantee Fee	10.84%	3.05%	10.00%	10.00%	10.00%
Space Rental Charges	37.56%	15.80%	10.00%	10.00%	10.00%
CAM Charges	80.05%	8.37%	8.50%	8.62%	8.73%
Utility Charges	10.00%	10.00%	10.00%	10.00%	10.00%
Other Income including interest Income	(17.37)%	93.67%	1.21%	21.60%	11.47%

10.2 Authority's examination regarding Non-aeronautical revenue for the Second Control Period

10.2.1 The Authority notes that the AO's projection of Non-aeronautical revenues for the Second Control Period of ₹ 230.62 Crores, constitutes nearly 56% of total O&M expenses (₹ 414.61 Crores) projected by AO for the Second Control Period.

10.2.2 The Authority has considered Unaudited figures submitted by AO for FY 2022-23 for deriving projected Non-aeronautical revenue for the Second Control Period.

Monthly Lease Rental

10.2.3 The Authority notes that the AO has applied 10% Y-o-Y growth rate only on certain components of Monthly lease rentals such as Pre-paid taxi. Whereas on other components such as Telecommunication, ATM etc., the AO has not considered any increase, while determining projected NAR for the Second Control Period. The Authority has therefore re-computed Monthly lease rentals for the Second Control Period by considering a 10% Y-o-Y growth for all the revenue categories under lease rentals, by taking cognizance of the projected growth in the passenger traffic and likelihood of increase in the area allotted for Non-aeronautical operations (which may be in the range of 8% to 10%, in line with the IMG norms and as followed in other similar airports).

Space Rental

10.2.4 The Authority notes that Space Rental has been considered based on AO's existing space rental

contracts and has proposed 10% Y-o-Y for the Second Control Period. Based on the above factors, the Authority considers the projection towards Space rental to be reasonable.

Revenue share from Concessionaire

10.2.5 Revenue share from Concessionaire includes revenue from Pre-Paid Taxi, Retail Outlets, Lounge, Baggage Wrapping Services , etc and other passenger related services. Considering the positive outlook of the GDP growth predicted by the GoI, increase in the consumer spending pattern and passenger traffic, the growth rate as per AO's submission has been considered to be reasonable. Therefore, the Authority proposes to consider a growth rate as projected by AO for Second Control Period.

Minimum Monthly Guarantee (MMG)

10.2.6 The Authority notes that MMG contracts may have no further growth, as the same is linked to the growth in the passenger traffic, which may happen towards the end of the Second Control Period. Based on the above factors, the Authority considers the projections towards MMG to be reasonable.

Common Area Maintenance (CAM)

10.2.7 The Authority notes that the CAM charge depends on the area allotted to the Concessionaire. With the likelihood of increase in the area allotted for Non-aeronautical operations, the Authority proposes to consider 10% increase in CAM for the Second Control Period, in line with its projection of Monthly Lease Rentals (as explained in para 10.2.3).

Utility Charges

10.2.8 The Authority notes that Utility Charges recovered from Concessionaires are in the nature of expenses and should not be considered as revenue. Based on the same, the Utility charges recovered from Concessionaires have been excluded from the Non Aeronautical Revenue and adjusted against the Power and Water charges included as part of the O&M Expenses for the Second Control Period.

Other Income Including Interest Income

10.2.9 The Authority notes that Other Income includes Deferred income on fair valuation of financial liabilities, Miscellaneous Income, Reversal of TNLC charges by AAI, realization of debtors written off in the previous years and reversal of provision for impairment on debtors, interest income earned on the Cash and Cash Equivalent and Insurance claim received and Net (gain) / loss on Foreign currency.

10.2.10 The Airport Operator has considered an interest rate of 7.00% for the calculation of interest income for the Second Control Period. The Authority has considered the prevailing interest rates of major scheduled banks for Fixed Deposits (as per Table below) and finds AO's assumption of 7.00% to be reasonable.

Table 72: Prevailing rates of select major banks

Banks	Interest Rates on Fixed Deposit
Axis Bank	6.75% - 7.25%
ICICI Bank	6.70% - 7.20%
HDFC Bank	6.75% - 7.25%
SBI Bank	5.75% - 6.80%

Note: Rates for tenure in the range of 9-15 months have been considered. The rates as per the official websites of the banks as on August 3, 2023

Table 73: Non-aeronautical revenues proposed by the Authority for Kannur International Airport for the Second Control Period

(In ₹ Crores)

Particulars	FY 2023-24*	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
1. Passenger Related Services						
Car Parking Revenue Share	1.18	1.38	1.54	1.68	1.81	7.58
Car Parking Toll Collection	1.95	2.15	2.36	2.60	2.86	11.92
Pre-Booked Taxi Collection – Agency	1.05	1.16	1.27	1.40	1.54	6.42
Sale of Visitors Entry Pass	0.28	0.31	0.34	0.38	0.41	1.73
2. Revenue Share from Concessionaire	9.06	17.49	20.60	23.57	26.74	97.46
3. Other Revenue						
Monthly License	4.36	4.79	5.27	5.80	6.38	26.60
Monthly Guarantee Fee	0.83	0.86	0.94	1.04	1.14	4.81
Space Rental Charges	8.93	9.82	10.81	11.89	13.08	54.53
CAM Charges	0.50	0.55	0.61	0.67	0.74	3.08
Other Income including interest Income	5.24	10.14	10.26	12.48	13.91	52.02
Total Non-aeronautical Revenue (1+2+3)	33.39	48.65	54.01	61.49	68.61	266.15

*Derived based on the Unaudited figures of FY 2022-23

Table 74: Growth rates in Non-aeronautical revenue proposed by the Authority

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
1. Passenger Related Services					
Car Parking Revenue Share	0.00%	16.49%	11.95%	8.90%	8.05%
Car Parking Toll Collection	10.00%	10.00%	10.00%	10.00%	10.00%
Pre-Booked Taxi Collection – Agency	10.00%	10.00%	10.00%	10.00%	10.00%
Sale of Visitors Entry Pass	10.00%	10.00%	10.00%	10.00%	10.00%
2. Revenue Share from Concessionaire	49.07%	93.07%	17.75%	14.40%	13.47%
3. Other Revenue					
Monthly License	10.00%	10.00%	10.00%	10.00%	10.00%
Monthly Guarantee Fee	0.00%	0.00%	0.00%	0.00%	0.00%
Space Rental Charges	10.00%	10.00%	10.00%	10.00%	10.00%
CAM Charges	10.00%	10.00%	10.00%	10.00%	10.00%

10.3 Authority's proposal regarding Non-aeronautical revenue for the Second Control Period

Based on the material before it and its analysis, the Authority proposes the following with regard to Non-aeronautical revenue for the Second Control Period:

10.3.1 To consider Non-aeronautical revenues for the Second Control Period for KIA as per Table 73.

11 TAXATION FOR THE SECOND CONTROL PERIOD

11.1 AO's submission of Taxation for the Second Control Period

11.1.1 The AO has submitted that the computation of income tax on aeronautical income, has been made on the prevailing Income Tax laws and rules.

