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Consultation Paper No. 14/ 2013-14

Airports Economic Regulatory Authority of India

In the matter of Determination of tariffs for Aeronautical Services in respect of Bengaluru International Airport, Bengaluru, for the first Control Period (01.04.2011 to 31.03.2016)

New Delhi: 26th June 2013

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110 003

Contents

1 Brief on Bangalore International Airport Limited (BIAL)

1.1 Earlier, Airports in India were developed, owned and managed by Airports Authority of India (AAI). To keep with anticipated air traffic growth, Government of India (GoI) initiated the process of upgrading the existing airports in the country through AAI and also encouraged the setting up of Greenfield airports through private sector participation (PSP) allowing, inter alia, carrying out airport related activities through Public-Private Partnership (PPP) model, except for certain reserved activities such as Air Traffic Control, Security, Customs etc. To address this issue, amendments were proposed to the Airports Authority of India Act, 1994 (AAI Act). The amendments proposed were introduced in April- May 2003 session of the Parliament. The Amendment Bill was passed by Lok Sabha on 9th May 2003 and subsequently by Rajya Sabha on 28th July 2003. A formal notification of the amended Act was issued on 1st July 2004.

1.2 The GoI also announced several fiscal incentives and concessions such as the availability of land from respective State Governments, financial assistance by way of equity/ interest free loans etc.

1.3 GoI in the Ministry of Civil Aviation (MoCA) had approved, in the year 1994, the proposal to establish a new airport of international standard at a site near Devanahalli, Bangalore, by bringing in funds from the private sector to handle both passenger and cargo, domestic and international traffic to meet the growing demand of the Bangalore City. Several discussions were held among the representatives of GoI in the Ministries of Civil Aviation, Defence, Law & Justice, the AAI, the Director General of Civil Aviation (DGCA) and others to finalize various aspects relating to the establishment of the project.

1.4 A meeting was held at New Delhi on 15th April, 1999 under the Chairmanship of the Secretary, MoCA, GoI, in which the following decisions on the basic parameters of the project were taken:

1.4.1 Location of the airport: It was agreed that the new Bangalore International Airport shall be located in the site identified by the Ramanathan Committee, south of Devanahalli, based on Integrated Airspace Management subject to the usual clearances such as local (municipal) authorities, Environment Ministry, Defence Ministry and other concerned agencies.

1.4.2 Land: Government of Karnataka (GoK) informed that State Government has earmarked 3500 acres (approx.) of land for the development of Devanahalli airport.

1.5 Project format: It was agreed that the project will be implemented by a joint venture company in which AAI and GoK or its agency will have equity stake of 13% each and the strategic private partners will hold balance equity upto 74%. It was also decided that the equity holding of AAI and GoK may vary but total equity holding by both of them together will be 26%.

1.5.1 Aeronautical charges: It was agreed that the new airport will fix aeronautical charges based on the principle of cost recovery in accordance with the guidelines of ICAO subject to approval of the competent Authority.

1.5.2 Future role of HAL airport: It was agreed that the existing HAL airport could continue to be available to smaller aircrafts (upto 52 seater capacity) for short haul operations, training, emergency and VIP flights. However, the representatives of GoK reiterated their earlier request of excluding the State capitals and international airports from the purview of the services to be operated from the HAL airport.

1.5.3 Landing rights for international airlines (bilateral): It was agreed that the bilateral rights would continue to be retained by the Central Government. However, the proposed new airport will not be discriminated against.

1.5.4 General issues

1.5.4.1 Since airport is a central subject, it was decided that the legal position with respect to establishment of the above airport as a civilian commercial/joint/private sector airport shall be examined and steps shall be taken to bring in necessary amendments in the AAI Act / Aircraft Act, 1934 to facilitate the establishment of the above Airport, if required. Further, legal position with respect to participation by AAI in the equity capital of the joint venture company to be set up for the establishment of the above Airport project shall also be examined and necessary amendments shall be brought in the AAI Act in this regard as well, if required.

1.5.4.2 It was also decided that AAI and Karnataka State Industrial and Investment Development Corporation (KSIIDC) shall enter into necessary Memorandum of Understanding/joint venture agreement laying down the roles and responsibilities of the two agencies in taking further effective steps towards expeditious implementation of the project.

1.5.4.3 The representatives of GoK requested that all the above mentioned decisions be communicated in writing by the MoCA to enable GoK to initiate further necessary action on the project.

1.6 As decided in the above meeting, a Memorandum of Understanding (MoU) was signed between AAI and KSIIDC on 3rd May 1999 to facilitate further action leading to early commencement of the implementation of the project based on the decisions taken in the above meeting. As envisaged in the MoU, a Steering Committee comprising of two representatives each of GoI (two Joint Secretaries of MoCA), AAI (Member – Planning and Member – Finance), GoK (Principal Secretary, C&I and Secretary – Finance) and KSIIDC (Managing Director and former Chairman of HAL as an external expert) was constituted to oversee the entire tendering process. Based on the approval of the Steering Committee, KSIIDC appointed IL&FS as the Project Advisors and Dua

Associates as the Legal Advisors.

1.7 The Steering Committee decided to follow a three stage bidding process comprising of Expression of Interest (RFQ) in Stage-1, submission of concept master plan called Airport Development Plan in Stage-2 and Request for Proposal (RFP) in Stage-3.

1.8 Advertisements soliciting EoI from interested parties were released in national and international newspapers in June 1999. Seventeen firms/consortia submitted EoI during August 1999. The EoIs were evaluated on the basis of financial and experience criteria. Seven consortia were found to satisfy these criteria and these seven firms/consortia were shortlisted and taken to the next stage of the bidding process. A Project Information Memorandum (PIM) containing the project background, broad technical specifications and traffic assessment was issued to the shortlisted parties in September 1999. In the pre-RFP meeting held on 10th September 1999, all the seven pre-qualified bidders expressed serious concern and apprehensions on keeping the HAL Airport open for commercial operations after the new Airport becomes operational even for smaller aircrafts for short haul flights. Keeping in view the viability of the new airport, the bidders insisted on clarity and pre-confirmation regarding the following fundamental issues before proceeding with the next phase of bidding:

1.8.1 in-principle commitment to declare the new airport at Devanahalli as an international airport;

1.8.2 in-principle approval to close the existing HAL airport for commercial operations once the new facility is commissioned/made operational;

1.8.3 the existing airport also declared as international airport;

1.8.4 assurance on providing infrastructural facilities viz. Land, water, power, roads, etc up to the battery limits.

1.9 Considering the serious concern and apprehensions expressed by the bidders, the Steering Committee recommended to GoI for consideration and approval of complete closure of civilian commercial operations from the existing HAL Airport, after commencement of the operations by the new Airport at Devanahalli. MoCA, GoI vide letter No.AV.20014/2/90-VB dated 23-3-2000 communicated the following approvals to the State Government:

1.9.1 Declaring the existing airport at Bangalore as an International Airport, with the understanding that this did not involve any substantial investment of public resources;

1.9.2 This status of International Airport would be transferred /granted to the new airport proposed to be developed with private sector participation at Bangalore, on its commissioning, in case it enjoys all the necessary infrastructure facilities required for an international airport and the existing airport at Bangalore then closed for civilian operations.

1.10 The bidders also requested that an independent traffic study be commissioned, to enable a common traffic forecast for use by the bidders in their development plans. KSIIDC commissioned an independent traffic study to SH&E of London, a reputed firm of airport consultants.

1.11 The GoK also issued an Order in March 2000 on the provision of peripheral infrastructure for the Airport. The RFP document was finally issued on 20th March 2000 and the SH&E study report was sent to the bidders a few days after the RFP, during April 2000. The seven shortlisted bidders were then asked to submit the Master Plan/Airport Development Plan (ADP) by 30th June 2000. The following two bidders responded with submission of ADP within the stipulated time:

1.11.1 Consortium led by Hochtief Airport, GmbH, Germany; and

1.11.2 Consortium led by Siemens Project Ventures, Germany.

1.12 The ADPs submitted by the two bidders were evaluated by an Expert Committee. Based on the evaluation report, the Steering Committee approved both the Bidders being nominated as Ψ t NJ Ŝ Ŧ Ŝ NJNJ Ŝ Ř . ƛ Ř Ř Ŝ NJ ă Ω Both the bidders had requested explicit viability support commitments from the GoK before they were ready to invest more resources into the final stage of the procurement process. On 18th September 2000, letters were issued to both the bidders to participate in the next stage of the RFP. The Bidders pressed for clarity on government support. To give additional comfort to the bidders, GoK assured them of the financial support of the Government.

1.13 Both the bidders viz. Siemens and Hochtief consortia submitted final project proposals on 30th April 2001 as stipulated. An Evaluation Committee consisting of eminent external professionals with deep knowledge and familiarity with subjects relating to infrastructure development, airports, business plans and commercial issues was constituted to appraise the proposals received.

1.14 In their over-all assessment of the two proposals, the Evaluation Committee opined that the project approach and methodology of Siemens brings the airport to fruition in a shorter time frame and a lower cost than the Hochtief proposal. The Siemens master plan provides for significantly increased capacity throughout the airfield and terminal area in the long run, and offers more flexibility in development modifications after the first phase should a need arise.

1.15 On the basis of the evaluation by the Committee, in June 2001, GoK approved acceptance of Siemens proposal and constituted a Negotiation Team to further discuss the project proposal in detail, optimize the project cost, minimize the State Financial Support and finalise the Shareholders Agreement and the Airport Development Agreement.

1.16 After several round of discussions and negotiations between the Siemens Consortium and ű K Ŝ b Ŝ ∃ ƻ ű ƛ Ɩ ű ƛ ƻ ɣ ¢ Ŝ Ɩ Ύ Σ ű K Ŝ { K Ɩ NJ Ŝ K ƻ f Ř Ŝ NJ ă Ω ! ∃ NJ Ŝ Ŝ Ύ Ŝ Ventures GmbH, Flughafen Zürich AG (Unique Zurich), Larsen & Toubro Limited (L&T) and KSIIDC was signed on 23rd January 2002. Following the execution of the SHA, the management of the special purpose vehicle, Bangalore International Airport Limited (BIAL) which was incorporated by GoK was handed over to private promoters.

1.17 The Greenfield airport at Devanahalli near Bengaluru has been implemented on a Build Own Operate and Transfer (BOOT) model under Public Private Participation (PPP) basis. GoK through KSIIDC and AAI together hold 26% equity and the strategic joint venture partners hold the balance 74%.

1.18 BIAL was incorporated with limited liability under the Indian Companies Act, 1956, with the participation of KSIIDC, the AAI, Siemens Project Ventures GmbH (Siemens), Unique Zurich and L&T, each of whom have agreed to participate as a shareholder in BIAL, for the development, design, financing, construction, completion, maintenance, operation and management of a greenfield airport at Devanahalli, near Bangalore in the State of Karnataka.

1.19 The Working Group constituted by the Prime Minister Office (PMO) comprising of representatives from the MoCA, Ministry of Finance, Ministry of Law and GoK finalized the draft Concession Agreement (CA), which was approved by the Cabinet in January 2004/June 2004. The approved version of the CA was executed between GoI and BIAL on 5th July 2004. The CA defines the terms and conditions under which BIAL, as a private company, is entitled to build and run the airport. As per the CA, the parties recognize and acknowledge that in matters of airport infrastructure and civil aviation, GoI has and must continue to have a major role and responsibility in determining the framework for the aviation sector. Further, the CA sets out the terms and conditions upon which the project, undertaken through a public/private sector approach, is to be implemented. The term of the concession is for a period of 30 years from the Airport Opening date i.e., 24th a l· è Σ н л л у Σ Ŝ È ű Ŝ ƴ Ř l· ō ƭ Ŝ ō è l· Ŧ dzǊ ű Ƙ ŜǊ ǇŜǊ ƛ ƻ Ř ƻ activities of customs, immigration, quarantine, security and meteorological service will be performed by the relevant Government Agencies at the Airport and the communication, navigation & surveillance and air traffic management will be performed by AAI. BIAL shall, in consideration for the grant of Concession by GoI, pay to GoI a fee amounting to four per cent (4%) of gross revenue annually.

1.20 The GoK extended Rs. 350 crores as State support for which a State Support Agreement (SSA) was executed by GoK with BIAL. Further, GoK has also provided 4008 acres of land (approximately having the value of Rs. 175 crores) on concessional rent and a Land Lease Agreement (LLA) was also executed in this regard. The State Support Agreement (SSA) between GoK and BIAL and LLA between KSIIDC and BIAL were concluded on 20th December 2004. The CA, SSA and LLA paved the way for BIAL to achieve Financial Close by June 2005 and the construction work commenced thereafter.

1.21 At the time of Financial close and commencement of construction, the Initial Phase of the

Bengaluru International Airport was designed for handling about 4.5 million passengers per annum and the project cost was Rs 1411.79 crore. However, owing to significant increase in aviation traffic, BIAL redesigned the initial phase midway through the implementation of the project, increasing the capacity of the Airport to 11.4 million passengers per annum and the project cost to Rs 1930.29 crore, so that the Airport, at the Airport Opening Date (AOD), had the requisite capacity to handle the aviation traffic at the required/ prescribed service levels. Since additional equity contribution from GoK and AAI would have involved considerable delay, the entire additional cost was met by increase in debt from lenders. Subsequently, certain project extension works were taken up with supplemental expenditure budget of Rs 540 crores (which was funded partly by raising additional equity from the shareholders and partly by further additional debt from lenders) taking the total project cost to Rs 2470.29 crores.

1.22 The airport commenced the operations in May 2008. Some of the important milestones achieved in the development of the Project are as under:

Table 1: List of Key dates in formation of BIAL

MoU between AAI and KSIIDC	3rd May 1999
{ K l· NJŜ K ≥ f Ř ŜNJ ă Ω !	23rd Jan 2002
Concession Agreement with GoI	5th Jul 2004
State Support Agreement with Go	20th Jan 2005
Land Lease Agreement with KSIID	20th Jan 2005
Declaration of Financial Close	23rd Jun 2005
Construction commencement	2nd Jul 2005
Airport Opening	24th May 2008

1.23 BIAL has also executed other agreements such as EPC Contracts, Communication Navigation Surveillance/Air Traffic Management (CNS-ATM) Agreement with AAI, Financing Agreements with Lenders etc.

1.24 Subject to Article 14 (Assignment and Security) of the CA and in accordance with the terms of the SHA, the shareholding of Siemens Project Ventures GmbH and Unique Zurich AG are subject to the following lock-in restrictions:

1.24.1 Siemens Project Ventures GmbH shall subscribe and hold at least forty percent (40%) of the paid up capital of BIAL for a period of three (3) years after Airport Opening and no less than twenty six percent (26%) for a period of seven (7) years after Airport Opening; and

1.24.2 Unique Zurich shall subscribe and hold at least five percent (5%) of the paid up capital of BIAL for a period of three (3) years after Airport Opening.

1.25 The Shareholding pattern of BIAL at the time of initial phase and as of November 2012 is as under:

Table 2: Shareholding Pattern of BIAL – Initial

Shareholder	Share holding (%)
Private Promoters:	
Siemens Project Ventures GmbH	40%
Flughafen Zurich AG Ltd.	17%
L&T IDPL	17%
Sub-Total	74%
State Promoters:	
Airport Authority of India – (GoI)	13%
Karnataka State Industrial Investment & Development Corpora Limited (GoK)	13%
Sub-Total	26%
TOTAL	100%

Table 3: Shareholding Pattern of BIAL – Present

Shareholder	Share holding (%)
Private Promoters:	
Siemens Project Ventures GmbH	26%
Flughafen Zurich AG Ltd.	5%
GVK Group – Bangalore Airport & Infrastructure Developers Private Limited	43%
Sub-Total	74%
State Promoters:	
Airport Authority of India – (GoI)	13%
Karnataka State Industrial Investment & Development Corporation Limited (GoK)	13%
Sub-Total	26%
TOTAL	100%
Note: GVK Group acquired (a) 17% of equity shares from Larsen & Toubro (b) 12% equity shares of Flughafen Zurich and (c) 14% of equity shares from Siemens.	

1.26 In order to meet the expected passenger traffic of 17.2 million in 2015, BIAL has taken up expansion of the existing Passenger Terminal Building-1 (T1 Expansion) at a cost of Rs. 1479 crore which will be funded through internal accruals and additional debt. T1 Expansion is expected to be completed by middle of 2013.

2 Summary of key agreements entered into by BIAL

2.1 The key agreements in respect of BIAL inter alia include:

2.1.1 Concession Agreement including amendment

2.1.2 Land Lease Agreement

2.1.3 State Support Agreement

2.1.4 CNS/ATM Agreement

2.1.5 Shareholders Agreement

Summary details of the above agreements are given below.

2.2 Concession Agreement: The CA entered in to between MoCA, GoI and BIAL on 5th July 2004, is an agreement for the Development, Construction, Operation and Maintenance of Bangalore International Airport. The salient features of the CA are as under:

2.2.1 Article 3.1 of the CA GoI grants BIAL the exclusive right and privilege to carry out the development, design, financing, construction, commissioning, maintenance, operation and management of the Airport (excluding the right to carry out the Reserved Activities and to provide CNS/ ATM which are required to be provided by AAI)

2.2.2 Scope of the Project – Development and Construction of the Airport on the site in accordance with the provisions of the agreement, Operation and maintenance of the airport and performance of the Airport Activities and Non-Airport Activities in accordance with the provisions of the agreement, performance and fulfilment of all obligations of BIAL in accordance with the provisions of the agreement.

2.2.3 Rights – BIAL may carry out any activity or business related or ancillary to the activities referred to in the Concession or which BIAL considers desirable or appropriate to be carried on or engaged in connection therewith (including any infrastructure service considered by BIAL to be reasonably necessary for the activities referred to) and any activity or business in connection with or related to the arrival, departure and / or handling of aircraft, passengers, baggage, cargo and / or mail at the Airport; and any activity or business in connection with or related to the development of the Site or operation of the Airport to generate revenues including the development of commercial ventures such as hotels, restaurants, conference venues, meeting facilities, business centres, trade fairs, real estate, theme parks, amusement arcades, golf courses and other sports and/or entertainment facilities, banks and exchanges and shopping malls. BIAL may, subject to and in accordance with the terms of this agreement, at any time, grant Service Provider Rights (including the right of the Service Provider Right Holders to grant (sub) rights to any Person for the purpose of carrying out the activities.

2.2.4 Concession Fee, Article 3.3 of the CA provides that BIAL shall, in consideration for the grant by GoI of the Concession pursuant to Article 3.1, pay to GoI a fee amounting to four per cent (4%) of Gross Revenue annually on the terms specified. The Gross Revenue means all pre-tax revenue of BIAL, excluding the following: (a) payments made by BIAL for the activities undertaken by Relevant Authorities pursuant to Article 8.4, 8.5 and 8.6; (b) Insurance proceeds; and (c) any amount that accrues to BIAL from sale of any capital assets or items (d) payments and/or monies received in respect of air navigation and air traffic management services (e) payments and/or monies collected by BIAL for and on behalf of any governmental authorities under applicable law. The Concession Fee shall be determined in respect of each financial year of BIAL occurring on and after the Airport Opening Date. The Concession Fee in respect of the first ten (10) Financial Years (the Deferred Payment) shall be payable in twenty (20) equal half-yearly instalments, the first such instalment being due and payable on the 30th of June and second such instalment being due and payable on 31st of December (each of these dates referred as the Reference Date.) in the eleventh (11th) Financial Year, with the remaining instalments each payable on each Reference Date falling thereafter. Payments made under Article 3.3 shall be treated as part of the operating expenses of the Airport with the exception of deferred payment under Article 3.3.5, which are in lieu of payments to be accounted for in the relevant year. Other than in the case of late payment in which case Article 18.14 shall apply, no interest shall be levied or due in respect of any amount or payment to be made pursuant to this Article 3.3.

2.2.5 Exclusivity - Article 5.2.1 of the CA, provides that no new or existing airport shall be permitted by GoI to be developed as, or improved or upgraded into, an International Airport within an aerial distance of 150 kilometres of the Airport before the twenty-fifth anniversary of the Airport Opening Date. Further, Article 5.2.2 of the CA, provides that No new or existing airport (except for Mysore and Hassan airports) shall be permitted by GoI to be developed, or improved or upgraded into, a Domestic Airport within an aerial distance of 150 kilometres of the Airport before the twenty-fifth anniversary of the Airport Opening Date.

2.2.6 Article 5.5 of the CA provides that the existing airport in Bangalore known as the HAL airport located at Vimanapura, Bangalore shall on and with effect from the date on which the Airport Opening occurs (the greenfield international airport comprising of the Initial Phase, to be constructed and operated by BIAL at Devanahalli), GoI will ensure that the Existing Airport shall not be open or available for use for commercial civil aviation operations and shall no longer be classified as a civil enclave under the AAI Act 1994. The CA also provides that on and with effect from the date on which Airport Opening occurs, GoI will issue and publish an appropriate notification stating that the Existing Airport is no longer open or available for commercial civil aviation operations (which shall, for these purposes, not include use for Airport activity at times of national emergency or (at any time) by aircraft owned or operated by or for the Indian Air Force or other Armed Forces of India or for transportation of dignitaries by special government hired VIP aircraft or otherwise for their use or activities) and that it is no longer classified as a civil enclave under the AAI Act and also for ensuring that the international code (BLR) of the Existing Airport is transferred to the Airport. Further, it also states that General Aviation Services (other than those relating to commercial aircraft) may continue to be provided at the Existing Airport notwithstanding its closure to commercial aircrafts.

2.2.7 Lock-in-Period – Article 6.2 of the CA lays down the following lock-in restrictions subject to Article 14 (Assignment and Security) and in accordance with the terms of the Shareholders Agreement:

2.2.7.1 Siemens Project Ventures GmbH shall subscribe and hold at least forty percent (40%) of the paid up capital of BIAL for a period of three (3) years after Airport Opening and no less than twenty six percent (26%) for a period of seven (7) years after Airport Opening; and

2.2.7.2 Flughafen Zurich AG shall subscribe and hold at least five percent (5%) of the paid up capital of BIAL for a period of three (3) years after Airport Opening.

2.2.8 Master Plan – Article 7.1 of CA provides that BIAL shall review the Master Plan every five (5) years. If, on such review, BIAL considers it necessary to revise the Master Plan to reflect changed circumstances at the Airport, BIAL shall revise the Master Plan and provide GoI with a copy of such revised Master Plan.

2.2.9 Charges – Article 10 of the CA provides that the Airport Charges specified in Schedule 6 (Regulated Charges) shall be consistent with ICAO Policies and that the Regulated charges set out in Schedule 6 shall be indicative charges. Prior to Airport Opening BIAL shall seek approval from the Ministry of Civil Aviation for the Regulated Charges, which shall be based on the final audited project cost.

2.2.10 BIAL and / or Service Provider Right Holders shall be free without any restriction to determine the charges to be imposed in respect of the facilities and services provided at the Airport or on the Site, other than the facilities and services in respect of which Regulated Charges are levied.

2.2.11 Schedule 6: Regulated Charges.

2.2.11.1 Landing, Housing and Parking Charges (Domestic and International): The charges to be adopted by BIAL at the time of airport opening will be the higher of: (a) The AAI tariff effective 2001 duly increased with inflation index, as set out hereunder, upto the airport opening date. Or (b) The then prevailing tariff at the other AAI airports

2.2.11.2 Passenger Service Fee (Domestic and International): The charges to be adopted by BIAL at the time of airport opening will be the higher of: a) The AAI tariff effective 2001 duly increased with inflation index, as set out hereunder, upto the airport opening date or b) The then prevailing Passenger Service Fee at the other AAI airports. The Passenger Service Fee chargeable by BIAL, as given above, is inclusive of the cost of Security Expenditure on Central Industrial Security Force (CISF). This component of cost towards Security Expenditure on CISF shall be revised upwards by BIAL as and when directed by GoI.

2.2.11.3 User Development Fee (UDF) (Domestic and International): BIAL will be allowed to levy UDF, w.e.f Airport Opening Date, duly increased in the subsequent years with inflation index as set out hereunder, from embarking domestic and international passengers, for the provision of passenger amenities, services and facilities and the UDF will be used for the development, management, maintenance, operation and expansion of the facilities at the Airport.

