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Airports Economic Regulatory Authority of India

**Determination of Development Fee in respect of
the Metro Connectivity Project for Chhatrapati
Shivaji International Airport, Mumbai**

New Delhi: 4th November, 2015

**AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110003**

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1. Brief facts

1.1. Mumbai International Airport Private Limited (hereinafter referred to as “MIAL”) is a Joint Venture Company incorporated under the Companies Act, 1956 and is engaged in operating, maintaining, developing, designing, constructing, upgrading, modernizing, financing and managing the Chhatrapati Shivaji International Airport, Mumbai (hereinafter referred to as “CSIA”). MIAL has taken over these functions from AAI w.e.f. 03.05.2006. The following agreements (collectively referred to as “Project Agreements”) were executed by MIAL with various counter parties:

1. Operation, Management and Development Agreement dated 04.04.2006 (hereinafter referred to as “OMDA”) between MIAL and the AAI;
2. The State Support Agreement dated 26.04.2006 between the President of India, acting through the Ministry of Civil Aviation (hereinafter referred to as “MoCA”), and MIAL;
3. Shareholders Agreement;
4. CNS-ATM Agreement;
5. Airport Operator Agreement;
6. State Government Support Agreement;
7. The Lease Deed;
8. Substitution Agreement and
9. Escrow Agreement.

1.2. Airports Economic Regulatory Authority (hereinafter referred to as “the Authority” or “AERA”) was established by the Central Government vide notification no. GSR 317 (E) dated 12.05.09 with its head office at Delhi under the Airports Economic Regulatory Authority of India Act, 2008 (hereinafter referred to as “AERA Act”) to regulate tariffs for Aeronautical

Services, inter-alia, taking into consideration the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise.

1.3. Mumbai Metro Rail Corporation (MMRC) is a fully owned company of Mumbai Metropolitan Region Development Authority (MMRDA) (registered under provisions of Company Act, 1956) as of 30th April, 2008. MMRC (at present) is responsible for the implementation of all the Metro Rail Corridors under Mumbai Metro Rail Project including the implementation of Mumbai Metro Line 3, which is a 32.5 km long fully underground alignment from Colaba to SEEPZ in Mumbai. Three stations of this line fall under the CSIA area. Accordingly, MMRC approached MIAL and asked for contribution towards funding of these 3 metro stations.

1.4. At the time of tariff determination in respect of Chhatrapati Shivaji International Airport, Mumbai (CSIA) for the first Control Period (FY 2009-10 to FY 2013-14, the Airports Economic Regulatory Authority of India had approved levy of Development Fee (DF) to the tune of Rs. 3,400 crores against the funding gap on embarking passengers. Vide its interim DF Order No. 02/2012-13 dated 16.04.2012 the Authority had allowed MIAL to collect Rs. 100/- per embarking domestic passenger and Rs. 600/- per embarking international passenger from 01.05.2012 for a period of around 23 months (i.e., up to 31.03.2014). The Authority subsequently issued its final order (Order no. 29/2012-13 dated 21.12.2012), and allowed MIAL to collect the balance DF from 01.01.2013 to April 2021 while keeping the DF rate constant.

1.5. Based on request from MMRC, MIAL submitted a letter to AAI dated 29.05.2014 regarding the contribution of funds towards the metro connectivity project. As part of the letter, MIAL submitted that the metro project was discussed extensively during various National Facilitation Committee (NFC) meetings, chaired by the Cabinet Secretary, Government of India. MIAL further submitted that in the fourth meeting held on 01.05.2007, the Cabinet Secretary expressed that the metro connectivity project needs to be expedited. An excerpt from the letter is reproduced below,

“For the purpose of providing timely and convenient access to passengers it is essential to provide metro connectivity to Chhatrapati Shivaji international Airport, Mumbai (CSI Airport) as is the case with at major airports throughout the world including Delhi Airport. Metro connectivity to airport was a matter of discussion during various NFC meetings chaired by Cabinet Secretary, Government of India. In 4th meeting of NFC held on 1st May, 2007, Cabinet Secretary expressed that the metro connectivity to the CSI Airport needed to be expedited.”