11.1.2 AO has calculated the revenue generated from Regulated services, Non-aeronautical revenue Aeronautical operating expenses, interest and financing charges, and depreciation on Straight Line Method (SLM) of assets as per the Income Tax Act. After calculating the Profit Before Tax (PBT), a tax rate of 34% was applied, after setting off prior losses. The Aeronautical taxes submitted by AO are shown in the table below:

Table 75: Taxation submitted by AO for the Second Control Period

(₹ Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Aeronautical revenues	206.45	245.62	274.99	304.55	328.00	1,359.61
Operational expenditure	61.81	66.09	71.67	103.85	111.19	414.61
Depreciation	94.78	96.14	98.42	98.21	99.24	486.79
Interest	107.09	103.16	96.71	88.10	77.88	472.94
PBT	(57.23)	(19.77)	8.19	14.39	39.68	(14.74)
Tax Rate Applicable	34.00%	34.00%	34.00%	34.00%	34.00%	
Tax	-	-	1.43	2.51	6.93	10.87

11.2 Authority's examination of Taxation for the Second Control Period

11.2.1 The Authority notes that AO has incurred prior period losses amounting ₹ 748.51 Crores during the First Control Period (refer Table 35).

11.2.2 Further, the Authority takes cognizance of the fact that Aeronautical Taxation is dependent upon the tariff rate card approved by the Authority for Kannur International Airport for the current Control Period. Therefore, the Authority proposes to determine the Aeronautical taxes for the current Control Period after its examination of the Tariff Rate Card submitted by the AO for the current Control Period (which is within 7 days from the date of issuance of this Consultation Paper), post the completion of stakeholders' consultation process.

11.2.3 For the purpose of this Consultation Paper, the Authority proposes to consider the Aeronautical taxes claimed by the AO amounting to ₹ 10.87 Crores. (refer Table 75)

11.3 Authority's proposal regarding Taxation for the Second Control Period

Based on the material before it and based on its analysis, the Authority proposes the following with regard to Taxation for the Second Control Period.

11.3.1. To consider the Taxation for the Second Control Period for KIA, Kannur as per Table 75.

11.3.2. To true up the aeronautical tax amount appropriately taking into consideration all relevant facts at the time of tariff determination for the Third Control Period.

12 QUALITY OF SERVICE FOR THE SECOND CONTROL PERIOD

12.1 AO's submission regarding Quality of Service for the Second Control Period

12.1.1 The AO has not made any submissions related to Quality of Service as part of its MYTP submission made in March, 2023.

12.2 Authority's examinations regarding Quality of Service for the Second Control Period

12.2.1 The Authority notes that:

- As per section 13(1) (a)(ii) of the AERA Act, 2008, the Authority shall determine the tariff for aeronautical services taking into consideration - "the service provided, its quality and other relevant factors."
- As per section 13(1) (d) of the AERA Act, 2008, the Authority shall "monitor the set performance standards relating to quality, continuity and reliability of service as may be specified by the Central Government or any authority authorized by it in this behalf;"

12.2.2 The Airport Operator has not shared the details on the ASQ ratings of the Airport for the First Control Period, as no ASQ survey was conducted since the commencement of the Airport (i.e. from FY 2018-19), as such surveys could not be conducted due to the adverse impact of Covid-19 pandemic.

12.2.3 The Authority notes that Kannur International Airport is a newly constructed Airport, hence ASQ ratings are not available. The Authority will review the Quality-of-Service parameters based on the ASQ ratings achieved by KIA and take action as appropriate at a later stage. Therefore, the Authority does not propose any adjustment towards tariff determination for the Second Control Period on account of quality of service of KIA.

12.3 Authority's proposal regarding Quality of Service for the Second Control Period

Based on the material before it and based on its analysis, the Authority proposes the following with regard to Quality of Service for the Second Control Period:

12.3.1 Not to consider any adjustment towards tariff determination for the Second Control Period with regard to Quality of Service.

13 RETURN ON LAND FOR THE SECOND CONTROL PERIOD

13.1 AO's submission on Return on Land cost for the Second Control Period

13.1.1 The AO has claimed the following Return on Land cost for Kannur International Airport for the Second Control Period:

Table 76 : Kannur International Airport's Submission of Return on Land for the Second Control Period

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Land Cost	167.31	167.31	167.31	167.31	167.31
Aero Ratio (%)	94.50%	94.50%	94.50%	94.50%	94.50%
Aero Land	158.11	158.11	158.11	158.11	158.11
Yearly Cost of Debt (%)	9.39%	9.39%	9.39%	9.39%	9.39%
Return on Land	15.92	15.92	15.92	15.92	15.92
Total Return on Land for the control Period	79.60				

13.2 Authority's analysis regarding Return on land for the Second Control Period

13.2.1 The AO had initially acquired 1,192.18 acres of land at a value of ₹ 316 Crores for development of phase 1 of the airport from the Government of Kerala through Kerala Industrial Infrastructure Development Corporation (KINFRA), the nodal agency for land acquisition appointed by the Government and carried out development of the airport on approx. 500 acres of such land.

The proportionate value for 631.38 acres of land used for Aeronautical activities works out to ₹ 167.31 Crores and the same is considered by the Authority for providing return on the cost of land.

13.2.2 As stated in para 4.5.6 (ii), the Authority has proposed not to consider Land Development costs amounting to ₹ 333.28 Crores, as part of RAB or as part of Land cost (for which Return is provided as per Order No. 42/ 2018-19) for true up of the First Control Period of the AO. Accordingly, the land development costs have not been considered for computation of Return on Land for the Second Control Period.

13.2.3 As per Land Return Order No. 42/2018-19 dated March 5, 2019, for Land purchased by airport operating company either from private parties or from government, the compensation will be by way of equated annual installment computed at actual cost of debt or SBI rate plus 2% whichever is lower over a period of 30 years.

The Authority has considered 9.00 % as the cost of debt (refer para 7.2.7) for computing the Return on Land.

13.2.4 Based on the above facts, the Authority has re-computed the Return on the cost of Land as follows:

Table 77 : Return on Land for the Second Control Period as proposed by the Authority

(In Crores)

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Land Cost	167.31	167.31	167.31	167.31	167.31
Terminal Building ratio (%)	92%	92%	92%	92%	92%
Aero Land	153.93	153.93	153.93	153.93	153.93
Yearly Cost of Debt (%)	9.00%	9.00%	9.00%	9.00%	9.00%

RETURN ON LAND COST FOR THE SECOND CONTROL PERIOD

Particulars	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Return on Land	14.98	14.98	14.98	14.98	14.98
Total Return on Land for the Second Control Period	74.91				

* *Return Value = Equated Annual Instalment computed at actual cost of debt*
 & *Equated Annual Instalment = [Cost*Rate*(1+Rate)^30] / [(1+Rate)^30-1]*

13.3 Authority’s proposals relating to Return on Land for the Second Control Period

Based on the material before it and based on its analysis, the Authority proposes the following with regard to Return on Land for the Second Control Period:

13.3.1 The Authority proposes to consider Return on Land as per Table 77.

14 AGGREGATE REVENUE REQUIREMENT (ARR) FOR THE SECOND CONTROL PERIOD

14.1 AO's submission of ARR for the Second Control Period

14.1.1 The summary of ARR has been presented in the table below.

Table 78: ARR submitted by AO for the Second Control Period

Particulars	(₹ Crores)					Total
	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	
Average RAB	1,686.09	1,606.94	1,526.80	1,438.69	1,351.76	
FRoR	13.10%	13.10%	13.10%	13.10%	13.10%	
Return on RAB	220.92	210.55	200.05	188.50	177.11	997.12
Return on Land	15.92	15.92	15.91	15.91	15.89	79.55
Depreciation	94.78	96.14	98.42	98.21	99.24	486.79
Operational & Maintenance Cost	61.81	66.09	71.67	103.85	111.19	414.61
Tax	-	-	1.43	2.51	6.93	10.88
Non-Aeronautical Revenue	27.70	42.42	47.02	53.66	59.82	230.62
NAR cross-subsidy	8.31	12.73	14.11	16.10	17.95	69.19
True of Previous Control Period	2,109.91	-	-	-	-	2,108.73
Aggregate Revenue Requirement (ARR)	2,495.00	375.97	373.38	392.89	392.42	4,029.66
Actual aeronautical revenues	204.02	243.36	272.90	302.66	326.32	1,349.25
Discount offered to airlines - other than RCS	-	-	-	-	-	-
Adjusted aeronautical revenues for discounts	204.02	243.36	272.90	302.66	326.32	1,349.25
Surplus (+)/ Deficit (-)	(2,290.98)	(132.61)	(100.48)	(90.23)	(66.11)	(2,680.41)
Discount factor	1.85	1.64	1.45	1.28	1.13	7.34
PV of surplus (+)/ deficit (-)	(4,240.20)	(217.01)	(145.37)	(115.42)	(74.77)	(4,792.77)

14.2 Authority's examination of Aggregate Revenue Requirement (ARR) for the Second Control Period

14.2.1 The observations and proposals of the Authority across the regulatory building blocks impact the computation of ARR and Yield. With respect to each element of the regulatory building blocks considered by AO in computation of ARR and Yield in the table above, the Authority proposes to consider the regulatory building blocks as discussed in the previous chapters.

14.2.2 The Authority notes that KIA being a Greenfield Airport had incurred huge capital expenditure in the First Control Period. However, the air traffic and airport operations of KIA were severely impacted by COVID 19 pandemic, soon after the commencement of its commercial operations in December 2018. This had resulted in a higher ARR/ Under-recovery in the First Control Period. Further, the existing traffic base is not sufficient for the complete recovery of ARR in the current Control Period and this would require a significant increase in tariff, which is likely to adversely impact the recovery of air traffic.

In this regard, the Authority would like to draw reference to the guiding principles issued by the International Civil Aviation Organization ("ICAO") on charges for Airports and Air Navigation Services (ICAO DoC 9082), which lays down the main purpose of economic oversight which is to achieve a balance between the interest of Airports and the Airport Users. This policy document categorically

AGGREGATE REVENUE REQUIREMENT (ARR) FOR THE SECOND CONTROL PERIOD

specifies that *caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and end users*. The said policy document also emphasizes on balancing the interests of airports on one hand and aircraft operators, end users on the other, in view of the importance of the air transport system to States. This should be applied particularly during periods of economic difficulty. Therefore, the policy document recommends that States encourage increased cooperation between airports and aircraft operators to ensure that the economic difficulties facing them all are shared in a reasonable manner.

This may also be read in conjunction with the objectives of the National Civil Aviation Policy (NCAP) 2016, which intends to provide affordable and sustainable air travel for passengers/ masses. As per para 12 (c) of the NCAP, “In case the tariff in one particular year or contractual period turns out to be excessive, the Airport Operator and the Regulator will explore ways to keep the tariff reasonable and spread the excess amount over the future.” The above has also been conveyed by AERA vide its Order No. 14/2016-17 dated January 12, 2017.

Further, it is pertinent to note that there is a significant mismatch between the designed capacity of the Airport (which is 9.34 MPPA) and the actual passenger throughput. This has resulted in a situation of over-capacity, which may eventually lead to higher operating expenses, thereby burdening the Airport users with higher tariffs. As considerable investments in capacity have already been made which would be sufficient for the foreseeable future, the AO should keep in mind the current utilization of the Airport capacity, before planning any further investment in CAPEX.

Based on the above considerations, the Authority proposes to carry forward some portion of the ARR to the next Control Period in the harmonious interest of all the stakeholders chain including the Airport Operator.

14.2.3 After considering the above factors, the Authority proposes the following ARR and YPP:

Table 79: ARR proposed to be considered by the Authority for the Second Control Period

(₹ Crores)

Particulars	Table/ Para Ref.	FY	FY	FY	FY	FY	Total
		2023-24	2024-25	2025-26	2026-27	2027-28	
Average RAB = A	Table 49	1,138.63	1,094.79	1,031.70	961.75	893.65	
Fair Rate of Return = B	Table 53	12.21%	12.21%	12.21%	12.21%	12.21%	
Return on average RAB C= A*B		139.03	133.67	125.97	117.43	109.11	625.22
O&M expenses – D	Table 68	52.52	55.35	58.91	62.73	66.88	296.39
Depreciation – E	Table 47	73.27	76.94	76.87	76.89	78.24	382.21
Return on Land - F	Table 77	14.98	14.98	14.98	14.98	14.98	74.90
Taxation – J	Table 75	-	-	1.43	2.51	6.93	10.87
ARR per year = SUM (C:J)		279.80	280.94	278.16	274.54	276.14	1,389.59
Add: PV of Under-recovery of the First Control Period as on March 31, 2023	Table 36	1,189.34					
ARR – M		1,469.14	280.94	278.16	274.54	276.14	2,578.93
NAR	Table 73	33.39	48.65	54.01	61.49	68.61	266.15
Less: 30% NAR – N		10.02	14.60	16.20	18.45	20.58	79.85
Net ARR = (M-N)		1,459.12	266.35	261.96	256.09	255.56	2,499.08
Discount factor (@ 12.21%)		1	0.89	0.79	0.71	0.63	
PV of ARR/ Target Revenue (₹ Crores)		1,459.12	237.37	208.05	181.26	161.21	2,247.01

AGGREGATE REVENUE REQUIREMENT (ARR) FOR THE SECOND CONTROL PERIOD

Particulars	Table/ Para Ref.	FY	FY	FY	FY	FY	Total
		2023-24	2024-25	2025-26	2026-27	2027-28	
Sum Present value of ARR (₹ Crores)		2,247.01					2,247.01
Total Traffic (million passengers)	Table 41	12.09					12.09
Yield per passenger on Total Traffic (YPP) (₹)		1,858.57					1,858.57
Departing Passengers		6.05					6.05
Yield per Departing Passenger (₹)		3,717.13					3,717.13

14.2.4 The Authority notes that, it is necessary to have the individual year-wise tariff card laying down the different aeronautical charges and the workings for the aeronautical revenues, in order to have a constructive stakeholder discussion and therefore, the AO is directed to submit the detailed Annual Tariff proposals in line with the ARR and Yield derived by the Authority within 7 days of the issue of the Consultation Paper.

14.3 Authority's proposal regarding Aggregate Revenue Requirement (ARR) for the Second Control Period

Based on the material before it and based on its analysis, the Authority proposes the following with regard to ARR for the Second Control Period:

- 14.3.1 To consider the ARR and YPP for the Second Control Period for KIA, Kannur in accordance with Table 79.
- 14.3.2 To direct AO to submit the Annual Tariff Proposal (Tariff Rate Card) within 7 days from the issuance of this Consultation Paper which will be published/ circulated for stakeholder consultations.