2.2.12 Article 13.7 of the CA provides that Unless terminated earlier, the CA shall continue in full force and effect from its commencement in accordance with Article 4 until the thirtieth (30th) anniversary of the Airport Opening Date whereupon the term of the Agreement shall at the option of BIAL be extended for a further period of thirty (30) years and that BIAL may at any time prior to the twenty-seventh (27th) anniversary of the Airport Opening Date, exercise the aforesaid option of extending the term of this Concession Agreement by another thirty (30) years. In the event of BIAL not exercising option of extending the term of this Concession Agreement, then the Concession Agreement shall expire on the thirtieth (30th) anniversary of the ! ƛNJLJƻNJű hLJŜƴƛƴ∃ 5Ɩ űŜ Ɩƴ Ř DƻL ƻNJ ƛűă ƴƻ Ƴƛ ƴŜŜ ăK and to the Airport on payment on the Transfer Date to BIAL the aggregate of:

2.2.12.1 one hundred per cent (100%) of the par value of the issued, subscribed and paid-up share capital of BIAL; and

2.2.12.2 one hundred per cent (100%) of the Debt.

2.2.13 Subsequent to the execution of the Original Concession Agreement, and due to unforeseen commercial developments in the civil aviation sector in India leading to an increase in air traffic and passengers, the GoI and BIAL discussed and mutually agreed to amend the Original Concession Agreement (Amendment agreement dated 20th November 2006). The original CA was amended to include and replace the definition of Financial Close, Shareholders Agreement, Description of Initial Phase revised, Master plan revised and amended etc.

2.3 Land Lease Agreement: The Land Lease Agreement dated 20th January 2005, was entered in to between KSIIDC and BIAL. As per the LLA the GOK has agreed to provide financial support to improve the viability of the Project and enhance the bankability of the initial phase and has also agreed to have KSIIDC provide the site on lease to BIAL.

2.4 Land Lease Agreement provided for 3884 acres of land to be leased to BIAL and additional land area of approx. 133 acres to be procured by KSIIDC and leased to BIAL. The Authority notes, from the Financial statements of BIAL, as of 31st March 2013 that out of the additional 133 acres that KSIIDC had to acquire, KSIIDC has handed over land aggregating to approx. 124 acres, thereby making the total land leased by KSIIDC to BIAL at 4008 acres.

2.5 As regards the lease rent payable, the Land Lease Agreement provides that from the Airport Opening date till the end of seven years 3% per annum of the site cost of Rs. 175 crores shall be payable, and for the eighth year 6% of the site cost shall be payable and for every year following the eighth year after the Airport Opening date and the remainder of the term the lease rent payable shall be the lease rent of the preceding year plus 3%

2.6 State Support Agreement (SSA): The SSA entered into between GoK and BIAL on 20th January 2005 provides financial support to improve the viability of the Project and enhance the bankability of the initial phase and has also agreed to have KSIIDC provide the site on lease to BIAL. Salient features of the SSA are as given below:

2.6.1 The State Financial Support (interest free loan) specified in the SSA is Rs. 350 crore out of which Rs. 335 crores has been disbursed by GoK. As per the SSA no interest shall be payable by BIAL on the outstanding amounts of the State Financial Support paid to BIAL. However, interest shall be paid on delayed repayment of instalments. The State Financial Support is repayable in twenty equal half yearly instalments, first of which will become due on the 30th April in the eleventh (11th) Financial Year and the next on 31st October in the same year, with the remaining instalments being payable on 30th April and 31st October of the subsequent years.

2.6.2 The SSA also provides BIAL to review the Master Plan every 5 years and if on such review BIAL considers it necessary to revise the master plan to reflect changed circumstances at the airport, BIAL shall revise the Master Plan and provide GoK with a copy of such revised Master Plan, with explanations as appropriate. It also provides that the BIAL shall complete the construction of the Initial Phase and ensure that Airport Opening date shall occur by not later than the date falling thirty three (33) months after Financial Close.

2.6.3 Project support by GoK: The SSA also states that GoK will not revoke the decision to appoint the Private Promoters as joint venture partners in BIAL and to award the Project to the Project Promoters. In recognition of the investment to be made by the Shareholders and Lenders and subject to material compliances by the Shareholders and the Lenders with applicable and the terms and conditions thereof, GoK will not take any steps or action in contradiction of this agreement which results or would result in Shareholders or lenders being deprived of their Investment or economic interest in the project except in accordance with applicable law.

2.6.4 Non-Airport Activities - The SSA also states that the GoK recognises that BIAL may carry out any activity or Business in connection with or related to the development of site or operation of airport to generate revenues including the development of commercial ventures such as hotels, restaurants, conference venues, meeting facilities, business centres, trade fairs, real estate, theme park, amusement arcades, golf courses and other sports/ entertainment facilities, banks and exchanges and shopping malls.

2.6.5 Further to the Land Lease Agreement, Land Lease Deed was executed on 30th April 2005

2.7 CNS / ATM agreement: The CNS ATM Agreement has been entered in to between AAI and BIAL on 6th April, 2005 which covers the Scope of services provision of CNS/ATM services by AAI in the Pre-commissioning phase, Commissioning Phase and Operation Phase. As per the agreement AAI shall be entitled to recover the Route Navigation Facilities Charges directly from airlines. The Terminal Navigation Landing charges payable by airlines shall be paid directly by airlines to AAI and BIAL shall incur no liability in respect of charges. Rental to be paid to BIAL in consideration of the facility and office space as set out. Rental rate shall be on a cost recovery basis and mutually agreed.

2.8 Shareholders Agreement - The Original SHA dated 23rd January, 2002 between the State Promoters - KSIIDC, AAI and the Private Promoters - Siemens Project Ventures GmBH, Unique Zurich, L&T, BIAL, was amended on 10.06.2005. Salient features of the Shareholders Agreement is as given below:

2.8.1 The original authorised share capital of the Company was Rs. 50,00,00,000/- (Rupees Fifty Crores) only, divided into 5,00,00,000 (Five Crores) equity shares of the face value of Rs. 10/- (Rupees Ten) each. The present authorised share capital of the Company has since been increased to Rs. 350,00,00,000/- (Rupees Three Hundred Fifty Crores) to meet the requirements of the Project.

2.8.2 The SHA provides that Subject to the AAI Equity Cap (maximum Equity Contribution of AAI, not exceeding Rs.50 crores), the combined shareholding of the State Promoters shall be no less than twenty six percent (26%) of the total paid up share capital and KSIIDC, or its Affiliates, shall contribute to such additional amounts to maintain the combined shareholding of twenty six percent (26%) if the AAI Equity Cap is reached.

2.8.3 The SHA provides that upon subscription to the Shares in accordance with this Agreement, the paid-up capital structure of the Company shall be as follows:

2.8.3.1 Private Promoters and Other Investors (collectively) 74%

2.8.3.2 State Promoters (collectively): 26%

2.8.4 Further, SHA provides that the shareholding of the Private Promoters shall be subject to the following lock-in restrictions as under:

2.8.4.1 Siemens shall subscribe and hold at least forty percent (40%) of the paid up capital of the Company until a period of three (3) years after the Commercial Operations Date and in no event less than twenty six percent (26%) Shares for a period of seven (7) years after Commercial Operations Date;

2.8.4.2 Unique Zurich shall subscribe and hold at least five percent (5%) Shares in the paid up capital of the Company until a period of three (3) years after the Commercial Operations Date.

2.8.5 Circumstances in which further Capital may be raised by simple majority:

2.8.5.1 The SHA provides that in the unlikely event the Company suffers operating losses, the funding whereof has not been provided for in the business plan, the Board may appoint a financial consultant to advise on the possible means of financing that the Company may pursue. It is agreed by the Parties that to the extent possible such financing shall be first through internal accruals and thereafter borrowings. However should there be inadequate internal accruals or borrowings are not available on reasonable terms, the Board may, by a simple majority approve the issuance of further equity through a rights issue to the extent reasonably necessary to fund the uncovered operating losses.

2.8.5.2 If any change in law (including any change in enactment, legislation, regulation, rule, notification, order or directive having statutory force) subsequent to the finalisation of the Detailed Project Report requires a change in the scope of the Project which results in additional capital expenditure, the financing whereof cannot be covered in contingencies or otherwise in the business plan, the Board may appoint a financial consultant to advise on the possible means of financing that the Company may pursue. It is agreed by the Parties that to the extent possible, such financing shall be first brought through borrowings. However, should borrowings be not available on reasonable terms, the Board may, by a simple majority approve the issuance of further equity through a rights issue to the extent reasonably necessary to fund such additional capital expenditure.

2.8.6 Unforeseeable events: Further, the Clause 9.8 of the SHA provides that should the Project be impacted financially or otherwise due to any unforeseeable event beyond the reasonable control of 'the Private Promoters, the following process will be followed:

2.8.6.1 The Parties shall consult with each other upon the course of action to mitigate such risk or costs and the manner of financing, if any, required.

2.8.6.2 In such an event the Board may appoint a financial consultant to advise on the possible manner of financing that the Company may pursue.

2.8.6.3 Pending agreement between the Parties on the manner of financing, the Board may, if it is expedient to do so, raise borrowings or debt on such terms as may be deemed appropriate to meet any financing requirements arising due to the aforesaid event subject to an aggregate limit (together with any existing loan obtained for the purpose of this Clause 9.8) of Rs. 25 crores. The Parties agree that for such financing the Private Promoters may grant an unsecured subordinate debt.

2.8.6.4 Should the Parties mutually agree that instead of or in addition to any borrowing, such financing or any part thereof should be through equity subscription by the Parties, then any subordinated debt provided by the Private Promoters may be converted to equity.

2.8.7 It further provides that the Parties recognise and agree that the risks and costs resulting from unforeseeable events, to the extent possible, shall be caused to be assumed by concerned third parties and / or appropriately insured against, such that protection against such risks and costs is available.

2.8.8 Clause 9.9 of the SHA also states that the Parties recognize that the Airport will operate in a competitive environment and potentially within a short term, in regulated environment. The Parties, therefore, will cause the Company to operate in a manner, which maximizes efficiencies and utilization of resources.

2.8.9 Clause 13 of the SHA states that the Company in general meeting may declare dividends, but no dividend shall exceed the amount of dividend recommended by the Board. While recommending the declaration of any dividend, the Board will have regard to and consider the expansion plans of the Airport, taking into account the traffic growth, and the need for making provisions therefor.

3 MYTP Submission by BIAL Brief facts and Chronology of events

3.1 The Airports Economic Regulatory Authority of India (ά Authority ῆ) was established under ά¢ΚŜ !λNJLJƧNJű ă 9Authority ... AERA ... to perform the ... ά functions in respect of major airports, inter alia:

3.1.1 to determine the tariff for the aeronautical services;

3.1.2 to determine the amount of the development fees in respect of major airports;

3.1.3 to determine the amount of the passengers service fee levied under Rule 88 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934; and

3.1.4 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 authorized by it in this behalf.

3.2 As per Section 2 (a) of the AERA Act, any service provided, inter alia,

3.2.1 for the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;

3.2.2 for ground safety services at an airport;

3.2.3 for ground handling services relating to aircraft, passengers and cargo at an airport;

3.2.4 for the cargo facility at an airport; and

3.2.5 for supplying fuel to the aircraft at an airport,

are aeronautical services and the tariff for such aeronautical services at a major airport are to be determined by this Authority in terms of Section 13(1)(a) of the Act.

3.3 In the discharge of its functions of determination of tariff for aeronautical services, and to call for such information as may be necessary to determine tariff under the AERA Act, and to ensure transparency the Authority had issued an Order No.13/2010-11 dated 12th January 2011 ό ά !λNJLJƧNJű hNJŘŜNJέύ ... approach to economic regulation of Airport Operators. The Authority thereafter issued Order No.14/2010-11 and Direction No.05/2010-11 dated 28th February 2011 providing the Authority Ωă NJŜăLJƧ ... received in response to Consultation Paper 03/2009-10 dated 26th February 2010. These Orders and Guidelines were issued by the Authority after extensive stakeholder consultation based on NJŜăLJƧ ... Regulation ... White Paper on 22nd December 2009 and ... Consultation Paper No.03/2009-10 issued on 26th February 2010. The Airports Economic Regulatory Authority of India (Terms and Conditions for determination of tariffs for Airport Operators) Guidelines, 2011 (the ά !λNJ Guidelines ῆ) was also issued on 28th February 2011 by the Authority under Section 15 of the AERA Act directing all Airport Operators to act in accordance with the

Guidelines.

3.4 The Authority also finalised the Regulatory Philosophy and approach for Economic Regulation of the Aeronautical Services of Cargo facility, Ground Handling and Supply of fuel to an aircraft ó ά / D C ó ú vide Order No. 12/2010-11 ó ű K Ŝ ά / D C and issued Direction No.04/2010-11 dated 10.01.2011 ó ű K Ŝ ά / D C detailing the terms and conditions for determination of ű Ι ΝϳƛŦŦă ƛƴ ΝϳŜ ăLJŜŎű ϩŦ {ŜΝϳǾƛŎŜ tΝϳϩǾƛŘ for the CGF ƛƴŎ fdzŘ services.

3.5 As per clause 3.1 of the Airport Guidelines, the Airport Operator(s) were required to submit to the Authority for its consideration, a Multi-Year Tariff Proposal (MYTP) for the first control period (from 01.04.2011 to 31.03.2016), within four months of the date of issue of the Airport Guidelines, i.e., by 1st July 2011.

3.6 In the meanwhile, the Authority vide its Order No. 5/2010-11 dated 24th March 2011 ordered that in respect of 10 major airports namely Kolkata, Chennai, Hyderabad, Bangalore, Cochin, Ahmedabad, Trivandrum, Calicut, Guwahati and Jaipur, the concerned airport operators be permitted to continue charging the tariffs/ charges for all aeronautical services provided by them, at the existing approved rates (as on 28.02.2011), in the interim period i.e. from 01.04.2011 up to date the new tariffs as may be approved by the Authority become effective.

3.7 BIAL filed an appeal (Appeal No.7/2011) before K Ŝ Ι ϩ ƴ Ω ō f Ŝ ! 9 w ! ! LJLJŜ f (ó AERAAT) against the Authority Ω Airport Order and Airport Guidelines. BIAL had also filed an Appeal No.12/2011 against the CGF Order and CGF Guidelines relating to tariff determination of ISPs. Key grounds of appeal No.7/2011 and 12/2011 filed by BIAL inter alia are as under

<u>*Appeal No.7/2011*</u>

ά X Impugned Order ultra vires the power of the Authority and without jurisdiction

That the Regulator has totally misconstrued the provisions of the Act to confer upon itself the power to indirectly regulate Non Aeronautical and Non-Airport activities / services, in the guise of determination of tariff for aeronautical services, under Section 13 of the Act

The impugned order is contrary to vested rights, equities and estoppels.

Further jurisdictional error; Regulation of real estate activities.

Grounds raised in Appeal no. 2/2011 and to be raised in Appeal against Order No. 5 and 12 and Direction X Φ Φ έ

<u>*Appeal No.12/2011*</u>

ά X The impugned Guidelines and Impugned orders are issued apparently without any power of Authority and are without jurisdiction and ultra vires the Act

The Authority has no power under Section 15 of the Act to issue Directions to Independent service Providers (ISPs)

In order to circumvent lack of power, the Authority has attempted to reŘ Ŝ Ŧ ƛ У Ŝ ά { ŜǋǾ ƛ Ŏ Ŝ

ǈǋ ƻ Ǿ ƛ Ř Ŝǋ impugned guidelines ΐ Ќ Ŝ

The Authority has expressly admitted its lack of power to regulate ISPs

The Authority has failed to appreciate that the ISPs are sub-contractors and consequently agents of the Appellant ς Principal and the Authority could not have regulated such agents directly

The Authority has failed to give effect to the provisions of Section 13 (1) (a) (vi) of the Act.

The concession agreement excludes regulation of services of Cargo facility, Ground Handling and supply of fuel to aircraft.

The interpretation provided by the Authority to the provisions of Section 13 (1) (a) (vi) and Section 2(a) of the Act runs contra to all canons of interpretation and is contrary to tr law.

The Authority has failed to appreciate that the true and correct intent and purport of the Act is to regulate the services of Cargo facility, Ground Handling and Supply of Fuel to aircraft by contract and not by artificially superimposing a regulatory or tariff mechanism

An interpretation which recognizes and gives effect to settled transactions is to be preferred over any interpretation with upsets settled transactions.

The Impugned order is contrary to vested rights, equities and estoppels

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3.8 The Hon'ble AERAAT, in its Order dated 11th May 2011, in Appeal No.07/2011 filed by BIAL, ordered as under:

> *"In the meantime, without prejudice to the stands taken, let the requisite information/details/data/tariff proposal be furnished by the appellant to the Regulatory Authority. It may continue the process of the determination, but shall not make a final determination without leave of this Court. Time for submission of information/details/data/tariff proposal/details is extended till 31st July, 2011. It is made clear that since the tariff proposal/information/data/details are being directed to be given without prejudice to the claims involved, they shall be treated as confidential by the Regulatory Authority."*

3.9 However, BIAL filed a Miscellaneous Application in Appeal No. 7/2011, on 25th July 2011, requesting the AERAAT to direct extension of time to file the MYTP till next date of hearing, i.e., 17th August 2011.

3.10 Also, BIAL, vide letter ref. BIAL/AERA/MYTP/2011 dated 25th July 2011, requested the Authority to extend the time for submission of MYTP by two months, i.e., till 30th September 2011.

This request of BIAL was considered by the Authority and it was decided that, in view of the AERAAT Order dated 11th May 2011, the request for extension cannot be accepted and the decision was conveyed to BIAL, vide Authority's letter No. AERA/20010/IAL-AC/2009/670 dated 28th July 2011

3.11 BIAL filed a Writ Petition (C) 6.376/2011 before the Hon'ble High Court of Delhi praying, inter alia, for restraining the Authority from taking any coercive action against them for alleged non-compliance of the Airport Order. This petition came up for hearing before the Hon'ble High Court of Delhi on 1st September 2011 wherein the same was disposed off by the Hon'ble High Court of Delhi and time was granted to BIAL upto 15th September 2011 to submit the requisite details to the Authority. Delhi High Court, in its order dated 1st September 2011, ordered as under:

> *ђ ХХФФ I ƽ ǿ Ŝ Ǿ ŜNJΣ ű ƽ LJdzű Ŧ ƛ ƴ ŀ ƒ ƛ ű è ű ƽ ű Ķ Ŝ Ƴ ŀ ű ű Ŝ 15th September, 2011 to the petitioner to submit to the respondent the balance information/particular sought. Subject to the petitioner furnishing the information by the said date, no fine shall be imposed and no prosecution shall be initiated against the petitioner."*

3.12 Thereafter, BIAL vide their letter no. BIAL/AERA/MYTP/2011 dated 14th September 2011, in compliance of Order of Hon'ble High Court of Delhi, submitted the balance information and particulars relevant for MYTP for the first control period starting from FY 2011-12 to FY2015-16 for ű ŀ NJ ƛ Ŧ Ŧ Ř Ŝ ű Ŝ NJ Ƴ ƛ ƴ ŀ ű ƛ ƽ ƴ ŀ ƴ Ř ˡ Ŝ è NJ Ŝ ă 12 to FY 2011-12. In . L ! [Ω their submission, BIAL submitted that their operations and business is governed by the terms and conditions of the CA entered into between MoCA, GoI and BIAL on 5th July 2004 and related project agreements. In accordance with the CA, the regulated charges include Landing Charges, Parking Charges, Passenger Service Fee (PSF) and Users Development Fee (UDF). The rest of the revenues items were classified by BIAL as non-regulated charges such as Aviation Concessions, Retail, Commercial, among others.

3.13 BIAL, vide submission dated 14th September 2011 have stated that considering the provisions of CA and Airport Guidelines requirements, the financial statements have been prepared ō ŀ ă Ŝ Ř ƽ ƴ мл è Ŝ ŀ NJ ă . dz ă ƛ ƴ Ŝ ă ă t f ŀ ƴ ű Ķ ŀ ű Ķ ŀ ă ō Ŝ Ŝ ƴ ŀ Board has deliberated and considered the results for submission to the Authority subject to the condition that any final scenario of tariff determination requiring fresh equity infusion from the respective state promoters of BIAL would be subject to approval of the Board and respective state government.

3.14 BIAL have submitted that their real estate business plan is still under consideration and yet to be firmed up and hence the MYTP and as well 10 years Business plan does not have any inputs/ performance on account of Real estate business.

3.15 Further, BIAL have stated that the information submitted by them (submission dated 14th

September 2011) is without prejudice to their rights, contentions and the grounds urged in Appeal Nos. 7/2011 and 12/2011[1], pending adjudication by the AERAAT and that the information, including all the supporting documents, submitted till date, concerning the MYTP for the 1st Control Period, are confidential and any disclosure thereof will cause prejudice to BIAL by adversely impacting its commercial position.

3.16 BIAL have reserved the liberty to add, modify, revise, and rectify the information relating to MYTP based on additional information, discussions, clarifications that may be received from the Authority and that these submissions are being made without prejudice to BIAL's right to make further submissions, at a subsequent point in time, if found necessary. BIAL have also identified and segregated the Aeronautical Assets, Non-Aeronautical Assets, Aeronautical Services and Non-Aeronautical Services of tariff under Dual Till.

3.17 Subsequently, BIAL had made a presentation on its MYTP Submission on 10th February 2012, and on details of the Terminal-I expansion Project on 2nd May 2012

3.18 Subsequent to the above, pursuant to various discussions and correspondences with BIAL, BIAL has submitted a revised MYTP on 21st November 2012 along with their Financial Model, wherein they have stated that traffic scenarios and Projections have undergone a significant change, with the actual traffic for F.Y 2011-12 and Projected traffic for 2012-13 reflecting a de-growth in traffic and in view of this, the Projections required a review and revision with respect to Capital Expenditure Plans, means of financing and consequent changes in the Regulatory Building Block, which have been re-assessed and the revised MYTP is submitted herewith.

3.19 Further, the Authority had also requested BIAL to appoint a Consultant for the purpose of assisting the Authority in the tariff determination process. BIAL has appointed a Consultant for this task. The Consultant has assisted the Authority in its deliberations.

3.20 Further to this, additional submissions/presentations have also been made by BIAL on the queries raised by the Authority between January 2013 and June 2013.

3.21 a Ŝ Ŀ ƴ ǿ K ʎ ƚ Ŝ Σ ű K Ŝ vide its Order dated 15th February 2013, disposed-off the Appeal No. 07/2011 filed by BIAL, ordering that

> *ά pΦ XX ǿ K Ŝ ƴ ű K Ŝ Ƴ Ŀ ű ű ŜNJ ă Ǒ Ŀ Ƴ Ŝ Ŧ ƧNJ Ř ʎ ăLJƧ ă Ŀ ƚ Ƨ ƴ guidelines the directions issued pursuance thereto yet there would be no impediment for the AERA to consider all the relevant issues and then to finalise the order regarding the Ř Ŝ ű ŜNJ Ƴ ʎ ƴ Ŀ ű ʎ Ƨ ƴ Ƨ Ŧ ű Ŀ NJ ʎ Ŧ Ŧ Ƨ Ŧ Ŀ ʎ NJLJƧ NJ ű ă Φ ά XΦΦ ά cΦ L Ŧ ű K ʎ ă ʎ ă ă Ƨ Σ ű K Ŝ NJ Ŝ ǿ Ƨ the meaning of these appeals at this stage since in spite of the impugned orders it will be open for the*

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[1] The Authority notes that Appeals No. 7/2011 and 12/2011 have since been disposed off by AERAAT

appellants to canvass all the contentions which they want to raise in these appeals and convince AERA about their merits.

7. It has so happened that in spite of elapse of substantial time period the tariff has still not been determined which causes prejudice to both the concerned parties as well as the stakeholders.