- 1.6.** MIAL had also provided minutes of the meetings held on the fifth and eighth NFC meetings held on 03.06.2008 and 03.09.2009 respectively. In these meetings, MIAL had contested funding of the metro connectivity project. In these NFC discussions, it was argued that DIAL had contributed to the funding of the metro connectivity to the IGI Airport in Delhi. MIAL counter argued that in case of DIAL, metro connectivity was provided exclusively for the IGI Airport, which is not the case with metro connectivity being planned to be provided to CSIA, Mumbai. An extract of the minutes of the fifth NFC meeting held on 03.06.2008 is reproduced below,

"MIAL was asked to consider funding the works of 1.5 km to enable connectivity to the airport. It was noted that DIAL had contributed Rs. 350 crores for the metro link to IGI airport. MIAL stated that unlike the Delhi metro link, Mumbai metro project is not a dedicated link and they are not considering funding the said project. However, it was decided that MIAL may have to re-look into the matter."

- 1.7.** MIAL further stated in the meeting that it has also contributed almost 46% (Rs. 186 crores) of the project cost of elevated road connecting Western Express Highway to the New Terminal 2. However, MIAL also added that it is essential to provide metro connectivity to airport especially because road network to reach airport from south Mumbai is already heavily congested and likely to get worse in the future as there is no possibility to widen the network.
- 1.8.** Subsequently, in the eighth meeting of the NFC dated 03.09.2009, MIAL requested to expedite the metro project. After discussions held with MMRDA, it was agreed to bring

forward the project by making it part of Metro Line – 3 Colaba – Bandra – SEEPZ. An extract of minutes of the meeting is reproduced from the letter below,

“MIAL requested that the metro connectivity to Santacruz and Sahar Airport, Mumbai airport should be expedited. The MMRDA representative explained that the metro connectivity for the airport is slated to come up in the 6th stage but it can be advanced along with the third and fourth phase, which is to start soon. After deliberation, it was decided that the metro connectivity to the airports should be expedited as proposed by MMRDA “

1.9. MIAL further stated that after several rounds of negotiations with the MMRDA, it was decided that MIAL would contribute funds towards three metro stations. Vide its letter dated 29.05.2014, MIAL requested Airports Authority of India (AAI) to suitably recommend to the Authority (AERA) to sanction financing of two metro stations that provide metro connectivity to CSIA, by allowing MIAL to raise additional Development Fee from passengers at CSIA; under the Section 22A of the AAI Act 1994 and Section 13 (1) (b) of the AERA Act 2008.

1.10. As per MIAL’s letter to Airports Authority of India (AAI) dated 29.05.2014, MIAL submitted:

“...after several rounds of negotiations, it was agreed that MIAL shall contribute Rs. 777 crores consisting of Rs. 600 crores towards 3 stations @ Rs. 200 crores/station planned in CSIA land and Rs. 177 crores towards electro-mechanical works. One of the stations is planned in the area where real estate development will take place, contribution for which will be met out of real estate infrastructure deposit. Contribution for balance 2 stations being Rs. 518 crores, consisting of Rs. 400 crores for 2 stations and Rs. 118 crores for electro-mechanical works is part of the project cost for second control period from FY 2015 to FY 2019. This amount does not include interest during construction (IDC), if any.”

1.11. As regards financing of the project, MIAL further stated in its letter dated 29.05.2014 that,

“MIAL is already implementing airport development project at a cost of Rs. 13050 crores which does not include contribution for metro connectivity. Funding of this project cost has been tied up from various sources consisting of equity, internal resource generation, debt, deposits from Real Estate development and Development Fee. While sanctioning DF, AERA capped the amount of DF to Rs. 3400 crores and left a funding gap of Rs. 1347 crores for MIAL to tie up which has been tied up recently with great difficulty. Looking into the fact that MIAL is already highly leveraged there is no scope of raising further debt to fund contribution of Rs. 518 crores towards cost of metro project.

Since it is not possible to fund this project from any further debt, equity or any other means, it is a fit case where cost of this project is funded through DF as per provisions of Section 22A of the AAI Act 1994, amount of development fee will be determined by AERA”

- 1.12.** MIAL further stated that DF levy will not affect the interest of the passengers adversely. MIAL reasoned in its letter dated 29.05.2014 as given below,

“...funding of metro rail stations through DF shall ensure that non-availability of funds does not delay the project and at the same time DF levy will not affect the interests of air passengers adversely, since the cost of metro stations shall not be added to the Regulatory Assets Base and neither depreciation nor any returns shall accrue on such value. In fact levy of DF would result in lower future tariffs, which otherwise would be higher due to impact of this capex and return on capital. There shall be no unjust enrichment to MIAL if funding of such public project is allowed through Development Fee.”