15 SUMMARY OF AUTHORITY'S PROPOSALS

Chapter 4: True Up of KIA for the First Control Period

- 4.13.1 To consider true up of depreciation for the First Control period as per Table 14.
- 4.13.2 To consider true up of RAB for the First Control period as per Table 15.
- 4.13.3 To consider true up of FRoR for the First Control period as per para 4.7.1
- 4.13.4 To consider true up of Non-aeronautical revenue for the First Control Period as per Table 17.
- 4.13.5 To consider true up of Aeronautical O&M expenses for the First Control Period as per Table 31.
- 4.13.6 To consider true up of Aeronautical revenue for the First Control Period as per Table 32.
- 4.13.7 To consider true up of Aeronautical Taxation for the First Control Period as per Table 35
- 4.13.8 To consider ARR and Under recovery for True up of KIA for the First Control Period as per Table 36 and readjust the same in the ARR for the Second Control Period.

Chapter 5: Traffic Forecast for the Second Control Period

- 5.3.1 To consider the Passenger traffic, ATM and Cargo traffic for the Second Control Period for KIA as per Table 41.
- 5.3.2 To true up the traffic volume (Passengers, ATM and Cargo) on the basis of actual traffic in the Second Control Period while determining tariffs for the Third Control Period.

Chapter 6: Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base (RAB) of KIA for the Second Control Period

- 6.5.1 To consider the Terminal Building ratio of 92:8 in line with the recommendation of Assets Allocation Study report IMG norms and as approved by AERA for other similar Airports.
- 6.5.2 To adopt the capitalization of Aeronautical Expenditure for the Second Control Period in accordance with Table 45.
- 6.5.3 To reduce (adjust) 1% of the uncapitalized project cost from the ARR in case any particular capital project is not completed capitalized as per the approved capitalization schedule. The same will be examined during the true up of the Second Control Period, at the time of determination of tariff for the Third Control Period.
- 6.5.4 To true up the Aeronautical Capital expenditure based on actuals, cost efficiency and reasonableness, at the time of determination of tariff for Third Control Period.
- 6.5.5 To adopt Aeronautical Depreciation as per Table 47 for the Second Control Period.
- 6.5.6 To true up the Depreciation of the Second Control Period based on the actual asset additions and actual date of capitalization during the tariff determination of the Third Control Period.
- 6.5.7 To consider average RAB for the Second Control Period for KIA as per Table 49
- 6.5.8 To true up the RAB based on actuals at the time of tariff determination for the Third Control period.

Chapter 7: Fair Rate of Return (FRoR) for the Second Control Period

- 7.3.1 To consider the Cost of equity at 15.18% as per the CAPM formula.
- 7.3.2 To consider the notional debt to equity (gearing) ratio of 48%:52% in line with the target gearing ratio being considered in the case of other PPP airports.

7.3.3 To consider the cost of debt of 9% for the Second Control Period,

7.3.4 To consider FRoR of 12.21% for the Second Control Period based on above mentioned Cost of equity, Cost of debt and gearing ratio.

Chapter 8: Inflation for the Second Control Period

8.3.1 To consider Inflation in the Second Control Period for Kannur Airport as detailed in Table 54.

Chapter 9: Operation and Maintenance (O&M) expenses for the Second Control Period

9.3.1 To consider O&M Expenses for the Second Control Period as per Table 68

9.3.2 To consider the O&M expenses incurred by the Airport Operator during the Second Control Period subject to reasonableness and efficiency, at the time of tariff determination for the next Control Period.

Chapter 10: Non-aeronautical Revenue for the Second Control Period

10.3.1 To consider Non-aeronautical revenues for the Second Control Period for KIA as per Table 73

Chapter 11: Taxation for the Second Control Period

11.3.1 To consider the Taxation for the Second Control Period for KIA, Kannur as per Table 75.

11.3.2 To true up the aeronautical tax amount appropriately taking into consideration all relevant facts at the time of tariff determination for the Third Control Period

Chapter 12: Quality of Service for the Second Control Period

12.3.1 Not to consider any adjustment towards tariff determination for the Second Control Period with regard to Quality of Service.

Chapter 13: Return on Land for the Second Control Period

13.3.1. The Authority proposes to consider Return on Land as per Table 77

Chapter 14: Aggregate Revenue Requirement (ARR) for the Second Control Period

14.3.1 To consider the ARR and YPP for the Second Control Period for KIA, Kannur in accordance with Table 79.

14.3.2 To direct AO to submit the Annual Tariff Proposal (Tariff Rate Card) within 7 days from the issuance of this Consultation Paper which will be published/ circulated for stakeholder consultations.

16 STAKEHOLDERS' CONSULTATION TIMELINE

- 16.1 In accordance with the provision of Section 13(4) of the AERA Act, 2008, the proposals contained in the Chapter 15– Summary of the Authority's proposals read with the relevant discussion in the other chapters of the Paper is hereby put forth for Stakeholders' Consultation.
- 16.2 For removal of doubts, it is clarified and explained that the contents of this Consultation Paper may not be construed as any Order or Direction by the Authority. The Authority shall pass an order, in the matter, only after considering the submissions of the stakeholders in response hereto and by making such decisions fully documented and explained in terms of the provisions of the Act.
- 16.3 The Authority welcomes written evidence-based feedback, comments and suggestions from stakeholders on the proposals made in this Consultation Paper, latest by 15 December, 2023.

**Secretary,
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex
Safdarjung Airport New Delhi -110003
Tel: 011-24695044-47, Fax: 011-24695048**

(Chairperson)

17 ANNEXURES

17.1 Annexure 1 – Summary of study on allocation of assets between Aeronautical and Non-aeronautical assets

Background

- 17.1.1 RAB is one of the fundamental elements in the process of tariff determination. The return to be provided on the RAB constitutes a considerable portion of the Aggregate Revenue Requirement for an airport operator. To encourage the participation of the private sector in airport development and operations, investors must be fairly compensated for the capital outlays involved. At the same time, to safeguard the interests of the airport users, it must be ensured that the capital additions are efficient, their needs justified, and the return on investment provided solely on the assets related to the core operations (i.e., Aeronautical services) of the airport. Assets not directly related to provision of Aeronautical services, if considered as Aeronautical assets, would result in increased charges for the passengers, stakeholders and other users. Therefore, the diligent allocation of assets into Aeronautical and Non-aeronautical assets becomes an important part of the tariff determination process.
- 17.1.2 RAB evolves on a continuous basis, primarily due to the addition of capital assets required to meet the growing demand and ensure optimal level of service, replacement of obsolete assets at end of their useful life, sales or transfers of assets and depreciation. The allocation of an asset towards RAB depends upon the type of asset (building & civil works, plant & machinery, equipment, etc.), usage (provision of various services such as Aeronautical, Non-aeronautical, or Common), ownership (by airport operator, concessionaire or other entities) and useful life of the asset. Based on these factors, the rationale for allocation of each asset into the appropriate classification needs to be determined diligently.
- 17.1.3 Towards this objective, AERA has decided to conduct an independent study on allocation of assets and segregation between Aeronautical and Non-aeronautical components in respect of assets appearing in the Fixed Asset Register (FAR) of KIA as on March 31, 2023, based on the audited financial statements for the year ended March 31, 2022 and the Unaudited Figures for Financial Year starting from 1 April, 2022 to March 31, 2023.

Classification of Assets

- 17.1.4 The study based on the analysis, classified the aggregate assets of KIA, Kannur under the following categories:
- a. **Aeronautical assets:** All assets that are exclusively used for the provision of Aeronautical services/ activities have been classified as ‘Aeronautical assets’. Such assets would include runway(s), taxiways, drainage, culverts, aprons, etc.
 - b. **Non-aeronautical assets:** All assets that are exclusively used for the provision of Non-aeronautical services/ activities have been classified as ‘Non-aeronautical assets’. Such assets would include landside development, commercial projects, etc.
 - c. **Common assets:** All assets that cannot be directly allocated to either Aeronautical assets or Non-aeronautical assets have been classified as ‘Common assets’. Such assets as the name suggests, get utilised for both Aeronautical and Non-aeronautical activities. They would include terminal building, select terminal equipment, etc.