8. In that view, we would dispose off these appeals with the direction to the AERA to complete this exercise of determination of tariff and while doing so, the AERA would give opportunities to all the stakeholders to raise all the plea and contentions and consider the same. The impugned orders herein would not come in the way of that exercise. We would, however, request AERA to complete the determination exercise as expeditiously as possible. We have taken this view as we are of the firm opinion that it would not be proper to entertain the appeals on different stages of determination of tariff and to give the finality to the questions of final determination of tariff.Ẍέ

3.22 { dz ō ă Ŝ lj dz Ŝ ƴ ű ű Ƌ ű Ќ Ŝ ŀ ō Ƌ Ǿ Ŝ Σ ǿ AERAT vide its Order dated 15th Ŏ Ŝ ű Ƌ ű February 2013, BIAL had sought time to present to the Authority its plea and contentions. Accordingly, BIAL has made additional presentations to the Authority on 8th April 2013 and has made additional submissions related to:

3.22.1 Mechanism of Till to be adopted

3.22.2 h ō ă Ŝ NJ Ǿ ŀ ű ƛ Ƌ ƴ ă ǿ ƛ ű Ќ NJ Ŝ ă LJ Ŝ Ŏ ű ű Ƌ 5 ƛ NJ Ŝ Ŏ ű ƛ Ƌ ƴ b Ƌ Ф

3.22.3 Affidavits by Prof. David Gillen and Paper by Shri K Roy Paul

3.23 BIAL has further submitted its Annual Tariff Proposal to the Authority on the 16th April 2013.

3.24 Meanwhile the ŀ Ƌ ƴ AERAT vide its Order dated 3rd May 2013, thereafter amended vide its order dated 10th May 2013 permitted withdrawal of the Appeal No. 12/2011 filed by BIAL, ordering that

"By an order dated 15th February, 2013, this Tribunal had disposed of appeals No. 07, 08, 09, 10 & 11 of 2011 with the directions to the AERA to complete the exercise of determination of tariff. We had also directed therein that AERA would give opportunity to all the stakeholders to raise all the pleas and contentions and consider the same. We had requested the AERA to complete the determination of tariff as expeditiously as possible. In this, we had taken a view that it would not be appropriate to entertain the appeals at different stages of determination. We, thus, had expressed specifically that all the pleas could be taken before AERA while determination of the final tariff. In those appeals, Shri Nanda had specifically made a statement that all the pleas and defenses including those

relating to impugned guidelines could be considered by AERA on the merits despite the guidelines issued by AERA in appeal Nos. 08, 09, 10 & 11 of 2011.

2. In view of this, Shri Datar, Senior Advocate, after considerable arguments, seeks to withdraw this appeal. He, however, seeks an opportunity to file an appeal against the final tariff order. It is reported that the final tariff order pertaining to independent service providers (ISPs) has now been passed. He also seeks an opportunity to raise all the questions raised herein in his appeal for filing which, he seeks an opportunity. We allow the withdrawal with the liberty sought for by him.

3.25 The Authority has carefully examined the submissions made by BIAL on the above matters. It is observed that after the initial MYTP submission dated 14th September 2011, BIAL reviewed and revised / modified its submissions. BIAL has made a revised MYTP submission on 21st November 2012.

3.26 The Authority has considered and examined the various submissions on different Building blocks made by BIAL based on the revised MYTP submission made by BIAL on 21st November 2012 and subsequent additional submissions/clarifications . L ! [Ω ă ădz ō Ƴ ʎ ǎ Authority Ωă Ɩ · ƴ Ř examinations in respect of various building blocks are presented in the relevant sections of this Consultation Paper.

4 Framework for determination of Tariff for BIAL

4.1 The Authority is determining aeronautical tariffs in accordance with the policy guidance provided by the legislature under the provisions of the AERA Act. The Authority is required to adhere to this legislative policy guidance in discharge of its functions in respect of the major airports. These functions are indicated in Section 13 of the AERA Act:

4.1.1 Determination of the tariff for the aeronautical services;

4.1.2 Determination of the amount of the development fees including User Development Fee;

4.1.3 Determination of the amount of the passenger service fee levied under rule 88 of the Aircraft Rules, 1937 made under Aircraft Act, 1934; and

4.1.4 Monitoring 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.

4.2 Further to the specification of functions to be performed by the Authority, the legislature also provides policy guidance on the factors, which are to be considered by the Authority in performing those functions. Under Section 13 (1) (a) of the AERA Act, the legislature requires the Authority to determine tariff for the aeronautical services taking into consideration the following factors:

4.2.1 the capital expenditure incurred and timely investment in improvement of airport facilities;

4.2.2 the service provided, its quality and other relevant factors;

4.2.3 the cost for improving efficiency;

4.2.4 economic and viable operation of major airports;

4.2.5 revenue received from services other than the aeronautical services;

4.2.6 concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;

4.2.7 any other factor which may be relevant for the purposes of the Act

4.3 The Authority, acting in accordance with the legislative policy guidance as above, had issued a white paper ƻ ƴ ά w Ŝ ∃ dz ƭ l· ű ƻ NJ è h ō Ϩ Ŝ Ŏ ű ƛ Ǿ Ŝ ă l· ƴ Ř t Ʋ ƛ ƭ ƻ ă ƻ LJ Ʋ è b l· Ǿ ƛ ∃ l· ű ƛ ƻ ƴ 22nd December 2009 and Consultation Paper No.03/2009-10 on 26th February 2010, as indicated in Para 3.3 above.

4.4 The GoI supported the White paper of the Authority and MoCA had given its comments at the stage of White Paper vide its letter No.AV.2011/003/2009-AD dated 9th March 2010, wherein it stated inter alia that *ά X ű Ʋ Ŝ dz ƭ ű ƛ Ƴ l· ű Ŝ ƻ ō Ϩ Ŝ Ŏ ű ƛ Ǿ Ŝ ă Ʋ ƻ dz ƭ Ř ō Ŝ ű ƻ*

*(passengers)*ɛ

4.5 To operationalize the mandate of the legislature, the Authority had issued the Airport Order and the Airport Guidelines, also incorporating the stated objective of the Government.

Consideration of submissions made under Single Till and Dual Till

4.6 In normal course it would have proceeded to determine the aeronautical tariffs in accordance with the Airport Order and the Airport Guidelines. However, in view of the ! ! ¢ Ω ă Order dated 15th February 2013, the Authority would now proceed to examine the submissions of BIAL both under Single Till and Dual Till, with reference to various Regulatory Building Blocks. The Authority would also accordingly present the calculations of the different Regulatory Building Blocks in both Single Till and Dual Till. It would also present the financial implications including the tentative estimation of tariff(s). Thereafter it would analyse the various submissions made by BIAL in support of Regulatory Till and present its findings for Stakeholder Consultation.

4.7 In calculations of tariffs under Single Till, the Revenues from Aeronautical Services as well as Non-Aeronautical Services are taken into account, along with the expenses, etc for determining the Aggregate Revenue Requirement for the purpose of tariff determination. In respect of Dual Till, the Aeronautical and Non-Aeronautical activities are separated for the purposes of the various building blocks like Regulatory Asset Base, Operations and Maintenance expenditure, etc and only the Aeronautical portion is considered for determining the Aggregate Revenue Requirement for the purpose of determination of tariff. These are discussed in the relevant sections

RAB Boundary

4.8 The AERA Act requires the Authority to take into consideration Revenue received from services other than the Aeronautical Services ŜNJǾ ƛ Ŏ Ŝ ă ɛ ǿ Ƙ ƛ ʄ Ŝ Ř Ŝ ű Ŝ NJ ƛ ƒ ∃ ű ŀ NJ ƛ. Hence the Authority can take into calculation, all revenues arising from all the services other than Aeronautical Services. Such services could include even those outside the airport terminal and the ones that are generally associated with commercial exploitation of land leased to the airport operator that is in excess of requirement of airport (Generally referred to as Real Estate Development). The Authority had addressed this issue in its Airport Order (See Para 4.11 below) and after { ű ŀ ʅ Ŝ Ƙ ʄ Ř ă Consultation, decided on the RAB boundary that it will generally follow in its tariff determination of Aeronautical Services.

4.9 Regarding delineation of RAB boundary, the Authority has considered both aeronautical and non-aeronautical services that will be provided by BIAL. As an illustrative list, the non-aeronautical services and activities would include duty free shopping, food and beverages, retail outlets, public admission fee for entry into the terminal, hotel, if any provided inside the terminal building, banks, ATMs, airlines offices, commercial lounges, spa and gymnasium facilities, car parking, etc. The

Authority is aware that this is not an exhaustive list. In addition to the above, individual airport operator may innovate and add more Non-Aeronautical Services so as to improve the passenger conveniences or enhancing ambience of the airport and terminal building.

4.10 The real estate development by the airport operator through commercial exploitation of land leased or granted to it, which is in excess of the airport requirement, would normally be outside the RAB boundary. This means that the revenues from commercial exploitation of such lands would, in normal course, not enter into the calculation of revenues required for aeronautical tariff determination. However, there may be such circumstances which the Authority may be required to take into account (like special covenants in the Concession Agreement or Lease Deed, etc.) that may require separate consideration for taking revenues from real estate development into calculation of aeronautical tariffs. An illustrative list of such developments would include hotels (outside the terminal building), Aerotropolis, convention centre, golf course, shopping complexes and residential areas, etc. Again this is not an exhaustive list and the airport operator may develop such real estate for other uses. The Authority understands that the real estate development or for that matter commercial development on such land is subject to the relevant land zoning restrictions of the local bodies and in other specific covenants or special acts like the AAI Act, etc. They may also be governed, additionally, by the covenants of other agreements entered into by the public authorities with the airport operator (for example, OMDA or Lease Agreement, etc.). The treatment considered by the Authority in respect of land in excess of airport requirement for BIAL has been discussed in Paras 26.90 to 26.123 below, which talks about the Authority Ω ă ŀ LJLJNJ 2 ŀ Ŏ K ƛ ƴ ű K ƛ ă NJ Ŝ Ξ

4.11 The Authority, in its Airport Order, has outlined the principles for inclusion / exclusion of assets from the aeronautical RAB to be considered for tariff determination. The principles for exclusion of assets from RAB Boundary are presented below:

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

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

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

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

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

4.12 Asset Allocation of RAB: The Authority has, for time being, accepted the asset allocation (aeronautical and non-aeronautical asset base or aeronautical and non-aeronautical RAB) given by BIAL while calculating the aeronautical tariffs under the option of Dual Till, and noted that such asset allocation may not be relevant for the purposes of Single Till. The Authority was required to make the asset allocation under Dual Till as per the orders of AERAAT that the appellants are free to make submissions before the Authority and that the Authority should consider the same. Since BIAL had made submissions also under Dual Till (in addition to Single Till), the Authority examined its submissions under Dual Till for which the Authority took into consideration the asset allocation between Aeronautical Assets and Non-Aeronautical Assets as given by BIAL (stating, however that the Authority would commission an independent study for the same).

Revenue Recognition from Cargo, Ground Handling and Fuel Throughput (CGF)

4.13 As per the provisions of the AERA Act, the Authority considers the services rendered in respect of cargo, ground handling and supply of fuel (CGF) as the aeronautical services. In normal course, the Authority [illegible] respect of the CGF services has been that if the service is being provided by the airport operator himself, the revenue accruing to it on account of the provision of the service would be considered as aeronautical revenue and if the service is outsourced by the airport operator to a third party concessionaire, the revenue accruing in the hands of the airport operator through revenue share / rental etc. from such third party concessionaire would be considered as non-aeronautical revenue.

4.14 The Authority notes that the revenues from Cargo, Ground Handling, Fuel farm and Into-Plane operations have been classified by BIAL under Revenue from Non-Aeronautical services

4.15 The Authority notes that BIAL has classified Fuel Through put fee as part of Non-Aeronautical revenue, which the Authority proposes to consider as part of Aeronautical revenues.

4.16 The Authority proposes to consider revenue [illegible] and [illegible] revenue as part of revenue from Non-aeronautical services in the hands of BIAL, as these have been concessioned out by BIAL and the services are rendered by Third Party Concessionaires as Independent Service Providers (ISPs). Discussion regarding implication of CGF service providers being [illegible] BIAL and not ISPs is given separately in Para 4.18 below

Consideration of Bad debts written off

4.17 The Authority, in line with its principles on Discounts and bad debts as has been elaborated in the Airport Order and Airport Guidelines, does not propose to allow for Bad Debts and Discounts as these are commercial decisions of the Operator. However, in case, there are specific circumstances of any write-off which in the opinion of the Authority can be considered to be one-off event, the Authority may consider such write-offs as part of Operating Expenditure.

Consideration of CGF ISPs as Agents of BIAL

4.18 The Authority also notes that BIAL, in its Appeal No. 12/2011 has stated that the ISPs are the agents of BIAL, The principal (as detailed in Para 3.7 above). The Authority also notes that BIAL, however, in its Multi Year Tariff Proposal has recognized only its share of revenues from these ISPs as part of its Non-Aeronautical Revenue. While BIAL has subsequently withdrawn its appeal, the Authority proposes to also examine the Multi Year Tariff Proposal submitted by BIAL, considering the ƌĞƋƵĞƐƚ ŵĂĚĞ ďLJ ƚŚĞ ŽǀĞ . L ! [Ωă ŝŶ ∃ ŚĞƌ ŝĞƐĂ, BIAL, which is in line ŚĞ ƐǀLJ with BL ! [Ωă ădzōΥλăăλ2ƴ ,i.e. the ISPs are agents of Principal (BIAL) мнкнлмм ó

4.19 The Authority has examined the submissions by BIAL under Single Till and Dual Till (considering CGF service providers as third party concessionaires or ISPs). Further ĂƐ ƉĞƌ ƚŚĞ 2Ŧ averments made in Appeal No. 12/2011, the Authority has also considered and calculated the impact of treatment of CGF service providers as agents of BIAL in Para 25 below. The same is presented for Stakeholders' Consultations.

4.20 To summarise, the following scenarios have been reviewed by the Authority and its proposals are being put up for Stakeholders' Consultation:

4.20.1 <u>Single Till Approach ς ISPs not considered as Agents of BIAL</u> - Under this approach Aggregate Revenue Requirement (ARR) and corresponding Yield per passenger (YPP) computed dzƴŘŚNJ Single Till ά LJLJNJ2 Ŏ K ă Authority under Airport Order and Airport ŧ KŜ Guidelines and adopted by it for other Airports such as Chennai International Airport, Chennai and NSCBI Airport, Kolkata. Under this approach, the Authority would consider the ISPs as concessionaires of BIAL, as was maintained by the Authority in Appeal No. 12/2011 before the I 2ƴ AERAAT. Hence, the revenue share earned by BIAL in this case, is considered as part of Non-Aeronautical revenue, as the respective Aeronautical Services are not performed by the Airport Operator (BIAL) for computation of ARR. A view could be taken that the revenues earned by BIAL from these Cargo, Fuel Farm and Ground Handling services is caused to be provided by airport operator and hence merits to be considered as Aeronautical Service. This has already been discussed by the Authority in its tariff determination Order for Mumbai International Airport (Order #32/2012-13 dated 15th January 2013), wherein the Authority had determined the tariffs for Aeronautical Services considering revenue received by the Airport Operator from CGF Service providers as part of Non-Aeronautical Revenue to ensure that the same is tractable and transparent.

4.20.2 <u>Single Till Approach ς ISPs considered as Agents of BIAL</u> - This approach is similar to the approach detailed in Para 4.20.1 above, except for considering the ISPs as agents of BIAL, in ƚŚĞ ǁŚŝĐŚ . L ! [Ωă I 2ƴ AERAAT in Appeal No. 12/2011 wherein they had averred that ά ¢ ŚĞ *Authority has failed to appreciate that the ISPs are sub-contractors and consequently agents of the Appellant-Principal and the Authority could not have regulated such I ∃ ŚĞƌ ŝĞƐă. Ř ƴNJŚ ŝ submission, the Authority proposes to consider the total* revenue earned by the Concessionaires (as submitted by BIAL) as revenues accruing to BIAL from the provision of Aeronautical Services. This is so by virtue of the ISPs (providing CGF Services) being the Agents of the Airport Operator ς BIAL. Thus the services of Cargo, Fuel Farm and Ground Handling are deemed to be rendered by the Airport Operator himself and consequentially the total revenue therefrom has to be considered as revenue from the respective Aeronautical Services provided by BIAL under the AERA Act.

4.20.3 <u>Dual Till Approach ς ISPs not considered as Agents of BIAL</u>: Under the Dual Till, the ARR and YPP is computed only considering Aeronautical assets, Expenditure and Depreciation relating to such Aeronautical Assets and return on such Aeronautical Assets, after reviewing the allocation of assets and expenditure as submitted by BIAL. Further, under this approach, the ISPs are not considered as Agents of BIAL, in line with Authority Ω ă ă dz ō Y ʎ ă lă ʔ ʎ y 2 AERA ... Ŝ Ŧ ƻ NJ Ŝ and only the share for revenues accruing to BIAL has been considered as part of the Non-Aeronautical Revenues.

4.20.4 <u>Dual Till Approach ς ISPs considered as Agents of BIAL</u>: This approach is similar to Para 4.20.3 above. However, the gross revenues earned by ISPs are considered as Aeronautical Revenue earned from provision of Aeronautical services of CGF in the hands of BIAL.

Future Capital Expenditure ς Means of Finance:

4.21 The Authority also proposes to consider the Future Capital expenditure requirements as estimated by the company, means of financing the proposed expenditure requirements and the manner of funding shortfall if any. Authority Ω ă Ŏ ƻ ƴ ă ʎ ŕ Ŝ ǁ ʎ ŕ ʎ ƻ ƴ of these matters and its view are listed in Para 28 below. The Authority also notes that the Concession Agreement expressly provides for UDF to be used, inter alia ... Ŧ ƻ NJ ά Ŝ ȅ LJ ŀ ƴ ă ʎ ƻ ƴ Ŧ ƻ ǔ K Ŝ Ŧ ŀ Ŏ ʎ ƭ ʎ ǔ ʎ Ŝ ă accordance with the provisions of AAI Act, ADF (that is in the nature of a Capital Receipt) would not be applicable in case of BIAL. The Concession Agreement therefore appears to have provided for Capital Financing through UDF. If UDF or any part thereof is used as a Capital financing measure, its nature and character would be akin to that of Development Fee (DF) and would need to be treated accordingly. Should BIAL require this provision to be used for capital needs for expansion and puts forth appropriate proposal therefor, the Authority would, upon review, suitably consider the same.

5 Control Period

5.1 In terms of Airport Guidelines issued, 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 and the first Control Period shall commence from 1st April 2011.

5.2 As per the guidelines, BIAL have furnished details/information and particulars relevant for the MYTP for the First Control Period.

5.3 It is also noted that BIAL, while determining the Aggregate Revenue Requirement (ARR) for the first control period commencing 01.04.2011, have included an amount of Rs. 241.6 Crores as NPV of Shortfall as on April 2011 to the ARR of the first year, FY 2011-12 under Single Till and Rs. 528.8 Crores as NPV of Shortfall under Dual Till.

5.4 The Authority notes that almost 2 ½ years out of the 5 year control period has elapsed and the tariff determined is to be recovered over the balance tenure of the Control Period.

Proposal No 1. Regarding Control Period

1.a. Based on the material before it and its analysis, the Authority proposes:

i. To consider the first Control Period in respect of determination of tariffs for aeronautical services in respect of Bengaluru International Airport to be from 01.04.2011 upto 31.03.2016.

6 Pre-control period shortfall claim

(a) BIAL's submission on Pre-control period losses

6.1 BIAL, in its revised MYTP submission has a claimed shortfall for the Pre-control period 2008-09 to 2010-11, as the control period prescribed in the Airport Guidelines commences from 2011-12
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6.2 BIAL has submitted as follows:

BIAL submitted various submissions for approval towards levy of domestic UDF. Based on the justification furnished and detailed discussions, MoCA approved Rs.260/- (incl. of applicable taxes) as against proposed levy of Rs.675/- per departing domestic passengers on adhoc basis during January 2009.

BIAL had a carried forward loss of Rs.53.28 crore as of AoD. Post approval for levy of UDF on adhoc basis from AoD, Operations resulted in a loss of Rs.97.03 crore during the first year of its operation (i.e., FY:2008-09) and the accumulated loss aggregated to Rs. 150.31 Crore as up to 2008-09 (as per the audited accounts). BIAL had ensured high quality in performance standards and is expanding the infrastructural facilities to meet the increasing demand of both passengers and airlines.

BIAL has submitted its Multi Year Tariff Proposal (MYTP) for determination of tariff by considering fair return as well for the previous period (i.e., pre-control period FY 2008-09 to FY 2010-11). By this it is ensured that the adhoc UDF so approved was tracked and applicability of revised rate of UDF prospectively, after notification of regulatory powers to the Authority. UDF is a revenue enhancing measure and the rate thereof is so determined so as to ensure fair rate of return on the RAB.

It is quite evident that the adhoc UDF so approved was insufficient and BIAL was not able to obtain a fair rate of return on RAB resulting in loss during the first year of operation itself.

It is essential to maintain and up-grade the facilities to provide / meet the international performance quality standards as per IATA for all the stakeholders. One of the functions of the Authority is to maintain the economic and viable operation of major airports. In order to achieve this objective, BAIL needs to be duly compensated with assured return for the entire period under consideration i.e., from inception.

Table4: Value of PreControl shortfall claimed by BIALςRs. Crore

Till Mechanism	Net Present Value of Prcontrol Shortfall claimed by BIALand added to the shortfall of the first control period ςRs. Crore
Single Till	241.61
Dual Till	528.80

6.3 As per BIAL,Shortfall underSingle Tillhas been calculated as under

Table5: Computation of PreControl period shortfall submitted by BIAL undeSingle Till- Rs. Crore

Particulars	2008-09	2009-10	2010-11	Total	Basis of Claim
Cost of Debt	6.66%	7.72%	8.12%		Cost of Debt computed as: Interest cost as per Financials -- Average Debt balance
Cost of Equity	24.40%	24.40%	24.40%		! ă LJŜNJ . L ! [Ω ă Cost of Equity
Fair Rate of Return	10.08%	10.76%	11.36%		FRoR has been computed for each year by computing the gearing in each year, multiplie by the respective cost of debt and cost of equity Equity considered for the purpose of Gearing has been computed considering Equity excluding losses in case of Accumulated P&L having Deb balance and including P&L balance in case of Accumulate P&L being in credit.
RAB considered fo Return (Rs. Crore)	1,558.99	1,770.69	1,656.52		Average RAB as per books ha been considered except for 1s year of operations where the closing RAB has been considered proportionate to the number of days in Operation of the airport (312 days of 365 days)
Returnon RAB (Rs Crore)	157.13	190.45	188.23		FROR % * Average RAB
Depreciation (Rs. Crore)	112.85	133.69	134.60		Depreciation as per the audited accounted has been considered for reimbursement
Operating Costs (Rs. Crore)	148.86	165.50	176.10		Operating Expenditure as per Financial Statements has bee considered as a reimbursement, excluding

Particulars	2008-09	2009-10	2010-11	Total	Basis of Claim
					Forex losses. Bad debts/ waivers have been claimed back as part of the shortfall
Income Tax (Rs. Crore)	0.86	8.78	29.61		Total tax payment (both charged off to P&L and carried as credit in books) has been considered for claim
Aggregate Revenue Requirement (Rs. Crore)	419.70	498.43	528.53		
Less: Revenue from Operations (Aero Revenue and Non-Aero Revenue)	(309.50)	(464.60)	(538.20)		As per financials
Opening P&L Shortfall	53.28				Opening balance in P&L as at the commencement of Airport Operations has been claimed
Net Shortfall	163.48	33.83	(9.67)	187.64	
Add: OMSA and Concession Fee	10.43	2.16	(0.62)	11.98	As OMSA Performance fee and Concession fee is also payable on the shortfall which will be reimbursed and hence considered as Revenue
Total claim	173.91	35.99	(10.28)	199.62	
Compound factor	1.22	1.11	1.00		
Compounded value	212.03	39.86	(10.28)	241.61	

6.4 BIAL has claimed shortfall under Dual Till mechanism under the same principles but by considering the Return on Aeronautical assets and by allocating a part of the total Depreciation cost and Operating Expenditure towards the Aeronautical Assets. Basis of segregation adopted by BIAL and the resulting computations are as given below:

Table 6: Basis of Pre-Control period shortfall claim adopted by BIAL under Dual Till

Particulars	2008-09	2009-10	2010-11
Aeronautical Assets to Total Assets	82.23%	82.01%	81.66%
Depreciation – Aeronautical to Total Depreciation cost	82.23%	82.01%	81.66%
Operating Expenditure % considered as Aeronautical Total cost	80.00%	80.00%	80.00%
% of Opening Shortfall considered	100.00%		
Taxation - % considered as Aeronautical	80.00%	80.00%	80.00%

Particulars	2008-09	2009-10	2010-11
% of Non-Aeronautical revenues considered for reduction	0.00%	0.00%	0.00%

Table 7: Computation of Pre-Control period shortfall submitted by BIAL under Dual Till ς Rs. Crores

Particulars	2008-09	2009-10	2010-11	Total
FROR*RAB	129.19	156.19	153.71	
Depreciation	92.79	109.64	109.91	
Operating Expenditure	119.09	132.40	140.88	
Taxation	0.69	7.03	23.69	
Opening Shortfall	53.28	-	-	
Sub Total	395.04	405.26	428.18	
Less: Aviation Revenues	- 170.60	- 290.90	- 331.40	
Shortfall for compensation	224.44	114.36	96.78	
OMSA and concession fee payment	14.33	7.30	6.18	
Gross Shortfall	238.76	121.66	102.96	
Compounding factor	1.22	1.11	1.00	
Compounded Shortfall	291.10	134.75	102.96	528.80

(b) Authority Ω ă Ŝ Ȅ ŀ Ƴ ƛ ƴ ŁΩ Ś ubmission on Pre-control period losses

6.5 The Authority ƴ ƻ ű Ŝ ă ű Ƙ ŀ ű ű Ƙ Ŝ a ƛ ƴ ƛ ă ű Ǌ è ƻ Ŧ / ƛ Ǿ ƛ ŧ ! Ǿ ƛ ŀ ű (Ref: AIC No. 11/2008 dated 22nd September 2008) to be collected from International Passengers ŀ ƴ Ř ά ! Ř Ƙ ƻ Ŏ έ -¦ 5 Ω to be collected from Domestic Passengers from 16th January 2009 (Ref: MoCA letter F. No. AV 20036/007/2008-AD dated 9th January 2009). A reading of the referred letter indicates that certain information requested for from BIAL was still awaited as at the date of issue of the subject letter as detailed below:

ά XItisdue to the delay in furnishing of requisite information by BIAL which has prevented the Government of India from making a determination that the charges proposed by BIAL are consistent with and in compliance of the ICAO policies and thereby taking view in the matter. As such, there has been no default on the part of the Government of India.