- 1.13.** Subsequently, in its letter T/MI3-CBS/MIAL/AAI/ dated 25.06.2014, MMRC requested the Authority to accept MIAL’s request for funding the metro connectivity project through DF. MMRC stated that,

“We understand from MIAL that it may not be possible for them to raise sufficient funds either by way of equity or debt. In case MIAL is not able to raise required funds for the metro rail stations committed, the resultant shortage of funds will adversely affect the entire project.

It is informed that there is a provision for allowing pre - funding of such measures as a measure of last resort through Development Fee. In view of this, we request that MIAL's request to levy Development Fee may be agreed to. It will ensure making available sufficient funds to finance the metro rail stations in the airport area.”

- 1.14.** MIAL further submitted a letter (dated 24.11.2014) to Ministry of Civil Aviation (MoCA) and stated, that it is extremely difficult for MIAL to meet the funding gap through additional debt. An extract of the letter has been reproduced below,

“In order to meet the funding gap in Project Cost of MIAL, AERA had approved levy and collection of Development Fee of Rs. 3400 crores against shortfall of Rs. 4876 crores (inclusive of projects disallowed - Rs. 260 crores and projects deferred Rs. 397 crores). Hence, there was still a shortfall in funding to the extent of Rs. 1476 crores. Subsequently, there is a net increase of Rs. 195 crores in project cost from Rs. 12,305 crores to Rs. 12,500 crores. Hence, the total funding gap is Rs. 1671 crores.

MYTP for second Control Period envisages additional capital expenditure of Rs 1303 crores which includes cost of two metro stations. Funding for additional capex is also to be met out of debt and internal accruals. Looking into quantum of gap in funding (Rs. 2974 Crores), it is extremely difficult to obtain debt to the extent mentioned above.”

- 1.15.** MIAL further submitted in its letter to MoCA that the matter of funding metro projects via DF was discussed in its Board Meeting. An extract of MIAL's letter regarding the same has been reproduced below,

“The matter of funding of metro project was discussed in MIAL's 43rd Board Meeting where all possibilities were discussed and there was consensus, including that of AAI Nominee Directors, that there is no possibility to bring further equity. As already

mentioned that there is no possibility to fund the gap through additional debt hence, funding metro project through DF is the last resort. In fact funding structure of project cost envisages Rs. 1000 crores from Real Estate Deposits which also has got delayed due to adverse market conditions,”

- 1.16.** Vide its letter dated 26.11.2014 to MoCA, MIAL further stated that it is currently levying DF at CSIA at the rate of Rs. 100 from each embarking domestic passenger and Rs. 600 from each embarking international passenger pursuant to AERA order No. 29/2-12-13 dated 21st December, 2012. MIAL also submitted three scenarios, the proposed per passenger DF being collected at present, DF to be charged incrementally, and the resulting total DF to be collected from Domestic and International passengers when the gross amount of Rs. 518 crores metro connectivity project is recovered through this incremental DF. These scenarios were based on varying ratios of domestic DF levy to international DF levy i.e. 1:6, 1:2 and 1:1. MIAL also submitted that it is required to collect additional DF in respect of the metro connectivity project till April 2021 i.e. co-terminus with collection of existing DF period. Consequently, MIAL requested the Authority to consider this submission. An excerpt from the letter is reproduced below,

“...As you may be kindly aware, MIAL is currently levying Development Fee(DF) at CSIA at the rate of Rs. 100/- from each embarking domestic passenger and Rs.600/- from each embarking international passenger pursuant to AERA order No.29/2-12-13 dated 21st December, 2012. As per this order MIAL is required to collect DF upto April, 2021.