Principles for segregation of assets

17.1.5 The study reviewed the various asset categories and developed a basis for classification of assets into aeronautical and non – aeronautical activities. The study also determined the appropriate proportion of the Common Assets that may be included as part of Aeronautical activity so in order to determine the Aeronautical asset base. The principles of segregation used by the study are as follows:

Aeronautical Assets

- Assets required for the performance of the Aeronautical services at the airport.
- Classification of aeronautical assets are taken as defined in the AERA Act.
- Assets necessary to maintain the service quality of the airport are proposed to be considered as aeronautical except those located in the Non-aeronautical area.

Non-aeronautical Assets

- Assets required for the performance of the Non-aeronautical activities at the airport. Examples include car parking, advertisement, retail etc.

Common Assets

- Common assets are assets which are not directly attributable to either Aeronautical or Non-aeronautical services. These assets include the terminal building, air conditioning, furniture, administrative office of airport company, etc.
- Common assets are bifurcated between Aeronautical and Non-aeronautical assets based upon Terminal Building ratio or Employee Head Count ratio. The ratio of Aeronautical to Non-aeronautical as considered by the Study for the period from FY 2018-19 to FY 2022-23 are as follows:

Table 80: The ratio of Aeronautical to Non-aeronautical as considered by the Study for the period from FY 2018-19 to FY 2022-23

Particulars	Ratio (Aeronautical: Non-aeronautical)
Terminal Building ratio (Aeronautical: Non-aeronautical)	92:8
Employee Head Count ratio (Aeronautical: Non-aeronautical)	98.28:1.72(FY 2018-19) / 96.40:3.60 (FY 2019-20) / 94.69:5.31 (FY 2020-21) / 94.44:5.56 (FY 21-22) / 93: 7 (FY 2022-23)

Details of adjustment to RAB

A. Exclusion of ANS Equipment from the RAB as on March 31, 2023

It is noted that the 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 assets, expenses and revenues from ANS.

Based on all the above factors, it is proposed not to consider the above-mentioned CAPEX of ₹ 20.14 Crores as part of RAB.

B. Exclusion of Land Development Cost

According to the relevant provisions of Order No. 42/2018-19 dated March 5, 2019 of AERA, it is noted as part of the Study that the cost has been incurred towards Land Development by AO, prior to the date of issuance of the above-mentioned Order No. 42/ 2018-19 (i.e. before March 5, 2019). Therefore, it is proposed not to consider the above-mentioned Land Development costs amounting to ₹ 333.28 Crores, as part of RAB or as part of Land cost (for which Return is provided as per Order No. 42/ 2018-19) for true up of the First Control Period of KIA.

Further, Financing Allowance of ₹ 72.99 crores included in the Land development costs have also been excluded from RAB.

C. Exclusion of IDC from the RAB as on March 31, 2023

Considering that KIA is a greenfield airport which commenced its commercial operations on December 9, 2018, wherein the majority of the assets were not put to use and also taking cognizance of the fact that, AO did not have any airport operations to support the investment in CAPEX during the period of construction, it is considered that AO's claim for FA is justified and reasonable. It is pertinent to note here that AO has claimed FA of ₹ 363.56 Crores and this amount is apart from IDC already capitalized along with the cost of assets.

Furthermore, the capitalized value of assets includes both the components i.e., Interest During Construction (IDC) cost amounting to ₹ 159.16 Crores (Gross Block) and Financing Allowance (FA) to ₹ 362.30 Crores. Hence, It is proposed to exclude the IDC for the above reason.

D. Reclassification of assets as on March 31, 2023

Landside Drains & Culverts

- a. Allocation as per AO: Aeronautical
- b. Observation: The Drains & Culverts built on Land side have been classified as Aeronautical assets by AO. As these assets are not located on the airside, these assets are reclassified as Common assets and have been allocated using the Terminal Building ratio (92:8).
- c. Allocation proposed as per the Study report: Common
- d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces the RAB to the extent of ₹ 0.86 Crores.

Boundary Wall

- a. Allocation as per AO: Aeronautical
- b. Observation: It was noted that out of the total length of 24,459 meters of Property wall, approximately 10,500 meters (40%) is on the City side. Therefore, the Study has considered only 60% of the Property Boundary wall as Aeronautical and the remaining 40% as Non-aeronautical.
- c. Revised asset allocation: 60% Aeronautical
- d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹4.60 Crores

Car Approach Road and other roadwork

- a. Allocation as per AO: Aeronautical
- b. Observation: AO has considered the Approach roads as Aeronautical. However, Approach roads namely East Entry Road, Car Approach Road, Pump House road and Secondary Approach Road are

all serving mainly the Terminal Building and therefore, the same have been considered as “Common” and allocated in the ratio of Terminal Building (92:8).

- c. Revised asset allocation: Common
- d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹0.64 Crores.

Service Roads (West Entry Road)

- a. Allocation as per AO: Aeronautical
- b. Observation: Service Road (West Entry Road) are part of the road network connecting to the Cargo Terminal, General Aviation, land earmarked for future expansion, Defence area etc. As these roads do not cater to any specific Aeronautical/ Non-aeronautical activities, the same have been classified as “Common” and allocated in the ratio of Terminal Building (92:8).
- c. Revised asset allocation: Common
- d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.10 Crores.

Earthing & wiring assets

- a. Allocation as per AO: Aeronautical
- b. Observation: Power supply infrastructure at the airport, provides power to air side, roads, terminal building and forecourts. The electrical equipment include DG sets, Lighting Pole, power distribution board, low tension switchboards, high tension cables and Fire Protection System, etc. AO has considered these assets as Aeronautical, irrespective of whether these assets service at the airside or the terminal building. Since, certain assets available at the Terminal building, forecourts, etc, are used for both Aeronautical and Non-Aeronautical activities, the same have been identified and reclassified as Common assets and reallocated using the Terminal Building ratio (92:8).
- c. Allocation proposed as per the Study report: Common
- d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.59 Crores.

CCTV cameras and security system

- a. Allocation proposed by AO: Aeronautical
- b. Observation: The assets pertaining to the installation of CCTV cameras across the airport, are used for both Aeronautical and Non- Aeronautical activities and hence, considered as Common assets as per the Study and segregated in the ratio of the Terminal Building (92:8).
- c. Allocation proposed as per the Study report: Common
- d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.14 Crores.

Electrical Equipment

- a. Allocation proposed by AO: Aeronautical
- b. Observation: The assets pertaining to Electrical fittings & cablings, including video management software & IP Phones have been considered as Aeronautical by AO. However, these assets cater to the needs of both Aeronautical and Non-aeronautical activities and therefore, have been reclassified as Common assets and re-allocated in the ratio of the Terminal Building (92:8)
- c. Allocation proposed as per the Study: Common
- d. Impact on RAB: Reclassifying these assets from Aeronautical to Common, reduces RAB to the extent of ₹ 1.18 Crores.