In view of the position stated above, I am directed to request you to provide the complete information, at the earliest, so as to enable the Government to conclude the diligence process and take a final view in respect of the proposals submitted by BIAL. The Ministry of Civil Aviation looks forward to cooperation and compliance on part of BIAL so that the project and the larger interests of the user public do not suffer.

In the meantime, BIAL is permitted to levy a UDF @ Rs. 260/- per departing domestic passenger, with effect from 16.01.2009, on an 'ad-hoc' basis. This levy shall be inclusive of

all applicable taxes. Further, BIAL may please finalize their expansion plan within a period
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6.6 The Authority notes that BIAL had approached MoCA for increasing the UDF, which was forwarded by MoCA to the Authority for determination. The Authority took up the matter of determination of UDF for Hyderabad International Airport Limited (HIAL) and BIAL and wrote to BIAL in January 2010 to submit details on various parameters and projections. BIAL, in response submitted that:

"Whereas there is definitely a need for increase in UDF, BIAL would like to understand in detail the parameters for sanction of UDF in the process of being finalized by AERA. Once the parameters are understood, BIAL will submit the appropriate information at the
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6.7 The Authority followed up on the matter and sent a reminder, on 21st September 2010 to BIAL, requesting for the submission, to which BIAL responded that:

"Kindly note that as mentioned in BIAL letter dated 22nd January 2010, BIAL would like to understand in detail the parameters of sanction of UDF. Further BIAL is in advanced stages of finalising the Master Plan for expansion of Terminal One and construction of Terminal 2. Also AERA is yet to come up with the guidelines for Economic Regulation in the airport. In view of the above, you would appreciate that it would be appropriate for BIAL to submit the revised computation of UDF once AERA comes up with the regulatory philosophy and guidelines for regulated charges as well as BIAL completes the Master
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6.8 Also, the Authority notes that while Schedule 6 of the Concession agreement provided BIAL the right to charge Landing and Parking charges which could be the higher of AAI tariff effective 2001 duly increased with inflation index upto the Airport Opening Date or the then prevailing tariff at other AAI airports, BIAL adopted the then prevailing tariff at other AAI airports, without any increase.

6.9 In the meanwhile, the Authority, vide its Order 06/2010 dated 26th October 2010, had Ǝ LJLJNJ ₒ Ǿ Ŝ Ř ű Ƙ Ŝ ά ! Ř Ƙ ₒ Ŏ ἑ ARR was arrived at, which were broadly in line with ű Ƙ Ŝ the Airport Order and Airport Guidelines, which was issued later, in February 2011. In this Adhoc UDF order, the Authority had computed the ARR considering the WACC on the RAB from the period 2008-09 – the period of operation of the airport.

6.10 Authority's view on examination of each aspect of the Pre-control period shortfall claim is as detailed below:

Table 8: Authority's analysis of various aspects of Pre-Control shortfall claim

Particulars	Claim by BIAL	Observations by the Authority
Cost of Debt	Claimed as Interest cos / average loan balance	The Authority notes that these are based o the audited details of the Interest Cost a Debt balances and hence considered as such
Cost of Equity	24.4%	The cost of equity proposed to be consider for BIAL for the control period is proposed be allowed for the pre-control period also. Refer Para 13 below on Cost of Equity wherein the Cost of Equity at 16% is proposed
Fair Rate of Return	Equity considered fo the purpose of Gearin has been compute considering Equit excluding losses in ca of Accumulated P& having Debit balance and including P& balance in case o Accumulated P&L bein in credit.	There have been cumulative losses during first 2 years, as can be seen from the audi Financial statements. Hence the Authority proposes to accept the methodology submitted by BIAL.
Regulatory Asset base considered for return	Average RAB as p books has bee considered except for 1st year of operations where the closing RA has been considere proportionate to the number of days i Operation of the airport (312 days of 365 days)	In view the Airport Operations commenci on 23rd May 2008, the Operator did not have a significant Opening Asset Base as of 1st April 2008, with which the average asset base prescribed in Direction 5) could be consider Hence Authority proposes to consider the submission made by BIAL. The Authority has considered Foreign Exchanges loss/gain values capitalised to th asset values, and appropriately adjusted th RAB on this account
Depreciation	Considered as per book	The Authority proposes to consider th proposal submitted by BIAL.
Operating Expenditure	As per audited financials, excluding: Forex gains/ losses Including Bad debts	Bad Debts Provisions are not proposed to b included as part of the Operating Expendit for computation of shortfall.
Income Tax	Total tax payment (bot charged off to P&L an carried as credit i books) has bee considered for claim	Submission is proposed to be considered.

Particulars	Claim by BIAL	Observations by the Authority
Revenue from Operations	As per financials	The Authority noted that, while considerin the Aeronautical Income and No Aeronautical Income, BIAL has not conside Interest Income which forms part of th ά h ű K Ŝ NJ L ӯ Ŏ ƶ Y Ŝ ƭ The Interest Income earned is proposed to be included part of Non-Aeronautical revenue and adjusted from the ARR, in computation of t shortfall. The Authority notes that BIAL has submitte certificate from a Chartered Accounta detailing the Interest received on the Secur Deposit received for a hotel project. The Authority proposes to consider the Interes Income, excluding the Interest earned hotel deposits as part of the Non-Aeronautical Revenues, as per Proposal 5.a.iv below
Opening P&L Shortfall	Opening accumulated losses as of 1st April 2008 ς Rs. 53.3 Crore has been claimed a Shortfall in 2008-09	The Authority proposes to compute WAC considering the full value of Equity invest (without reducing the Accumulated losses) Hence, the Authority proposes not to allow accumulated losses as of Airport opening d (i.e Rs. 53.3 Crores) to be added to the shortfall computations
Calculation of Concession Fee and OMSA Fee on the Pre control shortfall	Reimbursement of OMSA Fee at 2% and Concession Fee at 4% as the same is payable o any revenue earned b BIAL.	Authority has examined the issue of the OMS fee payable to M/s Unique in Para 17.67.3 below. The Authority has allowed OMSA F at 1.29% as was paid by BIAL to M/s Uni (though in the agreement the OMSA Fee has ceiling of 2%). It proposes to allow the Concession Fee of 4% as per the Concessio Agreement.

6.11 To summarise, while computing the Pre-control shortfall, the Authority proposes to consider following:

6.11.1 Reducing Bad Debts from the Operation and Maintenance Expenditure claimed

6.11.2 Not to consider loss prior to Airport Opening

6.11.3 Considering Interest Income as part of Non-Aeronautical Revenue and reckon the same for computation of Pre-control period shortfall, excluding Interest earned on Deposit received for hotel Project.

6.11.4 Considering OMSA Performance fee at 1.29% as detailed in 17.67.3 below under Operating Expenses.

6.11.5 Consider Cost of Equity as 16% as proposed for the current Control period.

6.12 The Authority also notes that BIAL has claimed Pre-Control Shortfall under Dual Till by adopting the principles of Dual Till. The Authority notes that BIAL has not incurred losses during the Pre-control period, (except for the first year of its operation 24th May 2008 till 31st March 2009). The year-wise profit/ loss of BIAL for the period 2008-09 till 2010-11 (the precontrol period) is given below:

Table 9: Summary of Profits/ losses earned by BIAL for the period 2008-09 to 2010-11, Rs. Crore

Particulars	Till 2007-08	2008-09	2009-10	2010-11
Total Revenue		322.29	510.87	578.68
Profit before tax		-96.17	78.14	132.5
Taxation		-0.8	-0.40	-0.39
Profit after tax	(53.30)*	-97.03	77.74	132.10
* This figure represents the opening value of retained earnings in the Balance Sheet of BIAL before the start of operations on 24th May 2008.				

6.13 Based on the yearly profits, the Balance sheet of 2010-11 shows incremental retained earnings of Rs. 209.84 Crores (over and above the figure of retained earnings of Rs. (-) 150.32 Crores as of 31st March 2009). The accumulated retained earnings as at 31st March 2011, the beginning of the control period is Rs. 59.53 Crores.

6.14 The Authority also notes that GVK Group was not an original shareholder and acquired 43% stake in BIAL during the period December 2009 to December 2010. The airport started its operation on 24th May 2008. The Authority understands (based on third party reports) that, a part of this stake in BIAL, worth Rs. 110 Crores, was acquired by GVK Group for an amount of Rs. 1100 Crore.

6.15 While calculating the Pre control period losses, the Authority proposes to make calculations based on taking BIAL as company as a whole giving the return on equity at 16%. This return is based on its calculation of Fair Return on Equity in case of BIAL, discussed in Para 13 below.

6.16 As can be seen, according to its Balance Sheet, BIAL has made profits in the years 2009-10 and 2010-11 (the 2 years of the pre-control period). These profits have been sufficient to wipe out the losses of its first year of operation namely 2008-09, that is why its Balance sheet as of 31st March 2011 shows positive retained earnings of Rs. 59.53 Crores. If calculations are made at 16% ROE, it is found that the position for the last 3 years (2008-09 to 2010-11) is as under:

Table 10: Reworked Pre-control period shortfall claim, Rs. Crores

Particulars	2008-09	2009-10	2010-11	Total
Fair Rate of Return on RAB	132.62	164.27	161.39	
Depreciation	113.46	134.40	135.31	
Operating Costs	146.26	163.60	176.10	
Income Tax	0.86	8.78	29.61	
Aggregate Revenue Requirement (Rs. Crore)	393.20	471.06	502.40	

Particulars	2008-09	2009-10	2010-11	Total
Less: Revenue from Operations (Aero Revenue, Non-Aero Revenue and Interest Income)	(315.41)	(474.01)	(559.91)	
Net Shortfall	77.79	(2.96)	(57.51)	
Add: Calculation of Concession Fee and OMSA Fee on the Pre-Control Shortfall	4.34	(0.17)	(3.21)	
Total claim	82.13	(3.12)	(60.72)	18.29
Compounding factor	1.18	1.09	1.00	
Compounded	97.30	(3.41)	(60.72)	33.17

6.17 The shortfall/ profit in each year is brought forward (compounded) to arrive at the future value as of 31st March 2011 at WACC for the respective years in the pre-control period. The cumulative result as of 31st March 2011 works out to an accumulated shortfall of Rs. 33.17 crores. ¢K⅄ă YŜƎƴă űKƎű ƎŦűŜNJ űKŜ D2Ǿ (First effective 24th May 2008 ŘŜŎ⅄ă⅄2ƴ for departing International passengers at Rs. 1070 Per pax (including taxes) and later effective January 2009 for departing domestic passengers at Rs. 260 per pax (including taxes)) BIAL had received ROE at slightly less than 16%.

6.18 As indicated in Para 4.6 above, the Authority has presented the calculations of the different Regulatory Building Blocks in both Single Till and Dual Till. In these calculations, BIAL has requested the Authority to take into account the Pre-Control period loss incurred by BIAL as calculated by it both under Single Till and under Dual Till. However, the Authority is unable to appreciate the submission that though the Airport Operator had all the surplus from Non-Aeronautical Revenue in its hands (Dual Till), BIAL should, nevertheless, be compensated for the accounting loss suffered by it only taking into account the Aeronautical charges (inclusive of UDF) for the pre-control period

6.19 The Authority is examining the Aeronautical tariff proposals for the current control period, both under Single and Dual Till as per the AERAAT Order dated 15th February 2013. The Authority has calculated the shortfall based on its assessment of Fair Rate of Return on Equity at 16%, the audited financial statements for BIAL for the period 2008-09 to 2010-11. It has however, kept out the Interest income earned from the Security Deposit received for Hotel Project of around Rs 20.66 Crores for this period, a treatment that is consistent with its calculation of Aeronautical tariff during the current control period (vide 5.a.iv below). According to calculations made in Table 10 the shortfall thus comes to Rs 33.17 crores. The Authority proposes to adjust (recoup) this shortfall in the ARR for the first year of the current control period namely in the year 2011-12. This shortfall of Rs. 33.17 crores is thus counted in Authority's ă LJNJ2LJ2 ă Ǝ ƒ ă Ŧ2NJ Aeronautical tariffs for the current control period both under Single Till as well as under Dual Till

Proposal No 2. Regarding Pre-control period shortfall claim

2.a. Based on the material before it and its analysis, the Authority proposes

i. To consider Pre-control period shortfall (from 24.05.2008 to 31.03.2011) (inclusive of carrying cost as of 31.03.2011) at Rs. 33.17 Crores

ii. To add this amount of Pre-control period shortfall to the ARR for FY 2011-12 while determining tariffs for aeronautical services for the current control period so as to recoup these losses both under Single Till and Dual Till

7 Regulatory Building Blocks

7.1 The Authority has analysed and determined the Regulatory Building Blocks for calculation of ARR in respect of BIAL for the current Control Period.

7.2 The ARR for the current Control Period has been calculated based on the following Regulatory Building Blocks with reference to the submissions made by BIAL.

7.2.1 Fair Rate of Return applied to the Regulatory Asset Base (FRoR x RAB)

7.2.2 Operation and Maintenance Expenditure (O)

7.2.3 Depreciation (D)

7.2.4 Taxation (T)

7.2.5 Revenue from services other than aeronautical services (NAR). Revenue from services other than aeronautical services (NAR) is meant to include revenues in the hands of the airport operator from services other than those captured under aeronautical revenue.

7.3 The ARR under Single Till for the Control Period (ARR) will be calculated as under:

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

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

where

7.3.1 t is the Tariff Year in the Control Period

7.3.2 ARR_t is the Aggregate Revenue Requirement for year t

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

7.3.4 RAB_t is the Regulatory Asset Base for the year t

7.3.5 D_t is the Depreciation corresponding to the RAB for the year t

7.3.6 O_t is the Operation and Maintenance Expenditure for the year t, which include all expenditures incurred by the Airport Operator(s) including expenditure incurred on statutory operating costs and other mandated operating costs

7.3.7 T_t is the Taxation for the year t, which includes payments by the Airport Operator in respect of corporate tax on income from assets/ amenities/ facilities/ services taken into consideration for determination of ARR for the year t

7.3.8 NAR_t is the Revenue from services other than aeronautical services for the year t

7.4 In case of Dual Till, the calculation of ARR differs as cross subsidization from Revenue from services other than aeronautical services (Non-Aeronautical Revenue (NAR)) will not be considered. Other than NAR, other building blocks will remain in the formula, however their values will change as the methodology for determination of these blocks will be different. Further the Regulatory Asset

Base (RAB) will be considered corresponding to those assets, which are used for providing aeronautical services. In other words the assets being used for providing services other than aeronautical services will be excluded from RAB. Accordingly, the depreciation and Operation & Maintenance Expenditure will be considered for activities pertaining to provision of aeronautical services. Thus, the ARR for the current Control Period will be determined based on the following Regulatory Building Blocks components (Dual Till):

7.4.1 Fair Rate of Return applied to the Regulatory Asset Base (FRoR x RAB)

7.4.2 Operation and Maintenance Expenditure (O)

7.4.3 Depreciation (D)

7.4.4 Taxation (T)

7.5 The ARR under Dual Till for the Control Period (ARR) will be calculated as under:

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7.6 The AuthorityΩ ă Ŝ È l· Ύ ƛ ƴ l· ű ƛ ƻ ƴ ƻ Ŧ Ŝ l· Ŏ Ƙ ƻ Ŧ Bengaluru ō dz ƛ ŧ Ř ƛ International Airport is presented in the subsequent sections.

8 Allocation of Assets, Aeronautical / Non-Aeronautical

(a) . L ! Ş [Ω ă Submission on Asset Allocation

8.1 BIAL has submitted MYTP under both Single Till and Dual Till Mechanism. Accordingly the Operator has, under Dual Till proposed segregation between the Aeronautical Assets and Non-Aeronautical Assets.

8.2 With respect to segregation of Assets as Aeronautical and Non Aeronautical, BIAL has submitted as follows:

ó The bifurcation of historical values of fixed assets and costs in Aero and Non-Aero is ō l· ă Ŝ Ř 2 ý ű K Ŝ ! dz Ř ⅄ ű 2 NJ Ω ă Ŏ Ŝ NJ ű ⅄ Ŧ ⅄ Ŏ l· ű Ŝ ⅄ ă ă dz Ŝ Ř l· Ŧ ű of the certificate has been submitted earlier. On the same basis, the projected fixed assets and costs are bifurcated to estimate the future Aero and Non-Aero Assets.

The Aeronautical Assets, Non-Aeronautical Assets, Aeronautical Services and Non-Aeronautical Services are as defined under Clause 1.1 and Clause 1.2 of the certificate submitted earlier.ε

8.3 Extracts from the certificate given by Price Water House Coopers (PWC), in October 2008 to MoCA which has been submitted by BIAL, detailing the concept and methodology of bifurcation are as given below:

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Definitions as per Company policy

ά ! Ŝ NJ 2 ý l· dz ű ⅄ Ŏ l· ſ ! ă ă Ŝ ű ă ε h ă K ſ ſ Ÿ Ŝ ſ ű K 2 ă Ŝ l· ă ă Ŝ ű are necessary or required for the performance of aeronautical services for earning Aeronautical Revenue which is defined below and such other assets as an Airport company procures in accordance with the written directions of the GOI for or in relation to provision of any reserved activities.

ά ! Ŝ NJ 2 ý l· dz ű ⅄ Ŏ l· ſ { Ŝ NJ Ǿ ⅄ Ŏ Ŝ ă ſ Ÿ Ŝ ſ ű K Ŝ LJ NJ 2 Ǿ ⅄ ă ⅄ 2 ý of the following facilities and services:

Provision of flight operation assistance and crew support systems;

Ensuring the safe and secure operation of the Airport, excluding National Security Interest;

Movement of parking of aircraft and control facilities;

General maintenance and upkeep of the Airport;

Rescue and Fire Fighting services;

Movement of staff and passengers and their inter-change between all modes of transport at the Airport;

Aerodrome control services;

Airfield;

Airfield lighting;

Airside and landside access roads and forecourts including writing, traffic signals, signage and monitoring;

Common hydrant infrastructure for aircraft fuelling services by authorized providers;

Apron and aircraft parking area;

Apron control and allocation of aircrafts stands;

Arrivals concourses and meeting areas;

Baggage systems including outbound and reclaim;

Bird scaring

Check-in concourse;

Cleaning, heating, lighting and air-conditioning public areas;

Customs and immigration halls;

Emergency services;

Facilities for the disabled and other special needs people;

Flight information and public-address systems;

Water drainage;

Guidance systems and marshalling;

Information desks;

Inter terminal transit systems;

Lifts, escalators and passenger conveyors;

Loading bridges;

Lost property;

Passenger and hand baggage search;

Piers and gate rooms;

Policing and general security;

Infrastructure/Facilities for Post Offices;

Infrastructure/Facilities for Public telephones;

Runways;

Signage;

Taxiways;

Toilets and nursing mothers room;

Waste and refuse treatment and disposal;

X-Rat service for carry on and checked-in luggage;

VIP / Special lounges; and

Any other services deemed to be necessary for the safe and efficient operation of the Airport.

‘Airport Charges’ ă K l· f f Y Ŝ l· ŷ ! ƛ NJLJ2NJ ű / K l· NJ Ǝ Ŝ ă l· ă Ř Ŝ Ŧ ƛ ŷ Ŝ concession agreement.

‘Regulated Charges’ ă K l· f f Y Ŝ l· ŷ NJ Ŝ Ǝ dz f l· ű Ŝ Ř / K l· NJ Ǝ Ŝ ă the l· ă concession agreement dated July, 2004

‘Non-Aeronautical Assets’ ă K l· f f Y Ŝ l· ŷ l· f f l· ă ă Ŝ ű ă NJ Ŝ lj dz ƛ NJ Ŝ performance of Non-Aeronautical Service at the Airport as defined below.

‘Non-Aeronautical Services’ ă K l· f f Y Ŝ l· ŷ ű K Ŝ and services: f 2 ǿ ƛ ŷ Ǝ Ŧ l· Ŏ ƛ f ƛ ű

Aircraft cleaning services;

Airline Lounges;

Cargo handling;

Cargo terminals;

Operation and maintenance of passengers boarding and disembarking systems;

Ground handling services

Hangers

Heavy maintenance services for aircraft

Observation terrace

Banks/ATM

Bureaux de change

Business center

Conference center

Duty free sales

Flight catering services

Flight consolidators/forwarders or agents

General retail shops

Hotel/Motels

Hotel reservation services

Line maintenance services

Local rentals

Logistics centers

Messenger services

Porter services

Restaurants, bar and other refreshment facilities

Special Assistance services

Tourist information services

Travel agency

Vehicle fueling services

Vehicle rental

Vehicle parking

Vending machine

Warehouses

Welcoming services

Other services related to passenger services at the airport, if the same is a non-aeronautical asset.

‘Common Assets’ ă K l· f f Ƴ Ŝ l· ƴ l· f f l· ă ă Ŝ ű ă ƴ ƻ ű ă LJ Ŝ Ŏ ʎ Ŧ ʎ Ŏ l· f & Non-Aeronautical Assets.

‘Aeronautical Revenue’ ă K l· f f Ƴ Ŝ l· ƴ NJ Ŝ Ǿ Ŝ ƴ dz Ŝ Ŧ NJ ƻ Ƴ l· f f NJ Ŝ Ǝ dz Airport i.e., Landing Fees, Parking and Housing Fees, PSF (Facilitation) and User Department fees.

‘Non-Aeronautical Revenue’ ă K l· f f Ƴ Ŝ l· ƴ l· f f NJ Ŝ Ǿ Ŝ ƴ dz Ŝ ă ű NJ Ŝ l· Ƴ ă Revenue streams.

Classification of fixed assets into Aeronautical and Non-Aeronautical assets

The following is the key used for the bifurcation of common assets into Aeronautical and Non –Aeronautical assets.