As requested in our above referred letter, contribution of Rs. 518 crores to MMRDA for metro connectivity through levy of DF will lead to nominal increase in the DF per passenger as detailed in the table below under various options, assuming that additional DF will also be collected upto April, 2021 i.e. co-terminus with collection of existing DF period:

Ratio of Domestic: International	Present DF Per Passenger		Incremental for Metro Connectivity Per Passenger		Total DF after increase Per Passenger	
	Domestic	International	Domestic	International	Domestic	International
1:6 (Existing)	100	600	23	138	123	738
1:2	100	600	44	88	144	688
1:1	100	600	57	57	157	657

“

- 1.17.** In response to the submissions made by MIAL, the MoCA agreed to allow MIAL to levy and collect DF in respect of the two metro stations. An extract of MoCA letter No. 240 11/25/2014-AD dated 21.04.2015 is reproduced below,

“The Ministry is of the view that full-fledged development of the airport, and providing convenient and affordable access to passengers, metro connectivity would be essential. The levy of Development Fee (DF) is also a less expensive option for financing of the metro project and will be a very small addition on the passengers. Accordingly, the competent Authority has agreed to allow MIAL to levy and collect DF in respect of the two metro stations. DF per person may, however, be decided by AERA subject to overall ceiling of Rs. 518 crores requested for the project.”

- 1.18.** Consequently, through multiple submissions, MIAL has requested the Authority to allow it to levy DF in respect of the two metro stations that are to be funded by the airport division of MIAL. These submissions, along with the Authority examination, are presented in the subsequent sections.

2. MIAL's submission on levy and collection of Development Fee (DF)

2.1. MIAL's proposal vide its letters to AERA dated 25.08.2015 and 08.09.2015 pertaining to DF to be levied at CSIA for the metro connectivity project is presented below.

2.2. On the matter of funding of the metro connectivity project, MIAL stated in its letter dated 25.08.2015 that,

"I. Mumbai Metropolitan Region Development Authority (MMRDA) and Mumbai Metro Rail Corporation Limited (MMRC) are pursuing us for entering into Memorandum of Understanding (MOU) with MMRC, which they wish to be signed in presence of the Hon'ble Chief Minister of Maharashtra.

II. In view of urgency to start the construction activities and persuasions by MMRDA/MMRC, MIAL requests the Authority to sanction levy and collection of DF at CSIA for two metro stations, before the tariff determination of second control period which may take some time."

2.3. MIAL also proposed to levy DF charges on passengers at the CSIA in the letter dated 25.08.2015 as below,

"III. MIAL proposes DF at rate of Rs. 50 per embarking domestic passenger and Rs. 100 per embarking international passenger from 1st November, 2015 to March 2020, so that aggregate Rs. 518 crores are collected from the passengers over this period."

2.4. Accordingly, MIAL proposed in the letter a schedule of collection of DF as below,

"Proposed Schedule for amount of DF to be collected for funding of 2 metro stations

Year	Domestic Pax	International Pax	Domestic @ Rs.50 per pax	International @ Rs.100 per pax	Total
	<i>In Mn (net of exempted pax)</i>		<i>In Rs. Crores</i>		<i>In Rs. Crores</i>
FY 16	4.53	1.98	23	20	42
FY 17	11.70	4.93	59	49	108

<i>FY 18</i>	<i>12.60</i>	<i>5.11</i>	<i>63</i>	<i>51</i>	<i>114</i>
<i>FY 19</i>	<i>13.58</i>	<i>5.31</i>	<i>68</i>	<i>53</i>	<i>121</i>
<i>FY 20</i>	<i>14.00</i>	<i>6.25</i>	<i>70</i>	<i>63</i>	<i>133</i>
<i>Total</i>			<i>282</i>	<i>236</i>	<i>518</i>

“

2.5. MIAL has submitted assumptions underlying the above payment schedule. These assumptions are as below,

“Assumptions:

- i. DF collection is assumed to start w.e.f. 1st November, 2015.*
- ii. Amount of DF per embarking passenger is assumed to be Rs. 50 for domestic and Rs. 100 for International pax.*
- iii. Exempted passengers who will not be paying DF (based on AIC issued by DGCA) would be around 20%.*
- iv. Passenger numbers from FY 16-FY 19 are projected based on 5 year CAGR.”*

2.6. In its letter (dated 25.08.2015) regarding generation of commercial income that would accrue to MIAL from the two metro stations, MIAL made the following submission,

“Metro stations are expected to be completed in FY 2019-20, hence no commercial income will generate from the same in the second control period.”

2.7. Based on the review of the above submission from MIAL, the Authority vide its e-mail dated 01.09.2015 requested MIAL to provide clarifications on the following queries,

“...