Buildings

- a. Allocation proposed by AO: Aeronautical
- b. Observation: The assets pertaining to static tank, underground water tank, sewerage line and garbage dump have been considered as Aeronautical assets by AO. However, these assets are used for both Aeronautical and Non-aeronautical activities and therefore, the same are reclassified as Common assets and re-allocated in the ratio of the Terminal Building (92:8)
- c. Allocation proposed as per the Study report: Common
- d. Impact on RAB: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of ₹ 0.73 Crores.
- e. Furniture & fixtures

Other Furniture

- a. Allocation proposed by AO: Common (Terminal Building Ratio)
- b. Observation: These Assets are used by both Aeronautical and Non-aeronautical employees and therefore have been re-allocated in the ratio of Employee Head Count (as against allocation in the ratio of Terminal Building) of the Airport Operator for the respective FYs in the First Control Period.
- c. Allocation proposed as per the Study report: Common (Employee Head Count Ratio)
- d. Impact on RAB: Reclassifying these assets from Common (Terminal Building Ratio) to Common (Employee Head Count Ratio) has ₹ 0.01 Crores impact on RAB.

Office Furniture

- a. Allocation proposed by AO: Aeronautical
- b. Observation: The furniture & fixtures are used by both Aeronautical and Non-aeronautical employees and therefore have been re-allocated in the ratio of Employee Head Count of the Airport Operator for the respective FYs in the First Control Period.
- c. Allocation proposed as per the Study report: Common
- d. Impact on RAB: Reclassifying these assets from Aeronautical to Common decrease RAB to the extent of ₹ 0.04 Crores.

Computer & Accessories

- a. Allocation proposed by AO: Aeronautical
- b. Observation: The Assets namely HP Laptops, Scanners, Printers are classified as Aeronautical. As these IT assets are used for both Aeronautical and Non-aeronautical activities, the same have been reclassified as Common assets. Further, as these assets are used by the employees of the Airport Operator, the same have been reallocated in the ratio of Employee Head Count of the Airport Operator for the respective FYs in the First Control Period.
- c. Allocation proposed as per the Study report: Common
- d. Impact on RAB: Reclassifying these assets from Aeronautical to Common decrease RAB to the extent of ₹ 0.01 Crores.

Office Equipment

- a. Allocation proposed by AO: Aeronautical
- b. Observation: The assets such as Air Conditioners, Voice Recorders, LED, etc have been classified as Aeronautical by AO. As these assets are utilized for both Aeronautical and Non-aeronautical activities, the same are reclassified as Common assets and allocated in the ratio of Employee Head Count (as these are used by employees) of the Airport Operator for the respective FYs.
- c. Allocation proposed as per the Study report: Common

- d. Impact on RAB: Reclassifying these assets from Aeronautical to Common has NIL impact on RAB.

Fuel Handling Equipment, Water Treatment Plant, Rodent Repellent

- a. Allocation proposed by AO: Aeronautical
 b. Observation: HSD Fuel Handling Equipment used in city side and Water & sewage treatment Plant and Rodent Repellent have been classified as Aeronautical assets by AO. As these assets are used for servicing both Aeronautical and Non-aeronautical activities within the Terminal Building, these are reclassified as Common assets and have been allocated in the ratio of the Terminal Building (92:8).
 c. Allocation proposed as per the Study report: Common
 d. Impact: Reclassifying these assets from Aeronautical to Common decreases RAB to the extent of ₹ 0.12 Crores.

Air Conditioning & Other Office Equipment

- a. Allocation proposed by AO: Aeronautical
 b. Observation: The Assets related to Air Conditioning, Water coolers, UPS & modem, etc. has been classified as Aeronautical assets by AO. As these assets are used for facilitating the needs of employees, the same are reclassified as Common and have been allocated in the ratio of the Employee Head Count for the respective FY in the First Control Period.
 c. Allocation proposed as per the Study report: Common
 d. Impact: Reclassifying these assets from Aeronautical to Common reduces RAB to the extent of NIL.

Biogas Plant

- a. Allocation proposed by AO: Aeronautical
 b. Observation: The Biogas Plant is classified as Aeronautical by AO. The same has been considered as Non-Aeronautical as it does not cater to Aeronautical activities of the Airport.
 c. Allocation proposed as per the Study report: Non-Aeronautical
 d. Impact on RAB: Reclassifying these assets from Aeronautical to Non-Aeronautical has reduces the RAB to the extent of ₹ 0.27 Crores.

Old Assets

- a. Allocation proposed by AO: Aeronautical
 b. Observation: The aforementioned assets relating to prior period (i.e., up to March 31, 2018) have been considered as Common and allocated in the Terminal Building Ratio (92:8).
 c. Allocation proposed as per the Study report: Common
 d. Impact on RAB: Reclassifying these assets from Aeronautical to Common has NIL impact on RAB.

Other Assets

- a. Allocation proposed by AO: Common (Terminal Building Ratio)
 b. Observation: The assets pertaining to Microsoft office, Tally & window software are classified as Common assets by AO and have been allocated in the ratio of Terminal Building determined by the Airport Operator (94.5:5.5). However, these assets are used by the employees of the Airport Operator and therefore have been re-allocated in the ratio of Employee Head Count of the Airport Operator for the respective FY in the First Control Period.
 c. Allocation proposed as per the Study report: Common (Employee Head Count Ratio)
 d. Impact on RAB: Reclassifying these assets from Aeronautical to Common has NIL impact on the RAB.

Impact of revised Terminal Building ratio and Employee Head Count ratio as per the Study*Table 81: Adjusted RAB as of March 31, 2023, as per the Study**(₹ Crores)*

Particulars	Reference	Amount
RAB as on March 31, 2023 as submitted by AO as per FAR	A	1,777.86
IDC Excluded from RAB	B	(159.16)
Land Development cost relating to Freehold Land excluded from RAB.	C	(333.28)
Financing allowance related to Freehold land excluded from RAB	D	(72.99)
RAB before Reclassification Adjustments	E= sum(A:D)	1,212.42
<u>Reclassification of other assets:</u>		
Drains & Culverts	F	(0.86)
Boundary Wall	G	(4.60)
Roads	H	(0.74)
Electrical Installations EPC	I	(0.73)
Electrical Equipment	J	(1.18)
Buildings	K	(0.73)
Furniture & Fixtures	L	(0.05)
Computers & Accessories	M	(0.01)
Office Equipment	N	(0.00)
Plant & Equipment	O	(0.39)
Old Assets	P	(0.00)
Other Assets	Q	(0.00)
Total reclassification of other assets Sum (F: Q)	R	(9.29)
Depreciation computation errors observed in FAR	S	(32.47)
Impact of Terminal Building ratio (Net Block)	T	(14.55)
Sale Value wrongly calculated	U	(0.03)
Adjusted RAB as on March 31, 2023 (V = E + R + S + T+U)		1,156.08

Note: Depreciation determined as part of the Study is higher, due to some calculation errors noted in the FAR submitted by the AO, which is as follows:

- Depreciation for FY 2019-20 had been calculated by including the number of days for FY 2018-19 as well.
- Depreciation had not been calculated on the value of balance assets (which is retained by the Airport), in cases where only a part of the assets has been sold out.
- Depreciation had not been calculated for many assets from FY 2020-21, although there had been no sale of the assets.