Sl. No	*Key for Bifurcation*	*Basics for key*
1	*Landscaping*	*Airside landside landscaped area.*
2	*Power*	*Estimated Demand Ratio between Aeronautical Services and Non Aeronautical services as provided by the Facilities Department.*
3	*Revenue*	*Projected Revenue (for Aeronautical Services and non-Aeronautical Services) as per the budget for the year 2008-09 as approved by the Board in the 36th Board Meeting held on 25th April 2008.*
4	*Water*	*Estimated Demand Ratio between Aeronautical and Non Aeronautical Services as provided by the Facilities Department.*

Sl. No	*Common Asset Group*	*Location/Description*	*Key used*
1	*Air Conditioning, Office Equipment, Security Fencing & Airport*	*All*	*Revenue*
2	*Building*	*ATC Block*	*Revenue*
		Powerhouse North/ Power Substation	*Power*
		Terminal Building	*Revenue*
		Waste Center, Booster Pump House, Potable Water Pump House, Sewage treatment Plant, Raw Water Pump House, Rain Water Harvesting	*Water*
		Landscaping	*Landscaping*
3	*Communication Equipment*	*Corporate Office*	*Revenue*
4	*Electrical installation*	*ATC Block & Terminal Building*	*Revenue*
		Main Power Station, Powerhouse North	*Power*
		Raw Water Pump House	*Water*
5	*Lighting & Beaconing*	*Terminal Building, ATC Building*	*Revenue*
		Substation and Power House	*Power*
		Raw Water Pump House	*Water*
6	*Powerhouse Equipment*	*All*	*Power*
7	*Roads*	*Road access*	*Revenue*

Sl. No	Common Asset Group	Location/Description	Key used
8	*Safety and Security Equipment*	*Terminal Building*	*Revenue*
9	*Software and Program licenses*	*Software ς Power Supply Equipment etc*	*Power*
		Auto CAD 2008,Com Software ς network license	*Revenue*
10	*Water Management System*	*All*	*Water*

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8.4 Based on the above, the % segregation adopted by BIAL in the Business Plan on assets proposed to be capitalised during the current control period are as follows:

Table 11: Asset split % adopted by BIAL for future capital expenditure

Asset Description	% considered as Aero
Apron Extension	100%
Terminal 1 Expansion	82%
Other Projects	82%
Maintenance Capital Expenditure	
Airfield Pavement	100%
Fencing and Compound Wall	80%
Landscaping	80%
AFL System	80%
Aircraft stand equipment	100%
Perimeter Roads	80%
Drainage	80%
Terminal Building	80%
Electrical and Electronic System	80%
Special Equipment (Lift, Escalator, PBB etc)	80%
Mechanical System (HVAC, FF etc)	80%
Furnishing	80%
Airfield Building	100%
Landside Building	80%
Road Access Road & Parking areas	80%
Landscaping	80%

Asset Description	% considered as Aero
Access to Highway	80%
Street and Parking area lights	80%
Drainage Systems	80%
Equipment for Power House	80%
Ring Feeder / Cable Network	80%
DG Sets	80%
Water Supply	80%
Waste Water Network and Plant	80%
Storm Water disposal and drainage	80%
Vehicles and Equipments	80%
Misc. Capex	80%

8.5 Based on the above approach, BIAL has segregated the Aeronautical and Non-Aeronautical Assets for the current control period. The overall ratio between Average Regulatory Asset Base ó ⱥ RAB ǻ of Aeronautical Assets and Average RAB of Total Assets (i.e. Aeronautical and Non Aeronautical Assets) as computed by BIAL for each year of the control period, is summarised below:

Table 12: Overall Aeronautical assets as a % of Total Assets

In%	2011-12	2012-13	2013-14	2014-15	2015-16
Average RAB of Aeronautical Assets %age of Total Assets	81.47%	82.09%	82.42%	82.31%	82.37%
Total Average RAB	1569.83	1579.54	2395.22	3148.27	3063.61

(b) Authority Ω ă Ŝ È ŀ Ÿ ⅄. yĿŀ!ű[ƛΩ2ăƴ {ƨdzŦo Ÿ ⅄ ă ă ⅄ ƨ ƴ ƨ ƴ ! ă ă Ŝ ű ! ƒ ƒ ƨ

8.6 The Authority has noted the above submission of BIAL on the allocation of assets into Aeronautical and Non-aeronautical categories. The Authority ŀ ƒ ă ƨ ƴ ƨ ű Ŝ ă ű Ķ ŀ ű ű Ķ Ŝ ŀ dz highlights that:

ά Χ Φ ² Ŝ Ķ ŀ Ǿ Ŝ Ŧ ƨ dz ƴ Ř ű Ķ Ŝ ō ŀ ă ⅄ ă ƨ Ŧ ŀ ƒ ƒ ƨ Ŏ ŀ ű ⅄ ƨ ƴ ƨ Ŧ and Non-Aeronautical to be reasonable, except for Operation and Maintenance of passenger boarding and disembarking systems (aerobridge), which has been classified under Non-! Ŝ NJ ƨ ƴ ŀ dz ű ⅄ Ŏ ŀ ƒ Φ Χ έ

8.7 The Authority proposes to calculate aeronautical tariffs under Dual Till based on the asset allocation indicated by BIAL (asset allocation is not relevant for Single Till). It also proposes to commission an independent study to assess the reasonableness of this allocation and to consider the conclusions thereof at the time of the aeronautical tariff determination in the next control period as may be relevant.

8.8 The Authority proposes to consider Aerobridge charges as Aeronautical Revenues.

Proposal No 3. Regarding Asset Allocation (Aeronautical / Non Aeronautical)

3.a. Based on the material before it and its analysis, the Authority proposes

i. To consider the allocation of assets as submitted by BIAL (Refer Table 12) for computation of ARR under Dual Till for the current control period.

ii. To commission an independent study to assess the reasonableness of the asset allocation submitted by BIAL and to consider the conclusions thereof at the time of the aeronautical tariff determination in the next control period as may be relevant.

9 Future Capital Expenditure including General Capital Expenditure

(a) Future Capital Expenditure

9.1 Project-wise details of the costs proposed to be added to RAB, during the Control Period and the date of capitalization, as seen from the Business Model is as given below:

Table 13: Details of Capital Expenditure Projects proposed by BIAL to be added to RAB during the current control period - Rs. Crores

Project	Date of Capitalisation	Basic Cost and charges	Financing allowance	Total cost
Other Projects	31-Mar-12	63.11	3.43	66.54
Apron Extension	31-Mar-13	118.05	10.41	128.46
T01 Expansion	30-Sep-13	1383.31	215.63	1598.94
Expansion Projects Capitalised				1793.94
Maintenance Capex Projects	31st March 2012	3.43	0.00	3.43
	31st March 2013	70.41	0.00	70.41
	31st March 2014	126.36	0.00	126.36
	31st March 2015	142.97	0.00	142.97
	31st March 2016	78.38	0.00	78.38
Maintenance Capital Expenditure				421.54
Total Capitalisation		1986.01	229.47	2215.48

9.2 Financing allowance has been computed at the rate of debt proposed by BIAL for the respective years on the Capital expenditure incurred, which varies from 11.5% to 13.5%, as submitted by BIAL (Authority ... Table 12 below).

9.3 During discussions BIAL explained that this amount proposed to be added to RAB will be different from the Interest during Construction and charges that will be added to the asset cost for the purpose of depicting the same in the Financial books of accounts, due to the different methodology and mechanism of computing the Interest during Construction and the Financing Allowance. Details of asset values proposed to be capitalized, in the Financial books, as against the above projects, as can be seen from the Business Model submitted is given below:

Table 14: Details of Costs proposed to be capitalised in Financial Accounts as per BIAL under Single Till - Rs. Crores

Project	Date of Capitalisation	Basic Cost and charges	Interest Capitalised	Total cost
Other Projects	31-Mar-12	63.11	0.00	63.11
Apron Extension	31-Mar-13	118.05	3.02	121.06
T01 Expansion	30-Sep-13	1383.31	95.38	1478.69
Expansion Projects Capitalised				1662.86
Maintenance Capex Projects	31st March 2012	3.43	0.00	3.43

Project	Date of Capitalisation	Basic Cost and charges	Interest Capitalised	Total cost
	31st March 2013	70.41	4.38	74.78
	31st March 2014	126.36	0.77	127.13
	31st March 2015	142.97	6.15	149.12
	31st March 2016	78.38	4.51	82.89
Maintenance Capital Expenditure				437.34
Total Capitalisation		1986.01	114.19	2100.20

9.4 BIAL has stated that it has carried out Consultation with various stakeholders for the Terminal 1 expansion activity which commenced in August 2011. Following are the details of the consultations carried out, as submitted by BIAL.

Table 15: Summary of Stakeholder consultations carried out by BIAL for the proposed Capital Expenditure

Date	Nature of Meeting
6th May 2010	Forecast Workshop
6th August 2010	Terminal Expansion, Airline Consultation
15th July 2011	Terminal Expansion, Airline Workshop and Stakeholder Sign off
27th Sep 2010	Smile Bengaluru, City Connect Campaign

9.5 BIAL, in its revised MYTP submission had given the details of key Maintenance Capex expenditure as follows:

Table 16: Details of Key Maintenance Capital Expenditure Projects as submitted by BIAL - Rs. Crores

S. No.	Activity Name	Cost proposed to be incurred in First Control Period
1	Disabled aircraft removal equipment	8
2	Integrated crisis center cum Haj terminal	6
3	Airside infrastructure development	5.84
4	Terminal area infrastructure development	6.72
5	Extension of Kerbside of Terminal 1	35

9.6 The Authority noted that the total Maintenance Capital Expenditure Projects proposed to be executed as per the Business Plan total to approx. Rs. 421 Crores (Refer Table 13) of which details were provided, as part of MYTP submission, only for Rs. 61.56 crores as given in Table 16. Further to query raised by the Authority on the same and after repeated follow-ups, BIAL has submitted the details of Maintenance Capital Expenditure Projects on 15th May 2013 as follows:

Table 17: Detailed break-up of the Maintenance Capital Expenditure submitted by BIAL

Annexure 1				
Dept	Particulars (Amt in Rs. Crore)	2013-2014	2014-2015	2015-2016

Annexure 1				
Dept	Particulars (Amt in Rs. Crore)	2013-2014	2014-2015	2015-2016
E&M	Airfield Pavement	0.2	29.1	12.5
E&M	Fencing & Compound Wall	-	-	0.5
E&M	Landscaping	3.0	-	-
E&M	AFL System	0.3	-	0.5
E&M	Aircraft Stand Equip.(Apron Lights 400 Hz etc)	0.1	-	0.6
E&M	Perimeter Roads	-	-	0.2
E&M	Drainage	-	-	-
E&M	Terminal Building	1.6	0.5	0.6
E&M	Electrical & Electronic System	-	-	0.2
E&M	Spl. Equipment(Lifts, Escalators, PBB etc)	0.2	0.2	0.2
E&M	Mechanical System (HVAC, FF etc)	0.0	0.2	0.7
E&M	Furnishing	-	0.5	-
E&M	Airfield Buildings	0.2	1.2	0.4
E&M	Landside Buildings	0.3	0.2	-
E&M	Road Access Road & Parking Areas	6.0	-	-
E&M	Landscaping	0.4	-	-
E&M	Access to Highway	-	0.5	-
E&M	Street &Parking area lights	0.1	-	0.1
E&M	Drainage systems	0.1	-	0.1
E&M	Equipment for Power Houses	-	-	0.5
E&M	Ring feeder / Cable Network	-	-	-
E&M	DG Sets	-	0.8	0.8
E&M	Water supply	-	0.4	-
E&M	Waste Water Network and Plant	0.1	-	0.3
E&M	Storm water Disposal / Drainage	0.1	-	-
E&M	Vehicle & Equipments	0.5	0.7	9.0
	Total	13.1	34.1	27.0
	WPI- Capex	1.1	1.1	1.1
	Total (incl WPI- Capex)	14.1	37.9	30.8

Annexure 2					
Sl. No	Dept	Description (Amt in Rs. Crore)	2013-14	2014-15	2015-16
1	Operations	EXPANSION/UP GRADATION OF DEPAR HALL TOILET AND TOILET FOR ARRIVA PASSENGER	1.8		
2	Operations	MEP, structure, demolition, barricading etc	0.7		

Annexure 2					
Sl. No	Dept	Description (Amt in Rs. Crore)	2013-14	2014-15	2015-16
3	Operations	ADDITIONAL SEPARATE ENTRY/EXIT D FOR TROLLY MOVEMENT	0.0		
4	ICT	Check-in (peripherals) - Refresh of the balance hardware to make all counters identical in performance	1.3		
5	Operations	LIFE STYLE SEATING	4.2		
6	Operations	WHITE COLOR 3M VINYL ABOVE CHECK COUNTER INCLUDES DISMANTLING AN REFIXING	0.2		
7	Operations	INTRODUCTION OF ORANGE COLOR 3M VINYL FILM BEHIND GREEN GLASS FC CHECK IN WALL INCLUDES DISMANTLIN AND REFIXING	0.5		
8	Operations	WHITE COLOUR 3M VINYL FILM ON EXIS GLASS FASIA INCLUDES DISMANTLING REFIXING-ARRIVAL HALL	0.2		
9	Operations	GREEN GLASS TO BE REPLACED WITH WHITE COLOR 3M VINYL FILM FOR ALL COLUMNS INCLUDING DISMANTLING AN REFIXING.	1.8		
10	Operations	Vertical Portal 1 no.	0.7		
11	Commercial	BULKHEAD TO MATCH WITH T1E	6.4		
12	Commercial	CAPITAL, PORTAL, GRILLS TO BE DONE HIDE FRESH AIR AND EXHAUST ! w w ! b D 9 a 9 b ¢ C h w C ȝ .	2.5		
13	Commercial	GRANITE FLOORING TO BE REDONE INCLUDING SCREED	12.9		
14	Commercial	CURVE WALL DESIGN EXCLUDING ART	0.3		
15	Commercial	RELOCATING THE ENTRANCE	0.0		
16	Commercial	DRY WALL PARTITION	2.3		
17	Commercial	INTRODUCTION OF GLASS LIFT LEVEL 1 LEVEL 2	0.3		
18	Commercial	MEP, structure, demolition, barricading etc	6.1		
19	Operations	MEP, structure, demolition, barricading etc	0.7		
20	Operations	DISMANTLING AND RELOCATING OF ON SWING GATE PARTITION	0.0		
21	Operations	ADDITIONAL NEW FOLDING GATE GLAS PARTITION	0.1		
22	Operations	BIAL DAILY OPERATIONAL OFFICE INTE	0.6		
23	Operations	AUTHORITY & ICT OFFICES AREA NEAR ARRIVAL CORRIDOR and AOCC	1.2		
24	Operations	CLOSURE OF EXISTING EXIT DOORS AN ADDING TICKETING OFFICES INCLUDS EXTERIOR,INTERIOR GLASS	0.0		

Annexure 2					
Sl. No	Dept	Description (Amtin Rs. Crore)	2013-14	2014-15	2015-16
		PARTITION,DOORS & MODULAR FURNIT			
25	Operations	MEP, structure, demolition, barricading etc	3.1		
26	ICT	Rebuilding services - FAS/TMRS/WiFi/ In building 2g/3g services for Mobile/ IP Ports	1.9		
27	Commercial	PA rebuilding - for Terminal enhancement.	0.9		
28	Operations	NEW CHARGING COUNTER NEAR BOAR GATE	0.1		
29	Operations	NEW BOARDING COUNTERS TO MATCH T1E	0.8		
30	Operations	SIGNAGES CHANGES - LV-0/1	2.5		
31	Operations	Millwork package _ loose furniture	1.3		
32	Operations	Interior changes	4.8		
33	Operations	MEP, structure, demolition, barricading etc	4.2		
34	Operations	Construction and MEP, structure, demolitio barricading etc	1.0		
35	Operations	Integration of existing lighting with expansio scheme	3.3		
36	Operations	CHECK IN COUNTERS - ADD EMPERADO MARBLE ON FRONT FACE.	0.3		
37	Operations	LOW CEILING ABOVE CHECK-IN COUNTERS TO BE REDONE	0.2		
38	Operations	MEP, structure etc in check in and arrival ha	0.2		
39	Operations	VERTICAL FINISHES (HPL/GLASS) - PASSENGER AREA	1.5		
40	Operations	Art Work	1.6		
41	Operations	3rd baggage claim belt on International arrivals	7.6		
42	Commercial	Development of Plaza area	35.0		
43	Commercial	Forecourts & landscaping requirements - Various line items consolidated	80.0		
44	Operations	Consultancy for Runway 2 airspace study	2.5		
45	ICT	B2C - www.bengaluruairport.com - social media integration/ E-commerce	1.7		
46	Corporate	Passenger vehicles for employees	1.0		
47	Operations	Automated Passenger Queue Wait Time System	1.0		
48	ICT	Smart Airport - Vacuum based Baggage Handing	1.0		
49	ICT	Technology refresh - Airport IT Systems - AODB Server	1.0		
50	ICT	Technology refresh - Tetra Radios provided to Customers	1.0		

Annexure 2					
Sl. No	Dept	Description (Amtin Rs. Crore)	2013-14	2014-15	2015-16
51	ICT	New Servers for New applications-Pax tracker/ ITSM Solution / EPOS or Virtualisation platform, 6 nos	1.0		
52	Operations	Design & Engineering for Hajj	0.9		
53	E&M	Alternate Access road to Alpha taxi track to Road	0.7		
54	E&M	Providing Infrastructure work in and around the BIAL premises-CSR	0.5		
55	Operations	Airport Capacity Simulation System	0.5		
56	E&M	Management vehicles	0.5		
57	E&M	Replacement Follow-Me vehicles 3 Nos. (Scorpio Getaway or Similar)	0.5		
58	E&M	Closing of the Breached Boundary walls	0.4		
59	E&M	Development of fire-training pit area to cover 100 meters drive around area	0.4		
60	ICT	Network-Cisco Routers for Customers	0.4		
61	ICT	IPV6-New Network Hardware compliant with IPV6	0.4		
62	ICT	Technology refresh-SAN Switches	0.4		
63	E&M	Tow vehicles for Landside Traffic	0.3		
64	E&M	Suction & Jetting Machine	0.3		
65	ICT	Enterprise Apps-Mobility Apps for smart phones	0.3		
66	ICT	Enterprise Apps-Marketing and BI for Aviation mktg	0.3		
67	ICT	TMRS Radios-BIAL Internal-E & M, Landside Traffic, ARFF	0.3		
68	ICT	Technology refresh-Laptops	0.2		
69	E&M	Procurement of the signage boards at the airfield are for an improved guidance to the aircraft.	0.3		
70	E&M	Provision of VIP Terminal Gate	0.3		
71	E&M	Permanent Watch towers	0.2		
72	Operations	Infrastructure- VDGS-SNI, 17 nos	0.2		
73	ICT	Technology refresh-Enterprise Servers	0.2		
74	ICT	Microsoft- CAL for End users	0.2		
75	Commercial	Long Range RFID card reader for control ta revenue accounting	0.2		
76	E&M	Procurement of Mahindra 4X4	0.2		
77	ICT	Websense Security Gateway	0.2		
78	ICT	Laptops for check in Desk	0.2		

Annexure 2					
Sl. No	Dept	Description (Amtin Rs. Crore)	2013-14	2014-15	2015-16
79	E&M	Relocation of E&BCM office with furniture in AAB	0.2		
80	E&M	Ticketing Counter false flooring replacement/servicing	0.2		
81	ICT	New Laptops- E&M, ARFF, AEOC, Security	0.2		
82	Operations	Fire proximity suit (Two piece , 10 Nos)	0.2		
83	ICT	TMRS Radio coverage beyond perimeter - repeaters	0.2		
84	E&M	Storage racks for material and records for E&M	0.2		
85	Operations	Vehicle Four Wheel drive	0.2		
86	ICT	Enterprise Apps- CPM Enhancement	0.2		
87	ICT	Network - WIFI Aruba Outdoor Access Points	0.2		
88	ICT	TMRS Radio - Customers	0.2		
89	E&M	BHS Belt Joining Machine & Belt Lacing Machine With Hinge Pins	0.1		
90	Operations	Procurement of Life Support Equipment like Evacuation Chairs (5 nos), Spine Boards (2 Nos), Fire Blank (10) for PTB, & First Aid Bo for all Occupied BIAL Buildings (50 Nos)	0.1		
91	E&M	Escalator / Travellator Cleaning Machine	0.1		
92	E&M	Procurement of Jeep for fire prevention win Scorpio/ Bolero or equivalent	0.1		
93	Landscaping	Sit & Ride Lawn Mover - 1 Oleo mac	0.1		
94	Operations	Relocation of EBCM office and restructuring of safety office	0.1		
95	Operations	BA Facemask with strap	0.1		
96	Corporate	Additional SAP PMS Licenses - 65 ESS & 30 MSS Licenses	0.1		
97	E&M	Temporary Watch towers (Movable)	0.1		
98	E&M	Potable water connection & wastewater transfer to Parking - 1 Café	0.1		
99	ICT	Microsoft-System center 2013	0.1		
100	Corporate	Customised Software for Contracts Compliance Management with respect to labour statutory compliance	0.1		
101	Corporate	e-File Management System / Document Management System	0.1		
102	E&M	Providing the Medicinal & aromatic plants in & around STP as per KSPCB & MoEF	0.1		
103	E&M	Stone Pitching work for existing Kuccha dra from dumpyard to South side boundary wal	0.1		
104	E&M	Installation of APFC panel for PMCC 1 of	0.1		

Annexure 2					
Sl. No	Dept	Description (Amtin Rs. Crore)	2013-14	2014-15	2015-16
		HVAC system to improve the Power Factor			
105	Landscaping	Indoor Plants for PTB	0.1		
106	Landscaping	Edging Planters	0.1		
107	Operations	Integrated Laser Speed Gun	0.1		
108	Operations	Portable Fire Extinguishers	0.1		
109	Operations	Digital Grid map	0.1		
110	ICT	Passive Network Cabling	0.1		
111	Corporate	SAP Product Technical Upgrade to EHP6	0.1		
112	Operations	Office Chairs	0.1		
113	Operations	Filing cabinets for GR , L& F and Operation	0.1		
114	ICT	Infrastructure - VDGS Redundancy module	0.1		
115	E&M	Relocation of Hatti Kappi & Chai Point	0.1		
116	Operations	Procurement of AED for BIAL Buildings [To 6 units in this Budget; This amount will be used together with the deferred amount of Rs. 550000/-from FY2012-13. Thus total 10 units @ 1.2 lakh per unit]	0.1		
117	Operations	Fire Resistant turnout Suits	0.1		
118	E&M	Follow Me mounted bird scaring hooter	0.1		
119	E&M	Speed Governors for Vehicles and Equipments as per DGCA regulation	0.1		
120	E&M	Installation Paver blocks for all outdoor RM yards.	0.1		
121	ICT	IP PABX-IP Phones-Customers	0.1		
122	ICT	IP PABX-IP Phones-Enterprise	0.1		
123	E&M	Master Tools Set , Meters & Pumps (Maste Tools,Thermohygrometer, Infrared Surface Dewatering pump)	0.1		
124	Corporate	Complete kitchen renovation	0.1		
125	E&M	Multimeter / Clamp Meter and Power tools & equipments for general maintenance for BI Common electrical & Civil use	0.1		
126	E&M	Refabricating of the IOTSL gate with new design and better height as per the regulatory requirement(Design can be decided later)	0.1		
127	E&M	Enhanced Follow Me Display System	0.1		
128	E&M	Providing re-carpeting of floor area inside the dump yard	0.1		
129	ICT	Network-HP Open View Licences	0.1		
130	ICT	Mobile Infrastructure-To accommodate new	0.1		

Annexure 2					
Sl. No	Dept	Description (Amtin Rs. Crore)	2013-14	2014-15	2015-16
		operators if any			
131	ICT	Mobile replacement for Duty Managers	0.1		
132	ICT	Programming Kit for PLC/SCADA-Infra structure maintenance-Hardware	0.1		
133		Various miscellaneous items	0.9	0.9	
134	ICT	Annual Capex (towards servers, network, internet infrastructure, cables, mobile infrastructure & etc..)		18.0	20.0
135	ICT	Check in and Boarding Services-Self-Boarding (SBG)		4.3	-
136	ICT	Automated Baggage drop services		4.0	-
137	ICT	Technology refresh-Towards Servers-Windows/ Unix, Network Infrastructure-G		3.0	3.0
138	Admin	Cafeteria expansion		1.0	-
139	Admin	Cafeteria furniture & fixtures		-	0.2
140	SAP	ESS & MSS license Purchase		0.2	-
141	SAP	E-Procurement software & implementation		0.4	-
142	SAP	BI-BO Software & implementation		0.6	-
143	SAP	HR Portal self-service functionality implementation		0.2	-
144	SAP	SAP PS implementation		0.2	-
145	SAP	ESS & MSS license Purchase		-	0.2
146	SAP	mySAP ERP license purchase		-	0.2
147	SAP	Mobile applications & SAP Integration		-	0.2
148	SAP	Various others		-	0.1
149	Operations	Passenger Baggage Trolleys		2.8	2.8
150	Operations	SMS Software and facilities for online safety training modules.		0.3	0.3
151	Operations	Scorpio (4X4 driven) vehicle.		0.1	-
152	Operations	Emergency Escape stair		4.0	-
153	Operations	Rescue equipment and triage store accessories		-	1.0
154	Operations	22.5 T Low Pressure Bag for Narrow Body Aircraft (2 Set)		1.6	-
155	Operations	LP BAGS 0.5 BAR 30 TONS for FWD and A Fuselage Lift (2 Set)		0.7	-
156	Operations	Tethering Set Wide Body Aircraft (1 Set)		0.3	-
157	Operations	Debogging Kit for N/B and W/B Aircraft (1 Set)		0.2	-
158	Operations	Q-Mat Ground Support Panels-45 Nos.(360 Sq.mtrs.)		1.4	-

Annexure 2					
Sl. No	Dept	Description (Amtin Rs. Crore)	2013-14	2014-15	2015-16
159	Operations	Fuselage MULTISLING Full Range (1 Set)		-	0.5
160	Operations	Container for Storage of Equipment (1 Set)		-	0.3
161	Operations	Fuselage Trailer (1 Set)		-	1.7
162	Operations	Construction of Integrated Crisis Center cum Hajj Terminal		7.5	-
163	Commercial	Traffic & Directional Signage		0.1	0.1
164	Commercial	Traffic Management Supplies		0.1	0.1
165	Commercial	Office for landside team		0.5	-
166	Commercial	Bus stops across airport for operating shuttle services		1.0	-
167	Commercial	KSRTC & KSTDC bus stop / Lounge / F&B &Left Luggage Facility		2.0	-
168	Commercial	Public Toilets		1.0	-
169	Commercial	Truck holding area		2.0	-
170	Commercial	P7 expansion - F&B		0.1	-
171	Commercial	Flee market project		0.5	-
		Total	220.8	58.8	30.6

9.7 During the first control period, following other Projects are also proposed to be carried out by BIAL, which will be carried forward as works in progress at the end of the current control period and are proposed to be capitalized in the ensuing control period (2016-17 to 2020-21), as seen from the Business Model and submissions made

Table 18: Details of Projects proposed to be commenced and in Work-in-Progress stage at the end of First Control period - Rs. Crore

S. No.	Project details	Cost carried as CWIP in books	Proposed Year of Capitalisation
1	Second Terminal I phase	1039.61	31-Mar-18
2	Runway 2, Taxiway & Apron I phase	523.08	31-Mar-18
3	Runway 2, Taxiway & Apron II phase	304.23	31-Mar-18
4	Forecourt roadways & landside development II Phase	186.05	31-Mar-18
	TOTAL	2052.98	

9.8 BIAL's [illegible] carried out in the control [illegible] period are reproduced below:

[illegible] This involves construction of parking stands for aircrafts on the western side of the airfield, in addition to the 42 Code E stands constructed earlier. These additional stands are being built to meet the increase in demand for night parking stands at BIA.

The demand for overnight parking is expected to grow to 38 stands for 42 aircraft by end of 2012 as the economic situation improves. This translates to a total demand for 65 apron stands including overnight parking, operations, diversions and contingency, as given below.

Particulars	*Total Stands*
Current demand from Indian Carriers for overnight parking	*32*
Medium term demand for overnight parking	*10*
Current demand for international operation	*13*
Future demand for international operation	*6*
Requirement of non-scheduled, VIP, delay/diversion, technical grounding etc.	*2*
Requirement of emergency operation	*2*
Total estimated demand	*65*

In May 2010, BIAL had entered into a contract for construction of the additional stands. The total investment estimated for the apron extension and related works is Rs.120 Crores. The construction is proposed to be completed in phases by Q4 2012-13.

Out of the additional 24 Code C/10 Code E stands in the West Apron, 05 temporary stands were operationalized on 30th Sept 2011 and 4 stands operationalized on 31st March 2012. The remaining stands are likely to be handed over by Q1 2012-13.

Projects proposed to be executed - Basis

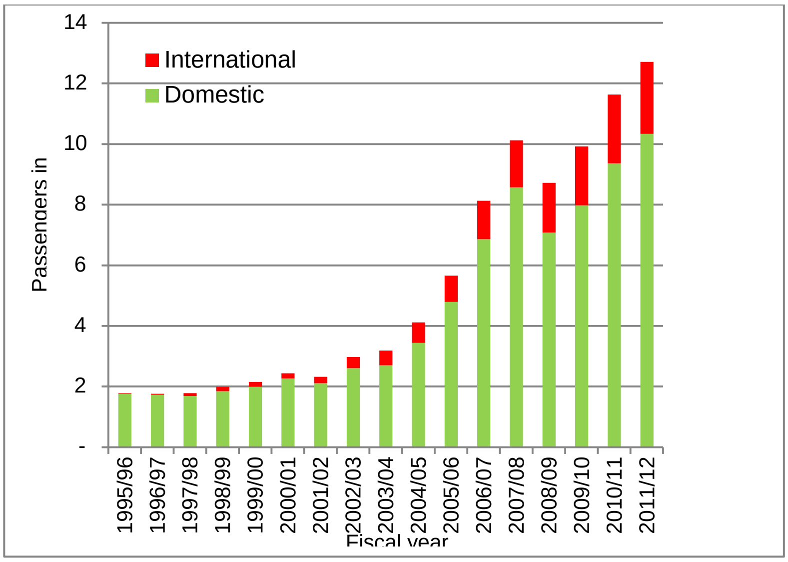
The company has also estimated the various Capital Expenditure Projects that need to be executed to keep pace with the growth in Passenger, Cargo and ATM estimates, during the first control period and has projected the costs to be incurred in line with the timing of the Capital Expenditure. Airport development activities are projected based on the Jacobs / 2 ý ă dz ƭ ű Ɩ ý Ǒ è Ω ă a Ɩ ă ű Ŝ NJ t ƭ Ɩ ý ¦ LJ Ř Ɩ ű Ŝ NJ Ŝ LJ 2 NJ ű Ř Ɩ ű Ŝ *September 2011, which sets out the vision of BIAL for the next 20 years and the strategy to translate the vision into facilities development, necessitated based on the changes in demand, Economy and the aviation Industry.*

A brief overview of different Projects proposed to be executed during the first control period is detailed below:

<u>Terminal 1 (T1) expansion</u> - Bangalore has experienced rapid growth in passenger volumes, and will continue to realize significant growth over the 20-year planning period. In 2011/12, 12.7 million passengers (mppa) travel through Bangalore, versus 1.8 million

annual passengers in 1995/96. The year-on-year growth for 2010 to 2011 represents an annual growth rate of 9%, and CAGR of 14% per year for the past 15 years. International traffic has been the fastest growing segment, increasing from a reported 1.2 percent of total passengers in 1995/96 to nearly 20 percent currently. Growth has been particularly robust since 2002/03, coinciding with ongoing deregulation of civil aviation in India, as illustrated in Figure 1.1 below.

FIGURE 1.1



The expansion of the existing Terminal 1 has been designed to enhance the operational performance in order to handle, inter-alia, the increase of passenger traffic from the current 12.7 million passengers in 2011-12, upto approximately 17 – 20 million passengers per annum, until the second terminal (T2) is planned to be operational.

BIAL commenced the next phase of development, which is the substantial expansion of the existing T1. This expansion will cater to the expected growth of passengers, until the second Terminal (T2) is planned to be operational, as illustrated in Figure 1.2. This is based on the current projected forecast demand for the next 4 to 5 year period, which is the estimated time period for planning, design and construction of the new T2.

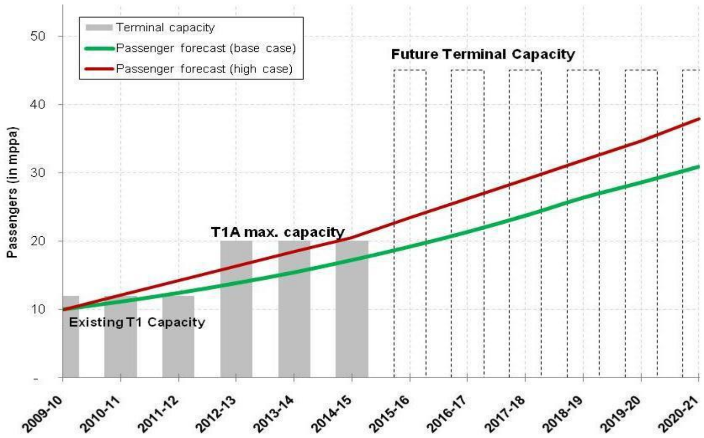


FIGURE 1.2

Source: Landrum & Brown Traffic Report dated August 2010

The terminal expansion program includes an extension by three grids (72m x 24m) on the east and west sides of T1, East pier concourse, modifications to the existing T1 airside, apron expansion, ancillary facilities, and T1 kerb side and forecourt modifications.

The area of T1 is 73,627 sqm including the basement area, and is designed for IATA Level of Service C. The existing layout provides a more or less balanced capacity for the domestic and international processors of the different flows throughout the terminal building.

The design standards proposed would reflect the best industry practices and operating standards. The facilities provided would also meet all relevant IATA standards. The total floor area is planned to increase to approximately 150,556 sqm. Additional 7 Code C / 3 Code E and 1 Code F contact positions will be added improving the efficiency and level of service by adding an East Pier to T1.

The Terminal 1 expansion Program includes minor improvements to the existing terminal building, utility buildings and other related improvements to add capacity to meet the forecasted demand. As there is a desire to expand the capacity of the overall operation including airside, landside and terminal facilities, the improvements are divided to provide further detail. The following are the proposed improvements:

1) Passenger Terminal Building Expansion and Modifications

2) Airside Apron Expansion

3) West New VVIP block

4) New energy centre

5) Expansion of chiller plant and utilities

6) Kerbside improvements on airside and landside

7) Terminal forecourt improvements

BIAL conducted consultation processes on the following with the stakeholders including airlines:

Master Plan aviation activity forecast for BIAL on 06th May 2010

T-1 expansion project on 06th August 2010

T-1 expansion airline sign off on 15th July 2011 and

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The project started on 01st August 2011 and is expected to be completed in phases by March/June 2013.

<u>*Runway 2 including Taxiway and Apron Phase 1 and Phase 2*</u>

Bangalore has experienced rapid growth in passenger volumes, and will continue to realize significant growth over the 20-year planning period. In 2011/12, 12.7 million passengers (mppa) traveled through Bangalore, versus 1.8 million annual passengers in 1995/96. The year-on-year growth for 2010 to 2011 represents an annual growth rate of 9%, and CAGR of 14% per year for the past 15 years. International traffic has been the fastest growing segment, increasing from a reported 1.2 percent of total passengers in 1995/96 to nearly 20 percent currently.

The continued robust growth in the local Bangalore and broader Indian economy are expected to be the primary drivers of domestic air travel at Bangalore. Bangalore has a large population base, a diverse and a high value-added economy from which to stimulate air travel. It is assumed that the Bangalore economy will at a minimum mirror and potentially exceed the economic growth of India as a whole, over the forecast period.

In order to predict the impact these drivers will have on aviation activity and for the Master Plan update, a forecast update was developed by Landrum and Brown, Inc. for Bangalore in 2010. The Forecast provides the basis for establishing a long-term master plan and as such, supports decisions related to the planning and implementation of capital and operational improvements necessary to efficiently serve air transportation demand throughout the planning period. The Forecast was developed through an evaluation and analysis of several key areas such as:

Airline schedules

Indian aviation industry trends

GDP growth and econometric analysis

Comparable airport trends

Airport maturation considerations

Growth in low-fare market vs. network carriers

<u>Master Plan</u>

*In order to meet the projected demand, a master plan has been developed to accommodate 55 mppa over the planning horizon and has been phased accordingly in line with demand. A new runway, new terminal and associated airfield and apron works are proposed to cater to the passenger demand. The Land Use Plan was presented to the airlines on 28 March 2011 to keep them informed of the Plan which materialized following their input on the ai*LrJ ƻ NJ ű Ω ă Ŧ ƻ NJ Ŝ Ŏ ŀ ă ű Φ ¢ Ķ Ŝ ă ű ŀ ˥ Ŝ Ķ ƻ ƒ Ř Ŝ NJ *on the capacity challenges and development strategy, new runway and associated airfield*

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overall land use plan.

Existing Runway and Capacity Constraints

The existing airfield consists of Runway 09-27, which is 4,000 meters long and 45 meters wide, Taxiway A, which runs parallel to the full length of Runway 09-27, three rapid exit taxiways (RETs), and one taxiway perpendicular to the runway. The existing airfield handles approximately 26-28 aircraft movements per hour on typical busy weekdays and approximately 32 movements per hour on special occasions. Taxiway A runs south of and parallel to the existing runway along its entire length and provides the only means of circulating between runway thresholds and the aircraft parking apron. An overview of the existing layout of the Airport is provided in Figure below.

Existing Runway 09-27 Capacity

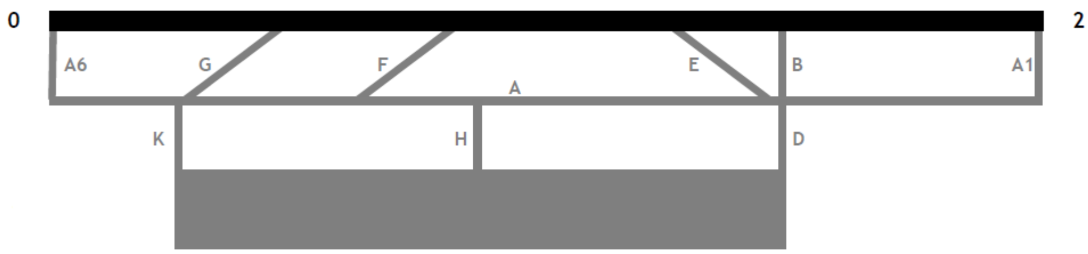
Physical and operational scenario	Hourly Capacity*	Annual capacity (ATMs)
Existing configuration under existing air traffic control procedures	36	136,000
Existing configuration with improved air traffic control procedures (reduced-in-trail separations and reduced departure-departure separations)	45	170,000
Improved configuration with additional RETs and improved air traffic control procedures	46	172,000

Source: Jacobs Consultancy analysis, January 2011

*Hourly Capacity assumes 50% Arrivals

Need for Second Runway

Aircraft operations were projected to grow from 119,033 in 2012 to approximately 550,000 operations at the 2029/30 demand level, the planning horizon considered in the Master Plan Update. Considering the current traffic trend, a second runway, the New South Parallel Runway (NSPR), will be required by 2017/18. The need for the NSPR was



also established in prior planning studies and confirmed again in the Master Plan Update.

Second Terminal (T2) – Phase 1 and 2

Bangalore International Airport Limited (BIAL) became operational in 2008. The initial phase of development included a passenger terminal building (T1), a runway, entrance/ exit taxiways, an isolation bay, airside road system, access roads, along with other ancillary developments. BIAL is moving ***into*** *the next phase of development, under which T1 is already being expanded to cater to the growing demand, until the second Terminal (T2) is in operation.*

As part of next phase, further development at airport is being planned, based on the updated forecast and Master Plan, which includes a new Terminal, second Runway and associated development. BIAL intends to develop new terminal facilities to meet the passenger demand and has initiated the process to appoint a lead consultant for the design of the Terminal 2 and related projects. It is anticipated that the first phase of the new Terminal 2 for 20 mppa and related facilities (with provisions for future expansion to 35 mppa in Phase 2), will be required to be operational by 2017-18.

BIAL had invited Expression of Interest from experienced, internationally reputable Architectural consultancy firms to provide Architectural and Engineering Design

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9.9 Financing of Capital Expenditure Projects - BIAL has submitted that financing of the Capital Expenditure proposed to be incurred will be largely through additional borrowings from banks, supported by the internal accruals as follows:

Table 19: Source of Financing as proposed by BIAL under Single Till - Rs. Crore

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Capex cost including Intere During Construction	510.70	866.69	393.39	610.90	1674.08
Means of Financing					
Debt	0.00	862.38	83.39	398.43	1444.65
Internal Accruals	510.70	4.31	309.99	212.47	229.43

Table 20: Source of Financing as proposed by BIAL under Dual Till - Rs. Crore

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Capex cost including Intere DuringConstruction	510.70	866.69	391.81	583.71	1585.00
Means of Financing					
Debt	0.00	862.38	51.40	0.00	697.34
Internal Accruals	510.70	4.31	340.42	583.71	887.67

(b) Authority Ω ă Ŝ È ŀ Ỵ ƛ ý ŀ ű ƛ ƻ ý ƻ Ŧ . L ! [Ω ă ă dz ō Ỵ ƛ ă ă ƛ ƻ ý ƻ ý

9.10 The Authority Ķ ŀ ă Ŏ ŀ NJ Ŝ Ŧ dz f f è Ŝ È ŀ Ỵ ƛ ý Ŝ Ř . L ! [Ω ă ă dz ō Ỵ ƛ ă ă ƛ categories namely, (a) Future/ Additional Capital Expenditure and (b) General Capital Expenditure. The Authority noted that the overall Capital expenditure proposed under Dual Till is less than Single Till due to reduced Interest Capitalisation, which is on account of reduction in financing through debt in Dual Till as compared to Single Till. Authority Ω ă ƻ ō ă Ŝ NJ Ø ŀ ű ƛ ƻ ý ă ƻ ý ű Ķ Ŝ ŀ ō ƻ Ø Ŝ following paragraphs.

Future / Additional Capital Expenditure

9.11 The Authority notes BIAL is undertaking expansion of the existing Terminal (T1), along with expansion of Apron. It is noted that BIAL has submitted details on Stake holder consultation relating to Terminal 1 expansion and has submitted that the Apron Extension works have been planned as part of earlier Phase 1 itself (Before issue of Authority Ω ă ∃ dz ƛ Ř Ŝ f ƛ ý Ŝ ă Σ ǿ Ķ ƛ Ŏ Ķ ƛ ý requirements of Stakeholder consultation). No stakeholder consultation records have been submitted for any other Proposed Project (which are proposed to be carried out in First Control Period and costs are proposed to be spent but will nonetheless be in-Work-Progress Stage at the end of First Control period). During discussions, BIAL informed the Authority that the preparatory works for the other Projects (Terminal 2, Runway 2 etc.) are underway and Stakeholder consultations are proposed to be conducted in due course

9.12 The Authority also notes that BIAL has also not submitted any other detailed estimates/ cost break-down structure or certifications relating to the expenditures in respect of projects which are proposed to remain in Work in Progress during the current Control Period and will be capitalised during the next control period. However, the Authority assumes that the overall Business Plan of BIAL would have been approved by the Board of the company and assumes that expenditures proposed would be in line with the long term requirements of the Airport.

9.13 The Authority also notes that the value of fixed assets capitalised by BIAL in its books for the years 2011-12 and 2012-13 as can be seen from the audited financial statements vary from the projections submitted by the company. The Authority proposes to consider the values of assets based on actuals as available from the financial statements of BIAL for the period 2011-12 and 2012-13 and consider the projections submitted by BIAL for the remaining 3 years in the control period. However, it is also observed that the Capital Expenditure during the balance three years of the current control period may vary vis-a-vis the projected Capital Expenditure as per the Tariff proposal. Hence, the Authority proposes to true up the Regulatory Asset base for the current control period based on actual capital expenditure incurred during the current control period, while determining the Aeronautical tariffs for the next control period.

9.14 The Authority also notes that the costs proposed to be added as part of Regulatory Asset Base (RAB) and Financial books of the company would be different for reasons cited in Para 9.3 above. Further, it is observed that, in its submissions, BIAL has considered cost of debt for the year 2012-13 at 12.5% and an increase of 100 basis points for the year 2013-14 to 13.5%. Thereafter, i.e. for the years 2014-15 and 2015-16, BIAL has proposed to maintain the cost of debt at 13.5%. It is further observed that the actual cost of debt for the year 2011-12 was about 12%. Thus, as detailed in Para 12 below, the Authority proposes to consider the cost of debt at 12.5% for calculating Financing Allowance for the balance period of the current control period and calculate the consequent total additions to RAB accordingly.

General Capital Expenditure/Maintenance Capital Expenditure

9.15 BIAL submitted the detailed break-up of Capital expenditure proposed to be incurred relating to General Capital Expenditure / Maintenance Capital Expenditure to the tune of Rs. 420.3 Crores as given in Para 9.6 above. The Authority proposes to consider this expenditure as part of the additions to RAB. The Authority noted that one of the proposed General Capital Expenditure/ Maintenance Capital 9ÈLJŜƴŘƛűdzNJŜ tNJƨƨŜÕű ά C ƨNJŜÕƨ ǇŖΩ Various line items ƴŘ [· ƛűŜYă Õƨ ǇăƨƒƛŘ was more than Rs. 58 Crore. Upon enquiry, BIAL submitted on 3rd June 2013 as follows:

i) !ă űKŜ űŜÈű NJŜ ŀ Řă ΨC ƨNJŜÕƨ ǇŖΩ Various line items [ŀ ƴŘăÕŀ ... Õƨ ǇăƨƒƛŘŀűŜŘΩΣ űKƛă Õŀ LJŜÈ ƒƛ ƴŜ ƛűŜY ƛă Õƨ ǇăƨƒƛŘ maintenance capex requirements

ii) This line item does not qualify for stake holder consultation

iii) ¢KŜ Yŀ ƨƨNJ ΨC ƨNJŜÕƨ ǇŖ and Capacity Requirements ƴŘ Various line items Õƨ ǇăƨƒƛŘ-up is mentioned below:

Code	*Particulars (Budgetary Amt. in Rs.)*	*Total*
1	*Redesign of road network*	*458,204,484*
2	*Parking enhancement*	*1,533,681*
3	*Passenger convenience & enhancing passenger experience*	*269,365,234*
4	*Miscellaneous including certain security related requirements*	*76,153,621*
	Consolidated line items Total	*805,257,020*

9.16 The Authority proposes to consider the projected General Capital Expenditure / Maintenance Capital Expenditure Projects for determination of Aeronautical tariffs for the current control period. However, it is also observed that the actual Capital expenditure may vary from the projected values. Hence, the Authority proposes to true up the Maintenance Capital Expenditure/ General Capital Expenditure based on actual costs incurred, while determining the Aeronautical tariffs for the next control period.

9.17 The recomputed value of additions to RAB, based on change to Financing allowance due to the change in cost of debt, and considering actual capital expenditure for the year 2011-12 and 2012-13 is as given below:

Table 21: Details of Capital Expenditure Projects proposed to be added to RAB during the current Control period ₹ Rs. Crores

Project	Date of Capitalisation	Basic Cost and charges	Financing allowance	Total cost
Other Projects	31-Mar-14	63.10	20.34	83.44
Apron Extension	31-Mar-14	118.38	24.46	142.84
T01 Expansion	30-Sep-13	1397.98	147.09	1545.07
Expansion Projects Capitalised				1771.35
Maintenance Capex Projects	31st March 2012	15.43	0.00	15.43
	31st March 2013	23.96	0.00	23.96
	31st March 2014	235.80	0.00	235.80
	31st March 2015	96.72	0.00	96.72
	31st March 2016	61.68	0.00	61.68
Maintenance Capital Expenditure				433.59
Total Capitalisation		2013.05	191.89	2204.94

Proposal No 4. Regarding Future Capital Expenditure

4.a. Based on the material before it and its analysis, the Authority proposes

i. To include the Capital Expenditure of Rs. 2204.94 Crores (Refer Table 21) as submitted by BIAL for the present, for the purpose of the determination of tariff for aeronautical services during the current control period

ii. To true-up the difference between the Capital Expenditure considered now and that actually incurred based on evidential submissions along with auditor certificates thereof at the time of determination of aeronautical tariff for the next control period, based on the approach adopted for inclusion or exclusion of assets in Regulatory Asset Base ₹ under Single Till as well as Dual Till

10 Regulatory Asset Base (RAB) and Depreciation

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10.1 Airport Operations commenced in BIAL on 24th May 2008. The Initial Project cost capitalised in the financial books of the company during 2008-09 was Rs. 1978 Crores.