17.1.6 Based on the above, the year-wise revision in the Gross Fixed Assets ratio has been summarized in the tables below:

Table 82: Summary of assets as submitted by AO up to March 31, 2023

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Aeronautical Gross block (closing) (A)	1,675.45	1,712.91	1,727.32	1,730.40	1,730.40
Cost of Acquisition of Land (B)	330.95	333.20	333.28	333.28	333.28
Non-aeronautical Gross block (C)	53.66	15.02	15.02	15.12	15.12
Total Gross block (D = A + B+ C)	2,060.06	2,061.12	2,075.62	2,078.81	2,078.81
<i>Non-Aeronautical Gross block ratio (D = C / D %)</i>	<i>2.60%</i>	<i>0.73%</i>	<i>0.72%</i>	<i>0.73%</i>	<i>0.73%</i>
Aeronautical Accumulated Depreciation (E)	25.39	129.90	181.52	233.74	285.84
Non-aeronautical Accumulated Depreciation (F)	0.88	3.75	1.02	4.69	6.12
Aeronautical Net block (RAB) (G = A + B – E)	1,981.00	1,916.20	1,879.08	1,829.95	1,777.86
Non-aeronautical Net block (H = C - F)	52.78	48.44	11.76	10.44	9.01
Total Net block (I = G + H)	2,033.79	1,964.64	1,890.84	1,840.38	1,786.85
<i>Non-aeronautical Net block as a % of Total Net block</i>	<i>2.60%</i>	<i>2.47%</i>	<i>0.62%</i>	<i>0.57%</i>	<i>0.50%</i>

Table 83: Revised Gross and Net block of Assets up to March 31, 2023 as per the Study report

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Aeronautical Gross block (closing) = (A)	1,675.45	1,712.91	1,727.32	1,730.40	1,730.40
Less : FA related to Land Development Cost (B)	(72.99)	(72.99)	(72.99)	(72.99)	(72.99)
Less : Borrowing Cost (C)	(159.16)	(159.16)	(159.16)	(159.16)	(159.16)
Less: Aeronautical to Common / Non -aeronautical and Common (Terminal Building) to Common (Employee Head Count Ratio) (D)	(32.01)	(32.87)	(32.87)	(32.98)	(32.98)
Less : Aeronautical to Non-aeronautical (E)	(0.61)	(0.61)	(0.61)	(0.61)	(0.61)
Sales error rectification (F)	0.55	(0.03)	(0.03)	(0.41)	(0.41)
Revised Aeronautical Gross block as per study (G= A+B+C+D+E+F)	1,411.23	1,447.25	1,461.66	1,464.25	1,464.25
Revised Non-aeronautical Gross block (H)	80.30	79.67	79.68	79.93	79.93
Revised Total Gross block (I= G+H)	1,491.52	1,526.92	1,541.35	1,544.18	1,544.18

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Revised Non-Aeronautical ratio (J = H / I)	5.38%	5.22%	5.17%	5.18%	5.18%
Increase in Non-Aeronautical ratio	2.78%	4.49%	4.45%	4.45%	4.45%
Aeronautical Accumulated Depreciation (K)	22.53	93.20	164.63	236.29	308.17
Non-aeronautical Accumulated Depreciation (L)	1.50	6.18	10.84	15.52	20.22
Aeronautical Net block (RAB) (M= G-K)	1,388.70	1,354.05	1,297.03	1,227.96	1,156.08
Non-aeronautical Net block (N = H – L)	78.79	73.52	68.84	64.40	59.70
Total Net block (O= M+N)	1,467.49	1,427.57	1,365.88	1,292.36	1,215.78
Non-aeronautical Net block as a % of Total Net block (P=N/O)	5.37%	5.15%	5.04%	4.98%	4.91%

17.1.7 As seen from the above table, the net decrease due to the above adjustments in the Aeronautical RAB from FY 2018-19 to FY 2022-23 for KIA is ₹ ₹ 621.77 Crores .

17.2 Annexure 2 - Summary of study on efficient Operation and Maintenance expenses

Background

- 17.2.1 Establishing efficient Operation and Maintenance (O&M) expenses is an essential component in tariff determination for Aeronautical services. The allocation of O&M expenses as Aeronautical and Non-aeronautical expenses depends on the nature of expenses, the type of assets which they service, the business function which they are deployed for, the end-user that benefits or avails services from those expenses, and the reasonableness of the quantum of such expenses.
- 17.2.2 Towards this objective, AERA has decided to conduct an independent study on efficient Operation and Maintenance expenses, and their allocation as Aeronautical and Non-aeronautical components in respect of O&M expenses as per the MYTP the period from FY 2018-19 to FY 2021-22 and the Unaudited financial statements of KIA for the period April 1, 2022 to March 31, 2023.

Comparison of Aeronautical O&M expenses approved as per Tariff Order for the First Control Period vis-à-vis the actual expenses incurred by AO.

- 17.2.3 The Study compared the Aeronautical O&M expenses as per approved tariff order of First Control Period (FCP) with actual expenses incurred by Airport Operator (AO) and analyzed the reasons for deviation in such O&M expenses. The details of O&M expenses approved as per tariff order and the actuals incurred during the First Control Period, are shown in the table below:

Table 84: Aeronautical O&M expenses of KIA for First Control Period - Projections vs. Actuals

(in ₹ Crores)

Particulars	Projections (as per the Tariff Order) (A)	Actuals of KIA (B)	Variance (C = B - A)	Variance (%) (D = C / A)
Land lease rental	0.05	-	(0.05)	(100.00) %
Employee Cost	51.21	51.92	0.71	1.39%
Power, Fuel & Water	18.47	46.71	28.24	152.89%
Repair & Maintenance	77.74	76.31	(1.43)	(1.84) %
Administration	28.43	24.75	(3.68)	(12.93) %
Marketing Cost	10.75	-	(10.75)	(100.00) %
Security	28.43	2.09	(26.34)	(92.64) %
Stores & Spares	10.39	-	(10.39)	(100.00) %
Other Airport Operating Expenses	-	76.92	76.92	100.00%
CISF Induction fee	-	9.80	9.80	100.00%
Cargo related expenses	-	0.62	0.62	100.00%
ORAT	-	1.52	1.52	100.00%
Airport inauguration expenses	-	11.72	11.72	100.00%

Particulars	Projections (as per the Tariff Order) (A)	Actuals of KIA (B)	Variance (C = B - A)	Variance (%) (D = C / A)
Total Aeronautical O&M expense for the Second Control Period	225.47	302.36	76.89	34.10%

17.2.4 Analysis of actual expenses incurred by AO was carried out as part of the Study and it was observed that, the major reasons for the overall deviation of 34.10% in the Total Aeronautical O&M expenses for the First Control Period, were as follows:

- i Employee expenses: Employee costs are higher as compared to its traffic growth and against global benchmarks.
- ii Power Fuel & Water Expenses: It is observed that the Power, fuel & water expenses were higher than the amount approved in the Tariff Order, mainly due to actual electricity expenses being significantly higher than the amount approved in the Tariff Order of the First Control Period.
- iii CNS-ATM service charges: CNS-ATM charges were disallowed as they are ANS expenses and its tariff is regulated by Ministry of Civil Aviation (MoCA).
- iv CISF induction fee: CISF Induction fee is disallowed based on the factor that it forms part of PSF (security).
- v Airport Inauguration expenses: Airport Inauguration Expenses were claimed on higher side as compared to other airports hence, it was reduced by 27% (approx.).