10.2 The Net block of Assets of Rs. 1595.69 Crores as of 31st March 2011, as per the audited Financials, has been considered as Opening RAB for the Control period, under Single Till. BIAL has submitted that there is no exclusion of assets from the Initial RAB. Under Dual Till Rs. 1300.74 crores has been considered as Opening Net block for computation of Average RAB.

10.3 Following is the table depicting the average RAB for the control period as submitted by BIAL.

Table 22: Average RAB computation by BIAL under Single Till - Rs. Crores

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Opening Regulatory Asset Ba	1,595.69	1,543.96	1,615.11	3,175.32	3,121.22
Investment / Additions to RAB	69.96	198.87	1,725.30	142.97	78.38
Deletion/Disallowance	-	-	-	-	-
Depreciation & Amortization	(121.68)	(127.71)	(165.09)	(197.07)	(193.61)
Closing Regulatory Asset Bas	1,543.96	1,615.11	3,175.32	3,121.22	3,005.99
Average RAB for Return	1,569.83	1,579.54	2,395.22	3,148.27	3,063.61

Table 23: Average RAB computation by BIAL under Dual Till - Rs. Crores

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Opening Regulatory Asset Ba	1,300.74	1,257.28	1,336.07	2,611.97	2,569.91
Investment / Additions to RAB	57.31	184.78	1,412.79	120.73	65.64
Deletion/Disallowance	-	-	-	-	-
Depreciation & Amortization	(100.77)	(106.00)	(136.89)	(162.79)	(159.51)
Closing Regulatory Asset Bas	1,257.28	1,336.07	2,611.97	2,569.91	2,476.04
Average RAB for Return	1,279.01	1,296.68	1,974.02	2,590.94	2,522.98

10.4 No reductions/ deletions to RAB have been proposed by BIAL during the first control period.

10.5 The Authority noted that a Hotel development project is underway in Bengaluru International Airport. On Hotel Project and Real Estate Development, BIAL has submitted that:

a framework agreement for design, construction and operation of Business Hotel Facility at BIAL was entered into with EIH Limited and L&T Limited on 16th November 2006 and the consortium incorporated a company u ɽ Ř Ŝ NJ ű Ќ Ŝ ɽ Ͱ Ÿ Ŝ ά . Ͱ ɽ ∃ Ͱ ƒ ƻ NJ Ŝ [ƛ Ÿ ƛ ű Ŝ Ř έ

Subsequently the AAI issued a no-objection certificate on 14th November 2008, with a height clearance of 30.36 meters only, as against the proposal of the consortium for a

45m. The consortium then expressed its inability to continue to develop and operate and sought certain additional concession from BIAL or for a settlement of cost incurred and this is currently under dispute and under Ŀ NJ ō ƛ ǘ NJ Ŀ ǘ ƛ Ə ƴ LJNJƏ Ǒ Ŝ Ŝ Ř ƛ ƴ Ǝ ă ἑ

10.6 Also BIAL has stated that in view of the business plan for real estate activities not being firmed up, real estate business scenario has not been considered in their submissions.

Depreciation

10.7 BIAL has submitted that the value of assets considered for Depreciation i.e. additions to RAB and the methodology of depreciation proposed are in line with the prescriptions of Direction 5 namely:

10.7.1 Depreciation allowed upto a maximum of 90% of the original cost of the asset on straight line basis

10.7.2 Depreciation on additions made at 50% of the applicable depreciation rate

10.8 Depreciation rates as have been adopted by BIAL seen from the Business Model is as given below:

Table 24: Depreciation rates proposed by BIAL

Asset Type	Depn. Rate
Buildings1-T,B,R ς Buildings, Roads, Culverts, Apro	3.34%
Buildings2-RW/TW ς Runway/ Taxiway	5.00%
Buildings3-WMS ς Water Management System	3.34%
PM1 - Equip.-Airport/ Comm/E&M/Office,Vehicles	10.34%
PM2-Lighting	10.34%
PM3-Safety ς Safety and Security	16.21%
PM4 - IT Equipment	16.21%
Software	20.00%
ICT ς Blended ς ICT Refresh	16.21%
FF ς Furniture and Fixtures	6.33%
Intangibles	3.33%

<u>Additional Submissions made by BIAL regarding Order No. 13/ 2010-11, Order No. 14/ 2010-11 and Direction No. 5/ 2010-11, relating to Regulatory Asset Base and Authority Ω ă NJ Ŝ ă LJ Ə ƴ ă Ŝ ǘ Ķ Ŝ NJ Ŝ Ə</u>

10.9 Pursuant to AERAAT Order, BIAL has made submissions to the Authority on various aspects. Extracts of aspects relevant to RAB, submitted by BIAL are given below

<u>17. Land Value Adjustment:</u>

<u>Authority Ω ă ! LJLJƏ Ǒ Ķ Y</u> The Authority has proposed to effect land value adjustments for those assets which are excluded from the scope of RAB. The Authority has proposed, in

Clauses 7.7 and 7.8 of Order No.13 and Clause 5.2.4 of Direction No.5 to make an adjustment in respect of any land associated with an asset excluded from the scope of RAB by reducing from the RAB the value of such land being the higher of (i) prevailing market value of such land, or (ii) book value of such land. The Authority has also proposed to commission experts to independently determine and review the market value in respect of such land.

Observations: BIAL was provided land under the Land Lease Deed by the State of Karnataka inter alia as a part of its policy to:

encourage private sector participation in the development of airports; and

encourage and provide industrial development, tourism, cargo, movement and general economic and social development of the state of Karnataka.

The State of Karnataka has taken multiple steps for promotion of industries in the state of Karnataka. The Karnataka Industrial Areas Development Board was set up under the Karnataka Industrial Areas Board Development Act, 1966 in order to encourage and promote industrialization of the state. Similarly, the Karnataka State Industrial and Infrastructure Development Corporation (KSIIDC), earlier known as Karnataka State Industrial Investment and Development Corporation, was established in the year 1964, as a wholly owned undertaking of the State of Karnataka inter alia to encourage industrial growth in the state of Karnataka. The State of Karnataka, as a part of its overall objective of encouraging infrastructure and industrial development, also provided Rs.350 crore to BIAL to improve the viability of the Greenfield airport project and enhance the bankability of the initial phase, as detailed in the State Support Agreement. Thus, the State of Karnataka, as a matter of policy and in order to encourage development of airport infrastructure, provided viability gap funding as well as leased land to BIAL.

As per the Authority Ω ă LJNJ2LJ2 ă l· ƒ ă Σ ƒ l· ƴŘ Ǿl· ƒdzŜ l· ŘƧdzăűYŜ ƴű assets which are excluded from the scope of RAB. On first principles, even under a Single Till mechanism (which is not applicable in the case of BIAL), once assets are excluded from the scope of RAB, no regulation, in any form, is contemplated in respect of such assets. Therefore, the Authority Ω ă LJNJ2LJ2 ă l· ƒ ă l· NJŜ ƴ2 Single Till ... itself.

Additionally, the proposal with respect to land value adjustment would completely set at naught the Land Lease Deed as well as the State Support Agreement. Clause 4.2 of the Land Lease Deed provides that BIAL may utilize the leased land inter alia for (i) improving the commercial viability of the project, and/or (ii) such that the utilization facilitates substantive further investment in or around the airport. Land value adjustment as proposed by the Authority is the very antithesis of these objectives. If market value of the land is deducted, BIAL would get little or no benefit from the lease of the land and resultantly, will not be able to utilize any income from utilization of such land to make the airport project more viable. Further, ICAO doc 9562 recognizes the concept of an airport Ŏ λ ű ѐ Ω Σy built around an airport, which is reminiscent of cities that were built around sea ports and river ports in the past centuries. This objective of development of areas surrounding the airport is sought to be achieved under clause 4.2(v) of the Land Lease Deed. Land value adjustment would be a full and complete disincentive for the airport operator to utilize the land for facilitating further investment around the airport as BIAL would be forced to buy land, which is already leased to it.

Without prejudice to the above, if market value of lands is reduced from the scope of RAB, effectively, the airport operator is forced to buy such land at prevailing market prices. This is an incongruous situation because such lands have been leased by the state of Karnataka to BIAL for a fixed term of 30 years. BIAL cannot be forced to pay market value of land, which it will never come to own and in respect of which; it will only have leasehold rights.

The proposed land value adjustments would also have the effect of negating the benefits provided to BIAL under the State Support Agreement and the Land Lease Deed. The effect of land value adjustment would be to recast the Land Lease Deed in its entirety. The proposed regulations are beyond the ambit and powers of the Authority.

The proposed regulations in respect of land value adjustments were neither discussed as a part of the White Paper nor as a part of the Consultation Paper. Therefore, neither BIAL nor any of the airport operators had any opportunity to submit their views regarding the proposed regulations in respect of land value adjustments. BIAL therefore requests that these objections be considered and the proposals in respect of land value adjustments dropped.

From a legal standpoint, the Authority simply has no power or jurisdiction to make land value adjustments or in any manner deal with assets that are beyond the scope of RAB. The proposed regulations are wholly beyond the jurisdiction of the Authority and are de hors the functions prescribed under the AERA Act.

Land value adjustment appears to be proposed on a presumption that considerable profits can be generated out of land usage for non-airport activities. Whereas in BIAL's case, scope for land usage for non-airport activities is quite different due to below features:

Airport is located far away from central business district.

No socio eco structure available around the airport

No significant industrial / commercial development in & around

No proper connectivity

Hence, considerable entrepreneurial ability and investment is required to realise any gains out of land usage for non-airport activity.

Realisation of value preceded by significant investment in terms of making the land as serviceable land. Who will fund the same?

The absurdity of the resultant situation is that firstly, BIAL or airport operators are being forced to procure such land effectively from airlines (since reduction in RAB will accrue to the benefit of airlines), who are not the owners of such land. Secondly, BIAL is being forced to buy land, which has been leased to it for a fixed period.

<u>Submissions</u>:

It is humbly submitted the Authority should revisit the manner in which Single Till mechanism is proposed to be implemented. The Authority need not make any land value adjustments or in any manner deal with assets that are beyond the scope of RAB. All proposals in this regard need to be cancelled.

<u>25. Work in Progress Assets</u>:

<u>AuthorityΩ ă ! LJ</u>The Authority has proposed to deduct accumulated capital receipts of the nature of contributions from stakeholders including total contributions pertaining to work in progress assets including by way of development fees, capital grants and subsidies.

<u>Observations</u>: As stated in the context of concessional loans, the purpose of a subsidy or grant by a stakeholder such as the government is completely lost, if benefits there from do not accrue to the airport operator.

<u>Submissions</u>: The airport operator must be entitled to benefits and returns on all assets, irrespective of the nature of sources of capital for creation of such assets. The proposed regulations need not be applicable to services other than regulated services.

<u>Scope of RAB or RAB Boundary</u>

<u>AuthorityΩ ă ! LJ</u>The Authority, in clauses 7.1 to 7.4 of Order No. 13 and clause 5.2 of Direction No. 5 has proposed principles with respect to exclusion and inclusion of assets in the RAB. The Authority has proposed that all fixed assets of the airport operator would constitute RAB assets subject to principles of inclusion and exclusion. The principles of inclusion and exclusion have been outlined in Order No. 13 and Direction No. 5.

Observations: In clause 7.2 of Order No. 13, the Authority K l· ă ă Ŝ ǘ 2 dz ǘ ǘ K l· ǘ l· ƭ ƭ l· ă ă Ŝ ǘ ă ɛ ǿ ƛ ƭ ƭ Ŏ 2 Y Single Till Surprisingly, in clause 7.3, the Authority

Κ Ι· ă Ŝ È ű Ŝ ý Ř Ŝ Ř ű Κ Ŝ ă Ŏ ƨ LJ Ŝ ƨ Ŧ Ι· ă ă Ŝ ű ă ű ƨ ά Ι· ƒ ƒ ű Κ

Consistent with what is stated above in this regard, the Authority ought not to include any assets or in any manner regulate assets pertaining to services other than regulated services. The AERA Act also does not permit regulation beyond the precincts of the airport. The proposed regulations with respect to principles of exclusion or inclusion depending on whether an asset derives material commercial advantage from the airport on account of its location etc. are inapposite. Under the AERA Act, it is the function of the Authority to determine tariffs for aeronautical services and for that purpose, consider the factors prescribed in Section 13(1)(a). In setting out principles of exclusion and inclusion and in defining the scope of RAB to include all non-aeronautical assets, the Authority has exceeded its mandate and jurisdiction.

<u>Submissions</u>: Ι ý . Ι ! [Ω ă Κ dz Ү ō ƒ Ŝ Ǿ ƛ Ŝ ǿ Σ Ŏ ƨ ý ă ƛ Ř Ŝ NJ Ι· ű ƛ ƨ ý ƨ Ŧ the starting point needs to be revisited. The Authority can only consider those assets that are essential for providing the regulated services and should not consider any other assets that are required for providing services other than regulated services. BIAL reiterates that all assets with fixed locations inside terminal buildings should not be included in the scope of RAB and only those assets essential for performance of regulated services should be included. In this light, principles relating to exclusion and inclusion of assets needs to be relooked into.

<u>29. Initial RAB</u>

Authority Ω ă ! LJLJNJ Authority proposes to not just consider the original cost of fixed assets as indicated in the last audited accounts, but further proposes to assess the cost by considering (i) evidence of competitive procurement for investments of more than 5% of the opening RAB of the first tariff year; (ii) evidence that investment was made in accordance with the approved plan; and (iii) evidence that investment, if any, over and above the approved investments, was necessary for providing better services or on account of requests from users or stakeholders.

The Authority has proposed to deduct accumulated capital receipts of the nature of contributions from stakeholders including total contributions pertaining to the fixed assets which are included in the scope of the RAB, including by way of development fees, capital grants and subsidies.

<u>Observations</u>: The airport operators, in exercise of their entrepreneurial freedom and enterprise, made multiple investments for development and/or modernization of major airports. In case of BIA, exercise of entrepreneurial skills was especially important and crucial because BIA was a Greenfield airport. Investments have been made by BIAL in line

with the master plan provided in the Concession Agreement. Investments were approved by the Airports Authority of India and the State Government as both these parties are represented on the Board of BIAL. In this scenario, the Authority should not assess or evaluate the process or necessity of creation of assets. Once accounts have been audited, such audited accounts indicate the actual expenditure incurred for facilities that are available for all those who use airports and therefore, it is only fair that all such assets and the expenses incurred for their creation are included as a part of the RAB. There were no restrictions at the time of making of investments and such restrictions cannot be now imposed post facto.

As stated in the context of concessional loans, the purpose of a subsidy or grant by a stakeholder such as the government is completely lost, if benefits therefrom do not accrue to the airport operator.

<u>Submissions</u>: The proposal of the Authority for evaluating cost of fixed assets needs to be dropped. The costs indicated in the last audited accounts can be considered for the purpose of arriving at the initial cost of fixed assets and there need not be an enquiry conducted by the Authority in that regard. A subsidy or a contribution is provided as a sop and this should not be negated by not providing for returns on such contributions/grants/subsidies. The proposal for deducting subsidies/ contributions/ grants or any contributions from stakeholders for arriving at the original cost of fixed assets can be dropped. The airport operator must be entitled to benefits and returns on all assets, irrespective of the nature of sources of capital for creation of such assets. Without prejudice to the above, in the calculation of weighted average cost of capital, per clause 5.1.1 read with clause 5.1.5 of Direction No.5, interest free or concessional loan arrangements will be considered at the actual cost of such arrangements. However, even at the time of calculation of initial RAB, accumulated capital receipts of the nature of contributions from stakeholders are proposed to be reduced / subtracted from initial RAB. Thus, concessional loans or contributions from stakeholders are factored in twice, resulting in an unfair reduction of the returns to the airport operators. Additionally, without prejudice to the above, the proposed regulations in relation to arriving at original cost of fixed assets should not be applied in respect of services other than regulated services and book value of such assets should be considered.

<u>33. Passenger Service</u> Fee

AuthorityΩ ă ! LJLJNJ 2 l· Ŏ K Y L ƴ Ŏ f l· dz ă Ŝ м c Φ Section 2 No.5, the NJ Ř Ŝ NJ b 2 Φ м Authority has proposed that the facilitation component in relation to security expenditure will be considered for remuneration through other tariff components as a part of the *overall yield per passenger. The Authority has proposed that initial capital expenditure on security related assets shall be included as a part of the RAB. The Authority has further proposed that any incremental capital expenditure on security related assets shall be met out of the passenger service fee. The Authority has proposed to issue separate guidelines for determination of passenger service fee.*

<u>Observations:</u> Costs and expenses in relation to security related expenditure is likely to be audited by the Comptroller and Auditor General.

<u>Submissions:</u> Expenses that may be disallowed by the CAG should be included either as a part of the RAB or as operations and maintenance expenditure. BIAL looks forward to the PSF guidelines containing necessary protections to safeguard the interests and investments of the airport operators.

<u>35. Mandated Operating Cost Correction</u>

<u>AuthorityΩ ă ! LJLJ</u> In clause 6.16.1 of Direction No.5, while the Authority has proposed to allow error correction for mandated operating costs, the Authority has proposed that mandated capital expenditure incurred by the airport operator shall not be considered for correction within the control period.

<u>Observations and Submissions:</u> BIAL prefers that all mandated expenditure either capital or otherwise be considered by Authority in the calculation of RAB or reimbursed, as the case may be, within the control period.

<u>30. Asset Value Adjustment</u>

<u>AuthorityΩ ă ! LJLJ</u> For assets to be excluded from the scope of RAB, the Authority, in clause 5.2.4 of Direction No.5, has proposed to consider the value of the assets as the higher of: (i) depreciated replacement cost value; (ii) book value; and (iii) transfer value of the asset.

<u>Observations:</u> Book value of assets represents a true and correct valuation inter alia because book value has been considered and approved by the auditors. Replacement cost value will not accurately represent the value of the asset since replacement value necessarily requires consideration of subsequent market phenomenon. For calculation of RAB, the Authority has proposed to consider book value of assets. It is only fair that book value of assets be considered for exclusion of assets from the scope of RAB.

The Authority has further proposed to consider the value at which an asset was excluded for the purposes of subsequent inclusion. This approach may not be appropriate since it may result in unfairness to either the airport operator or the users and also because, it may not reflect the true value of the asset at the time of inclusion.

Also, at the time of calculating original cost of fixed assets, it is the book value which is considered and not the asset value. Rule of parity demands that inclusion and exclusion be treated similarly. BIAL therefore proposes that book value of assets be considered uniformly for the purposes of inclusion or exclusion. Likewise, even for subsequent inclusion, fair value rather than the value at which the asset was initially excluded, should be considered.

<u>Submissions</u>: The Authority should revisit its proposal and consider only the book value of assets proposed to be excluded from the scope of RAB. An asset which is excluded from the scope of RAB, at the time of its subsequent inclusion, should be assigned a true value / fair market value and the value assigned to it at the time of exclusion should not be considered.

<u>37. Consultation Protocol:</u>

<u>AuthorityΩ ă ! LJLJNJ ŽĂůͿ</u>: Per clauses 8.1 to 8.22 of Order No.13 and Appendix 1 of Direction No.5, the Authority has proposed a detailed Consultation Protocol including by way of Ŏ Ϩ ÿ ă ű ƛ ű dz ű ƛ ÿ Ǝ ŀ ÿ ! ƛ NJLJ Ϩ NJ ű ¦ ă Ŝ NJ Authority proposes to ŀ ű ƛ Ǿ Ŝ / Ϩ apply the Consultation Protocol as detailed in Appendix 1 of Direction No.5 in respect of aeronautical services as well as services other than aeronautical services.

<u>Observations</u>: Under the AERA Act, Authority has to determine tariffs for aeronautical services. The Authority is also required to consider and give effect to the concessions granted by the state, which in the case of BIAL, is the Concession Agreement, State Support Agreement and the Land Lease Deed. As stated above, by effect of the Concession Agreement, the services of cargo, ground handling and supply of fuel are excluded from the ambit of regulation. In summation, under the AERA Act, the Authority can determine tariff only for aeronautical services, excluding cargo, ground handling and supply of fuel. The Authority may not consider determination of tariffs for any other services that may be provided by the airport operator. The function of regulating the consultation process appears to be concomitant to the power of determining tariffs and may not be an independent function. In the absence of jurisdiction to determine tariffs for services other than regulated services, it appears to be that the Authority has no power or jurisdiction to mandate consultation for such services.

Additionally, the constituents of AUCC include persons who do not fall within the Ř Ŝ Ŧ ƛ ÿ ƛ ű ƛ Ϩ ÿ Ϩ Ŧ ά ă ű ŀ ʅ Ŝ Ϗ Ϩ Ɨ Ř Ŝ NJ ε dz ÿ Ř Ŝ NJ ű Ϗ Ŝ ! Ŏ ű Φ

<u>Submissions</u>: The consultation process/ Consultation Protocol with respect to services other than regulated services can be excluded. BIAL prefers that the constituents of AUCC ō Ŝ NJ Ŝ ă ű NJ ƛ Ŏ ű Ŝ Ř ű Ϩ ű Ϗ Ϩ ă Ŝ ǿ Ϗ Ϩ Ŧ ŀ Ɨ Ɨ ǿ ƛ ű Ϗ ƛ ÿ ű Ϗ Ŝ

Authority can exclude cargo, ground handling and fuel supply services from the Consultation Protocol.

(b) Authority Ω ă Ŝ È l· Ÿ ƛ ƴ. l·Lű!ƛ[2Ωƴă 2ăŦdz ō Ÿ ƛ ă ă ƛ 2 ƴ 2 ƴ w Ŝ ∃dz ƭ l· ű Depreciation

10.10 The Authority has carefully considered the various comments made by BIAL on RAB and related aspects as part of the comments regarding Order No. 13/ 2010-11, Order No. 14/ 2010-11 and Direction No. 5/ 2010-11 and the submissions made by BIAL.

Land Value Adjustment

10.11 The Authority has considered the submission of BIAL regarding its understanding of the Authority Ω ă l· LJLJNJ 2 l· Ŏ K ǿ ƛ ű K NJ Ŝ ă LJ Ŝ Ŏ ű 2 [l· ƴ Ř ± l· ƭ dz Ŝ ! Ř Ꙅ d. While the Authority notes that the agreements referred to by BIAL have permitted the Operator to use the land for the stated purposes ǿ K ƛ Ŏ K Ÿ l· è ƴ 2 ű ō Ŝ Ŏ 2 ƴ ă ƛ Ř Ŝ NJ Ŝ Ř l· ă ά ! ƛ NJLJ 2 NJ ű ! Ŏ ű ƛ Ǿ ƛ ű the land being given mainly for the purpose of running an airport. It is not Authority Ω ă ƛ ƴ ű Ŝ ƴ ű ƛ 2 ƴ state that BIAL will be forced to buy the land which has been given to it free of cost, but to pass on the benefit of exploitation of the land given, by reducing the Regulatory Asset Base. Authority has already detailed its deliberations on why an upfront deduction is being proposed for Land value adjustment from RAB.

10.12 Authority Ω ă NJ Ŝ Ǿ ƛ Ŝ ǿ l· ƴ Ř Ř ƛ ă Ŏdz ă ă ƛ 2 ƴ ă 2 ƴ ű K ƛ ă Σ ƛ ƴ Ŏ ƭ dz l out an upfront adjustment has been elaborated in Airport Order and Airport Guidelines state that:

ά [l· ƴ Ř ± l· ƭ dz Ŝ ! Ř Ꙅ dz ă ű Ÿ Ŝ ƴ ű Ÿ C 2 NJ l· ă ă Ŝ ű ă (Land Ŝ È Ŏ ƭ dz Ř Ŝ Ř Ŧ Value Adjustment) in respect of any corresponding land associated with such asset transferred or leased to or acquired by the Airport Operator in the past would be considered at the higher of (a) the prevailing market value of such land, or (b) the book value of such land. For the purpose of effecting the above land value adjustment, the Authority will require the airport company to notify the location and book value of such land. The Authority may commission experts to independently determine and review the Ÿ l· NJ Ɩ Ŝ ű Ǿ l· ƭ dz Ŝ ƛ ƴ NJ Ŝ ă LJ Ŝ Ŏ ű 2 Ŧ ă dz Ŏ K ƭ l· ƴ Ř έ

10.13 By virtue of Para 7.3 of the Airport Order, the Authority has sought to exclude those assets which substantially provide amenities/facilities/services that are not related to or are not normally provided as airport services from the scope of RAB. In fact, therefore, the Authority has sought to separate the non-airport related activities of Airport Company from the airport activities and has, thus, confined its jurisdiction to the airport activities alone. In so far as exclusion of excess land, if any, is considered, the Authority has considered this issue by way of basic illustrative principles and treatment proposed in respect of few illustrated positions, in the Airport Order. The Authority did not wish to go into the issue of when the Airport Operator should or should not use any piece of land for non-airport purposes, nor how much land should be so used because it did not want to put any fetters whatsoever on the operational freedom of the Airport Operator in this matter. Hence the timing and sequencing of using any piece of land for such non airport purposes would lie entirely in the hands of the Airport Operator. However, in order to remove the impact of the element of timing (or for that matter sequencing) of utilization of land for non-airport purposes from RAB calculations, as well as recognising that money is fungible, the basic principle adopted by the Authority is to look at the purpose of utilization of such land for non-airport purposes. The Authority has also stated that it would look at only the first such transaction and not any subsequent ones, distancing itself from the business and operational freedom of the Airport Operator to exploit future benefits. In fact, in sub Para 7.5.5. of the Order, it has been specifically stated that it would not be feasible for the Authority to prescribe treatment for all different forms of land transfers/alienations.

10.14 Therefore, if the operator undertakes any non-airport related activity on the land leased to it by KSIIDC, the Authority would consider each such case specifically on its own merits. Further, in terms of Land Lease Agreement dated 20th January 2005, BIAL does not have any unrestricted right to utilize the land leased to it by the KSIIDC for non-airport related purposes. As per Article 4.2 of the Land Lease Agreement dated 20th January 2005 between KSIIDC and BIAL, BIAL can utilize the site for any other purposes, which in its opinion is:

Conducive or incidental to implementation of the Project; and/or

Conducive or incidental to operation and management of the airport; and/or

Enhances the passenger/cargo traffic at the airport; and/or

Improves the commercial viability of the Project; and/or

Facilitates substantive further investment in or around the Airport, only with the approval of the KSIIDC.

10.15 The Authority submits that all these purposes have direct material linkage with the Project

approval, KSIIDC may impose certain conditions and stipulation which would conceivably depend on the issue under its consideration.

10.16 However, the Authority notes that in case of BIAL, currently only a Hotel construction activity has been undertaken which is also under Arbitration. Hence, while the Authority stands by its view on the land value adjustment prescribed in the guidelines, no adjustment is proposed to be carried out for the purpose of this MYTP Determination. The Authority notes that BIAL has received Interest free Security Deposit of Rs. 76.50 Crores that it obtained in December 2006. This interest free security deposit is repayable from 2008 to 2014-15 as per the agreement between BIAL and EIH Limited and L&T. BIAL has received interest of Rs. 43 Crores on this deposit since December 2006 till March 2013, as per the certificate provided by a Chartered Accountant. The Authority does not propose to take both these amounts into reckoning for tariff determination for the present, pending final outcome of the arbitration proceedings.

Work in Progress Assets

10.17 The Authority has considered the submissions of BIAL regarding its understanding of the AuthorityΩ ă ǀ LJLJNJ ƭ ǀ Ŏ K ǿ ƛ ű K NJ Ŝ ă LJ Ŝ Ŏ ű ű ƭ ǿ ƭ NJ ƚ ƛ ƴ LJNJ ƭ ∃ NJ Ŝ ă that the Authority has in its guidelines proposed to deduct accumulated capital receipts of the nature of contributions from stakeholders including total contributions pertaining to work in progress assets including by way of development fees, capital grant and subsidies.

10.18 The AuthorityΩ ă ǀ LJLJNJ ƭ ǀ Ŏ K ƭ Ŧ ű NJ Ŝ ǀ ű ƛ ƴ to give financing allowance ǿ ƭ NJ ƚ ƛ at the cost of debt for the capital work in progress assets. The question of any deduction therefrom, therefore, does not arise. Secondly, in AuthorityΩ ă Ǿ ƛ Ŝ ǿ Σ ű K Ŝ ƴ ǀ ű dzNJ Ŝ ƭ Ŧ stakeholders is an important factor in determining whether they form part of the Regulatory Asset Base (RAB) or need to be deducted therefrom. For example, any subsidy received from the Government would need to be deducted from Regulatory Asset Base (RAB), which is also defined under the Accounting Standard AS 12.

10.19 Similarly, in AuthorityΩ ă Ǿ ƛ Ŝ ǿ Σ ű K Ŝ LJdzNJLJ ƭ ă Ŝ ƭ Ŧ ă dz ō ă ƛ Ř è ƭ NJ Government is to reduce the overall cost of the airport services. If a regulatory regime does not take into account this purpose, then the intent of the Government in making available subsidy or grant or concessional loan is lost.

10.20 The SSA, in case of BIAL, clearly mentions that the State would extend assistance to the project in terms of leasing of land, interest free loan and subvention/subsidy. The Authority does not consider that it would be the GovernmentΩ ă ƛ ƴ ű Ŝ ƴ ű ƛ ƭ ƴ ű K ǀ ű ƛ ű ǿ ƭ dz ƒ Ř ∃ ƛ interest free loans for the project and yet BIAL should be entitled to return (and higher than reasonable return) on such means of finance. Moreover, the Authority calculates Weighted Average Cost of Capital (WACC) based on the costs associated with different means of finance on actual basis. Moreover, GoK has agreed to provide financial support to improve the viability of the project and enhance the bankability of the initial phase and has also agreed to have KSIIDC to provide the site on lease to BIAL. It is thus clear that low cost funds (subsidy or concessional loans) are meant to ƛ Y LJNJ ƭ Ǿ Ŝ ű K Ŝ LJNJ ƭ Ƨ Ŝ Ŏ allow the project or promoters to have higher returns. ű ƭ

Scope of RAB or RAB Boundary

10.21 Authority K ǀ ă Ŏ ǀ NJ Ŝ Ŧ dz ƒ ƒ è Ŏ ƭ ƴ ă ƛ Ř Ŝ NJ Ŝ Ř . If RAB or the RAB Y ƛ ă ă ƛ Boundary. The Authority ƛ ă K ƭ ǿ Ŝ Ǿ Ŝ NJ Σ ƴ ƭ ű Ŏ ƭ ƴ Ǿ ƛ ƴ Ŏ Ŝ Ř proposes to L ! [Ω ă consider the prescription as laid down in the Airport Guidelines. AuthorityΩ ă ƛ ƴ ű Ŝ ƴ ű ƛ ƭ ƴ ƛ ă ű all assets that are used to provide Airport Services, under the purview of RAB. Matters on Till Mechanism have been deliberated in a separate section of this Consultation Paper under Para 26 below.

Initial RAB

10.22 The Authority Ƙ ŀ ă Ǒ ŀ NJŜ Ŧdz ſ ſ è Ǒ ƻ ƴ ă ƛ Ř ŜNJŜ Ř . L ! [Ω ă ădzōƳ ƛ ă the Authority notes that the methodology prescribed in the Airport Guidelines for valuation of the Initial RAB have been devised in order to ensure that only appropriate and reasonable expenditure have been incurred in regard to the Initial RAB which is being considered for the purpose of providing the return.

10.23 The determination of initial RAB for the first control period is required to be made at the inception of the economic regulation. In case the historical cost of assets is not taken into consideration, the airport would end up not receiving any return in respect of such historical costs even though assets created therefrom shall be used for providing services at the airport. While ensuring that the historical costs are taken into consideration, the Authority has also indicated the safeguards to ensure that only the fair costs are taken into consideration and the users remunerate only such investments which have been undertaken in accordance with accepted business practices. Thus, the provision is included to ensure that the Airport Operator receives fair returns on the ƛ ƴ Ø Ŝ ă ű Ƴ Ŝ ƴ ű ă Ƴ ŀ Ř Ŝ ŀ ƴ Ř dz ă ŜNJ ă Ř ƻ ƴ ƻ ű LJ ŀ è Ŧ ƻ NJ ŀ ƴ è Ψ

10.24 BIAL is a Board Management company and has the Chief Secretary of GoK as the Chairman of the Board. The Initial Project has also long since been commissioned in the year 2008. In view of the same, the Authority Ǒ ƻ ƴ ă ƛ Ř ŜNJ ă ά b Ŝ ű . ſ ƻ Ǒ ʅ έ ŀ ă LJ Ŝ BIAL for the Ŝ ŀ dz Ř ƛ year ended 31st March 2011 as the Initial RAB.

Consideration of expenditure disallowed from PSF

10.25 The Authority Ƙ ŀ ă NJ Ŝ Ǿ ƛ Ŝ ǿ Ŝ Ř . L ! [Ω ă ădzōƳ ƛ ă ă ƛ ƻ ƴ ƻ ƴ Ǒ ƻ ƴ ă disallowed from PSF. Detailed guidelines about PSF have already been issued by the Government and needs to be followed strictly.

Mandated Operating Cost Correction

10.26 Authority Ƙ ŀ ă Ǒ ŀ NJŜ Ŧdz ſ ſ è NJŜ Ǿ ƛ Ŝ ǿ Ŝ Ř . L ! [Ω ă ădz∃ ∃ Ŝ ă ű ƛ ƻ ƴ Correction within the Control period. However, the Authority is not persuaded to accept this recommendation. The prescribed Airport Guidelines shall apply. Changes to the Capital Expenditure are proposed to be trued up along with carrying cost, at the beginning of the next control period.

Asset Value adjustment

10.27 Authority Ƙ ŀ ă Ǒ ŀ NJŜ Ŧdz ſ ſ è Ǒ ƻ ƴ ă ƛ Ř ŜNJŜ Ř . L ! [Ω ă ădzōƳ ƛ ă ă ƛ The position in respect of asset value adjustment for the assets excluded from the scope of RAB has been evolved keeping in view the temptation or the possibility of gaming by an operator and to ensure that the users do not suffer due to such gaming.

Consultation Protocol

10.28 The capital expenditure under consideration in clause 5.2.5 (b) of the Airport Guidelines is such expenditure in respect of which the operator seeks return through the tariffs to be determined by the Authority. The Authority has put in place a consultative mechanism by way of which the users would be in a position to be a part of decision making in respect of proposed capital expenditure. Wherever the capital expenditure is substantially committed, before the consultation process specified by the Authority by way of Airport Guidelines could be undertaken, the Authority has retained the discretion to review the same. This is only fair as in case of projects which are substantially committed a post facto user consultation would neither be desirable nor in the interest of implementation of the project.

10.29 At the same time, acceptance of the previously committed capital expenditure would amount to giving the airport operator a carte-blanche to make any investment and thereafter expect the users to pay for such investments without any review.

10.30 This is to safeguard against Airport Operator focussing more on Non-Aeronautical activities at the expense of the Aeronautical services. As Non-Aeronautical services is also utilised by Passengers and Cargo users, Authority feels that more broad based consultation in the areas of Non-Aeronautical Services would add robustness to the final decision. At any rate the Authority needs to take a final view based on the various views expressed during the consultation process.

Consideration of MYTP Submission made by BIAL

10.31 BIAL has calculated the RAB for each year as the average of the opening and the closing RAB and the return is calculated on the average RAB. The Authority has decided, vide the Airport Order and Airport Guidelines, that RAB for the purpose of determination of tariffs shall be the average of the RAB value at the end of a tariff year and the RAB value at the end of the preceding tariff year, which is consistent with the approach adopted by BIAL in the tariff application.

10.32 BIAL has provided [illegible] and Work in Progress Assets. The Authority notes that an amount of Rs. 6.38 crores is to be reduced from RAB on account of disposal of assets, [illegible] loss on disposal has been included as part [illegible] Authority notes that a corresponding reduction has not been made to the RAB. The Authority proposes to adjust the same from the RAB as disposals, in line with the Airport Guidelines, from the RAB for the year 2011-12.

10.33 The Authority notes that depreciation claim for the purpose of RAB will be different from that on the asset values capitalised in books

10.34 In view of changes to the asset capitalization values, depreciation has to consequently change. Also, this has to be trued up based on the actual costs spent and capitalised in books.

10.35 The Authority also proposes to provide for 100% depreciation on additions without considering any salvage value.

10.36 Based on the changes proposed to the RAB, as detailed below, the revised Average RAB value for the purpose of return are presented in the ensuing tables:

10.36.1 Reduction of the net block of assets disposed off to the tune of Rs. 6.38 Crores

10.36.2 Changing the rate of debt for the purpose of computation of Financing allowance

10.36.3 Considering asset capitalisation as proposed by Authority in Table 21

10.36.4 Consider depreciation on 100% of the asset values (without considering any salvage value)

Table 25: Revised Average RAB computation under Single Till as made by the Authority - Rs. Crores

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Opening Regulatory Asset Ba	1,595.69	1,470.33	1,358.55	3,184.54	3,058.48
Investment / Additions to RAB	15.41	23.96	2,007.16	96.72	61.68
Deletion/Disallowance	(6.38)	-	-	-	-
Depreciation & Amortization	(134.39)	(135.73)	(181.18)	(222.78)	(215.68)
Closing Regulatory Asset Bas	1,470.33	1,358.55	3,184.54	3,058.48	2,904.48
Average RAB for Return	1,533.01	1,414.44	2,271.55	3,121.51	2,981.48

Table 26: Revised Average RAB computation under Dual Till as made by the Authority - Rs. Crores

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Opening Regulatory Asset Ba	1,300.74	1,197.75	1,104.43	2,621.29	2,521.56
Investment / Additions to RAB	14.74	19.17	1,666.82	84.39	52.42
Deletion/Disallowance	(6.38)	-	-	-	-
Depreciation & Amortization	(111.35)	(112.48)	(149.97)	(184.11)	(177.89)
Closing Regulatory Asset Bas	1,197.75	1,104.43	2,621.29	2,521.56	2,396.09
Average RAB for Return	1,249.24	1,151.09	1,862.86	2,571.42	2,458.83

Proposal No 5. Regarding Regulatory Asset block and Depreciation

5.a. Based on the material before it and its analysis, the Authority proposes

i. Not to carry out any adjustment to RAB on account of monetisation of land owing to the development of Hotel, while determining Aeronautical tariffs during the current control period.

ii. To consider Average Regulatory Asset Base as detailed in Table 25 and Table 26 under Single Till and Dual Till respectively, after making adjustments as detailed in Para 10.36 above

iii. To consider depreciation on 100% of the asset values (without considering any salvage value). To consider Depreciation as detailed in Table 25 and Table 26 under Single Till and Dual Till respectively

iv. Taking note that the Hotel project is under Arbitration, not to consider Rs. 76.50 Crores of Interest Free Security Deposit as well as Rs. 43 crores of interest earned on the deposits for the period from December 2006 till March 2013, for the purpose of tariff determination for the present, pending final outcome of the arbitration proceedings. (Refer Para 10.16 above)

v. To True up the Average RAB and the depreciation in the first year of the next control period based on the actual capital expenditure incurred in the current control period.

11 Traffic Forecast

(a) . L ! [Ω ă ă dz ō Ÿ λ Forecast 2 ƴ 2 ƴ ¢ NJ Ɨ Ŧ Ŧ λ Ŏ

11.1 The Airport Guidelines specify that, the airport operator is required to submit traffic forecasts as part of the MYTP submissions. The Airport Guidelines further provide that the Authority would reserve the right to review such forecast assumptions, methodologies and processes and to determine the final forecast to be used for the determination of tariffs. The Airport Guidelines further provide that the Authority will also use forecast correction mechanism if the actual traffic turns out to fall outside the prescribed bands with the upper and lower band percentages being equal. As part of the tariff determination process, the Authority would require Airport Operators to provide proposals for the values of the upper and lower bands, supported by evidence for the rationale of such bands and will review the operation of the bands and determine the final bands for tariff determination. As per the Airport Guidelines, any variation outside of the bands will be shared equally between the Airport Operator and users.

11.2 BIAL has, in their revised MYTP submission stated that the traffic numbers estimated are based on the:

11.2.1 Actual traffic for 2011-12

11.2.2 Management Estimate of the traffic numbers for the period 2012-13 and 2013-14

11.2.3 Estimated Growth in traffic considering the growth rates defined by L&B in their Aviation Activity Forecast study report dated August 2010, for the years 2014-15 and 2015-16.

11.3 BIAL has submitted that the actual traffic scenario for 2011-12 and the projected traffic scenario for 2012-13, considering the actual traffic has indicated a de-growth in traffic.

11.4 BIAL has proposed a traffic band (both upper and lower) of 5% as part of its MYTP submission.

11.5 The actual traffic and Growth in traffic numbers for BIAL for the period 2008-09 to 2011-12 as submitted by BIAL along with the data for the period 2012-13 submitted by BIAL on 13th May 2013 based on a further query from the Authority, together with the Compounded Annual Growth Rate for the past 5 years and 10 years till 2012-13, are as follows:

Table 27: Actual Traffic Data of Bangalore for the period 2008-09 to 2012-13

Category	Dom / Intl	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	CAGR 5Y	CAGR 10Y
PAX (Mn)	Domestic	8.59	7.12	7.99	9.36	10.33	9.49	2.01%	14.75%
	International	1.55	1.64	1.94	2.27	2.38	2.5	10.10%	21.17%
ATM #s	Domestic	101898	91057	90578	94969	100973	86848	-3.15%	9.15%
	International	11700	13920	14075	16818	18222	18340	9.41%	16.76%

Category	Dom / Intl	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	CAGR 5Y	CAGR 10Y
Cargo (tons)	Domestic	69987	58310	90493	101700	103803	82756	3.41%	7.15%
	International	108160	99690	172677	188693	196186	143911	5.88%	16.76%

11.6 BIAL has proposed the following growth rates for the remaining 3 years in the control period:

Table 28: Traffic Growth rates proposed by BIAL for the period 2013-14 to 2015-16

Category	Dom / Intl	2013-14	2014-15	2015-16
PAX (Millions)	Domestic	8.50%	11.42%	11.11%
	International	11.30%	12.88%	12.36%
ATM #s	Domestic	8.95%	11.76%	11.00%
	International	9.25%	11.77%	11.00%
Cargo (tons)	Domestic	12.38%	2.07%	-6.51%
	International	9.27%	3.97%	-0.97%

11.7 Also, further to a subsequent query, BIAL has, on 15th May 2013 submitted the revised traffic study by Landrum & Brown dated February 2013. Summary of traffic numbers proposed by BIAL for the period 2013-14 to 2015-16 are as given below:

Table 29: Traffic forecast for the period 2013-14 to 2015-16 as projected by L&B in their February 2013 report

Category	Dom / Intl	2013-14	2014-15	2015-16
PAX (Millions)	Domestic	10.24	11.49	12.77
	International	2.69	3.00	3.31
ATM #s	Domestic	96980	108440	118480
	International	19400	21290	23190
Cargo (tons)	Domestic	240300	260000	282000

<u>Additional Submissions made by BIAL regarding Order No. 13/ 2010-11, Order No. 14/ 2010-11 and Direction No. 5/ 2010-11, relating to Traffic Forecasting</u>

11.8 Pursuant to AERAAT Order, BIAL has made submissions to the Authority on various aspects. Extracts of aspects relevant to Traffic Forecasting, submitted by BIAL are given below:

26. Traffic Forecasting:

<u>AuthorityΩ ă ! LJL</u> Per clause 10.3 of Order No.13 and clause 6.15.2 of Direction No.5, any variation of traffic forecast, outside of the bands, will be shared equally between airport operators and users.

<u>Observations:</u> Airport operators have little or no control over the volume of traffic. As it can be understood by examining historical traffic behavior, traffic normally/ functionally behaves in correlation to general economic scenario in the country and abroad and the

general economic situation in the country in a subsequent year is almost impossible to predict. The September 2008 collapse of Lehmann Brothers and the consequent economic downturn was not predicted by leading economists / financial institutions or even governments world over. Further, there are a large number of uncertainties which are simply beyond prediction, such as, failure of a particular carrier resulting into zero ATMs from that carrier. In this context, it may be relevant for us to consider studies of a world renowned economist / thinker Mr. Nassim Nicholas Taleb and his works on insufficiency of knowledge and consequent inability to predict. In the absence of effective tools for prediction being available with the airport operator, it would be a herculean task and a near impossibility for the airport operator to accurately forecast the traffic volumes. More often than not, unprecedented situations could have the effect of pushing the traffic volumes beyond prescribed bands. In such circumstances, all that the airport operator can do is to provide its services efficiently and the AERA Act prescribes a mechanism for implementation of set service quality parameters. Besides, the proposed regulations will force the airport operator to focus on issues like forecasting, which ought not to be the primary conc[illegible] *providing good quality airport services may be diverted. The costs of regulatory compliance will also sky rocket since prediction would require the airport operator to engage with specialized professionals in that field. It is our humble opinion that, a regulation requiring myriad compliances will increase the cost of regulation and will also restrict entrepreneurial freedom.*

Submissions: The Authority is submitted to reconsider its proposals not to provide error correction for forecasting errors beyond the bands that may be prescribed by the Authority and should provide for complete error correction. For services other than regulated services, there should be no regulation whatsoever including with respect to forecasting error correction.

(b) Authority [illegible]

11.9 The Authority has carefully considered the various comments made by BIAL on Traffic Forecasting as part of the comments regarding Airport Order and Airport Guidelines. The Authority has noted the submission of the airport operator that the traffic forecast is after all a forecast and the airport operator does not have much control over the volume of traffic. In some other regulatory regimes, the regulator projects an appropriate and reasonable traffic forecasts and determines the aeronautical charges thereof. Any benefit or loss owning to the actual traffic being [illegible] count. Under the Indian [illegible] context, however, the Authority feels that it would be reasonable if the traffic projections are trued up with regard to actual volume of traffic. The Authority emphasises, however, that by so doing it has, to a large extent, mitigated the risk associated with airport operations and therefore, should, accordingly, be reflected in the fair rate of return on equity.

Consideration of MYTP Submission made by BIAL

11.10 The Authority notes that there are sharp increases/ decreases in the actual traffic at Bangalore over the past 10 years, with traffic in 2012-13 indicating de-growth in traffic as compared to the previous year.

11.11 The Authority notes that the actual traffic for 2012-13 as submitted by BIAL is different than the traffic forecast provided by BIAL for the year. Difference in traffic for 2012-13 is tabulated below:

Table 30: Difference in Traffic for 2012-13 between the MYTP submission and actual traffic

Category	Dom / Intl	Actuals	As per BIAL
PAX (Millions)	Domestic	9.49	9.11
	International	2.50	2.47
ATM #s	Domestic	86,848	85,903
	International	18,340	18,743
Cargo (tons)	Domestic	82,756	90,493
	International	1,43,911	1,72,678

11.12 The Authority proposes to correct the traffic in the MYTP submission for 2012-13 based on the actual traffic numbers.

11.13 Revised traffic numbers the period 2013-14 to 2015-16, by applying the growth rates proposed by BIAL on the actual traffic for 2012-13 is as given below.

Table 31: Revised Projected traffic for the period 2013-14 to 2015-16

Category	Dom / Intl	2013-14	2014-15	2015-16
PAX (Millions)	Domestic	10.30	11.47	12.75
	International	2.79	3.15	3.54
ATM #s	Domestic	94,797	1,05,948	1,17,601
	International	20,372	22,769	25,273
Cargo (tons)	Domestic	93,005	94,929	88,749
	International	1,57,258	1,63,503	1,61,916

11.14 On comparison of the L&B Projections received now (Table 29) vis-a-vis revised projections for future period computed (Table 31), the Authority notes that the revised projections computed are more or less in line with the L&B Projections. Also the growth rates assumed for the 3 years by BIAL, is higher than the CAGR for the past 5 year period. In view of the above, the Authority proposes to consider the Growth rates for 2013-14 to 2015-16 as proposed by BIAL.

11.15 In view of the unstable growth with sharp increases and decreases, the Authority proposes to true up the actual traffic, without any band adjustment for the first control period, in the first year of the next control period.

Proposal No 6. Regarding Traffic Projections

6.a. Based on the material before it and its analysis, the Authority proposes

i. To consider the actual traffic for the periods 2011-12 and 2012-13

ii. To consider the growth rates proposed by BIAL for the balance period of 2013-14 to 2015-16 in the current control period.

iii. To true up the traffic volume based on actual growth during the current control period while determining aeronautical tariffs for the next control period commencing w.e.f 01.04.2016.