17.2.5 Based on the above analysis, it was determined that there was a need to rationalize and bring more efficiency by optimizing the O&M expenses at KIA. Accordingly, the Study proposed the following:

- Reclassification of the Employee Head Count Ratio based on revised employee numbers for the Airport Operator and reallocate the corresponding employee costs of the AO.
- Reallocation of Administrative expenses, Repair and Maintenance Expenses, Security Expenses and Other Airport Operating Expenses incurred by AO.
- Rationalization of Other Airport Operating expenses and Airport Inauguration expenses incurred by AO.
- Further, as there was no scope for rationalizing the power expenses, it was suggested that the Airport Operator should take steps to bring efficiencies in the overall power expenses over a period of time.

17.2.6 The Study has proposed the revised Aeronautical O&M expenses (after rationalisation and prior to reallocation) for the period FY 2018-19 to FY 2022-23 as summarised in the table below:

Table 85: Aeronautical O&M expenses due to rationalisation (prior to reallocation) for KIA for the period from FY 2018-19 to FY 2022-23 as per Study

(₹ Crores)

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Land lease rental						
Employee costs	7.32	11.03	10.95	10.35	10.05	49.70
Power, Fuel & Water	3.58	7.37	3.85	4.45	6.09	25.34

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Repair & Maintenance	5.83	13.13	13.89	15.94	18.34	67.13
Administration expenses	7.29	3.42	3.69	4.04	5.09	23.53
Marketing Cost	-	-	-	-	-	-
Security	-	0.44	0.43	0.47	0.75	2.09
Stores & Spares	-	-	-	-	-	-
Other Airport Operating Expenses	2.39	8.84	9.44	11.23	13.02	44.92
CISF Induction fee	-	-	-	-	-	-
Cargo related expenses	-	-	-	0.21	0.41	0.62
ORAT	1.52	-	-	-	-	1.52
Airport inauguration expenses	5.86					5.86
Total Aero O&M expenses considered by the Study	33.79	44.23	42.25	46.69	53.75	220.71

17.2.7 It is observed that certain Aeronautical expenses such as Employee cost, Power, fuel & water, Repairs & Maintenance (excluding housekeeping charges), Custom Cost Recovery (included in Other Airport Operating Expenses) Airport inauguration expenses have already been rationalised, the same will not be considered for further analysis relating to reclassification and ratio reallocation.

Principles for segregation of costs

17.2.8 This Study segregates the O&M expenses of KIA into the following:

- **Aeronautical expenses:** Expenses which are incurred for operation and maintenance of Aeronautical assets have been categorised as Aeronautical expenses.
- **Non-aeronautical expenses:** Expenses which are incurred for operation and maintenance of Non-aeronautical assets have been categorized as Non-aeronautical expenses.
- **Common expenses:** Expenses for which the benefits or use cannot be exclusively linked to either Aeronautical or Non-aeronautical activities have been segregated as Common expenses. Expenses primarily incurred for the provision of Aeronautical services but are also used for provision of Non-aeronautical services are segregated as Common Expenses. Expenses which are used for general corporate purposes including legal, administration, and management affairs are treated as Common Expenses.

17.2.9 The Allocation ratios of the various O&M expenses as per AO's submission is as below:

Table 86: Allocation ratio for Common O&M expenses as per AO's submission

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Employee Head Count ratio (Aeronautical: Non-aeronautical)	98.4: 1.6	96.6:3.4	95:5	94.8: 5.2	93.3:6.7
Terminal Building ratio (Aeronautical: Non-aeronautical)	94.5: 5.5	94.5: 5.5	94.5: 5.5	94.5: 5.5	94.5: 5.5

Details of adjustment to O&M expenses

17.2.10 The study on the basis of the expense classification and principles of segregation adopted, as can be seen in the above paragraphs, has considered reallocation of Operation and Maintenance expenses to determine Aeronautical O&M costs. The study has proposed the following ratios:

Table 87: Revised Allocation ratio for O&M expenses as per the study

Particulars	FY	FY	FY	FY	FY
	2018-19	2019-20	2020-21	2021-22	2022-23
Employee Head Count ratio (Aeronautical: Non-aeronautical)	98.28%	96.40%	94.69%	94.44%	93.00%
Gross Fixed Assets ratio (Aeronautical: Non-aeronautical)	96.21:3.79	96.35:3.65	96.39:3.61	96.38:3.62	96.38:3.62
Terminal Building ratio (Aeronautical: Non-aeronautical)	92: 8	92: 8	92: 8	92: 8	92: 8

Rationalisation of O&M expenses

17.2.11 Based on the Internal and External Benchmarking analysis, it was observed that the Operation and Maintenance expenses for KIA, Kannur for the period from FY 2018-19 to FY 2022-23 are comparatively reasonable as mentioned below:

The O&M expenses of KIA namely, Employee Cost, Administration & General expenses, Utility & Operating expenses and Repairs & Maintenance expenses have grown at a lower CAGR than that of PAX and ATM traffic during the period.

17.2.12 The Study has not considered certain expenses such as ORAT and Airport Inauguration expenses for the Internal Benchmarking analysis as these expenses are incurred only in FY 2018-19 towards commencement of airport operations and not recurring in nature. Further, the Study has not included CNS-ATM charges, CISF induction fee and CSR expenses since the same have not been allowed as already explained.

Efficient Aeronautical O&M expenses

17.2.13 Based on the above, the efficient Aeronautical Operating and Maintenance expenses for the Airport Operator are given in the tables as follows:

Table 88: Efficient Aeronautical O&M expenses for KIA for the period from FY 2018-19 to FY 2022-23 after rationalisation and reallocation as per Study

(₹ Crores)

Particulars	FY	FY	FY	FY	FY	Total
	2018-19	2019-20	2020-21	2021-22	2022-23*	
Employee costs	7.32	11.03	10.95	10.35	10.05	49.70
Power, Fuel & Water	3.58	7.37	3.85	4.45	6.09	25.34
Repair & Maintenance	5.75	12.89	13.67	15.70	18.08	66.09
Administration expenses	7.02	3.36	3.67	4.01	5.08	23.15
Security	-	0.43	0.43	0.47	0.71	2.04
Other Airport Operating Expenses	2.39	8.84	9.44	11.23	13.02	44.91

Particulars	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23*	Total
Cargo related expenses	-	-	-	0.21	0.41	0.62
ORAT	1.52	-	-	-	-	1.52
Airport inauguration expenses	5.86	-	-	-	-	5.86
Total Aero O&M expenses considered by the Study (B)	33.44	43.92	42.02	46.43	53.45	219.26

* Unaudited fig. of FY 2022-23

- 17.2.14 AO has claimed Aeronautical O&M expenses of ₹ 302.36 Crores for the First Control period i.e., from FY 2018-19 to FY 2022-23 as part of their True up submission.
- 17.2.15 The Study proposes ₹ 219.26 Crores as the Aeronautical O&M expenses for KIA for the period from FY 2018-19 to FY 2022-23, thus, resulting in a downward adjustment of ₹ 83.10 Crores in the Aeronautical O&M expenses. The Aeronautical O&M expenses for the period from FY 2018-19 to FY 2022-23 is reduced by 27.5%.
- 17.2.16 The Study has taken cognisance of the fact that the actual passenger throughput vis-à-vis the designed capacity (9.34 MPPA) of the Airport does not complement each other. Therefore, the Airport operator should keep in mind the current utilization while planning the expenses because the Operating expenses are indirectly proportionate to the Airport's capacity. Therefore, the situation of over-capacity will lead to higher operating expenses and eventually burden the Airport users.

18 APPENDICES

Appendix I - Study on Allocation of assets between Aeronautical and Non-Aeronautical Assets

Appendix II - Study on efficient Operation and Maintenance Costs