(i) Detailed working of the submitted DF collection schedule, including the following details:

- Basis of traffic projections specifying the historic numbers and growth rate*
- Basis of assuming the figure of 20% exempted passengers; historical actual and percentage numbers for exempted passengers for the last three years*

(ii) Schedule for payment to MMRDA for the entire Rs. 518 crore cost including the Rs. 400 crore of construction cost and Rs. 118 crore of E&M cost

(iii) Projected revenues from Metro stations for 10 years starting the date of commencement of operations”

2.8. Vide its letter to AERA dated 08.09.2015, MIAL responded to the above clarifications sought by the Authority. The schedule for payment to MMRDA and the DF to be levied, are as reproduced below,

“Schedule for payment to MMRDA for the entire Rs. 518 crore cost including the Rs. 400 crore of construction cost and Rs. 118 crore of E&M cost:

The payment schedule as per the current discussions with MMRDA/ MMRC for two metro stations is expected to be as per last column of table below:

Year	Embarking Passenger (Mn) (net of exempt pax)			Rate per embarking pax (in Rs.)		Amt of DF collected to be paid to MMRC (In Rs. Crs.)
	Domestic	International	Total	Domestic	International	
FY 16	4.54	2.00	6.53	50.47	100.93	43
FY 17	11.73	4.97	16.70	50.47	100.93	109
FY 18	12.63	5.16	17.80	50.47	100.93	116
FY 19	13.61	5.36	18.97	50.47	100.93	123
FY 20	14.03	5.56	19.59	50.47	100.93	127
						518

“

2.9. In the response letter, MIAL provided detailed explanation regarding traffic projections used for estimating DF levy. MIAL also provided the basis for traffic projections, as given below,

“Basis of traffic projections specifying the historic numbers and growth rate:

Traffic projections for the period FY 16 to FY 19 are arrived at by applying 5 year CAGR of 7.73% on actual domestic passengers for FY 2014-15 for domestic passengers.

Based on updated 5 years CAGR, projected International passenger traffic growth is 6.78%. However, due to 4 international airlines discontinuing their operations from CSIA recently, and also due to growing International traffic at other cities through grant of traffic rights from new point of calls, directly competing with CSIA, there is a drop in International traffic growth at CSIA. In FY 16 (upto July 15) there is substantial growth in International passenger traffic at other airports, while at CSIA it was meager 3.8%. In view of the same projected growth is assumed to be 3.8% and not 6.78% for International passengers.”

- 2.10.** The passenger traffic and ATM projections provided by MIAL in the annexure to the above letter are as below,

“ATMs

ATM numbers are projected to grow in line with past 5 years CAGR of domestic ATMs growing by 3.48% and International ATMs growing by 2.6% and accordingly revised projections are as under:-

Table: Passenger and ATM forecast

	<i>FY 15 (Actual)</i>	<i>FY 16</i>	<i>FY 17</i>	<i>FY 18</i>	<i>FY 19</i>
<i>Passengers (in Millions)</i>					
- Domestic	25.21	27.15	29.25	31.51	33.95
- International	11.43	11.86	12.31	12.78	13.27
Total	36.63	39.02	41.57	44.30	47.22
<i>ATMs</i>					
- Domestic	195,370	202,169	209,204	216,485	224,018
- International	74,086	76,012	77,989	80,016	82,097
Total	269,456	278,181	287,193	296,501	306,115

“

- 2.11.** MIAL further explained that certain categories of passengers are exempted from being charged the DF. It has referred to the AIC no. 6/2012 issued by Director General of Civil

Aviation's Aeronautical Information Services (Government of India) dated 31.08.2012 and cited the letter, reproduced as below,

*"EXEMPTION OF CATEGORIES OF PERSONS FROM LEVY AND
COLLECTION FROM DF/UDF/PSF AT INDIAN AIRPORTS.*

In terms of Section 40 of Airports Authority of India Act, 1994, Airports Authority of India (AAI) and its lessees are hereby directed to exempt the following categories of persons from levy and collection of UDF/DF/PSF at all Airport and civil enclaves in the country:

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

(ii) Holders of Diplomatic Passport,

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

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

(v) Persons travelling on official duty for United Nations Peace Keeping Missions.

(vi) Transit / transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hrs. "A passenger is treated in transit only if onward travel journey is within 24 hrs from arrival into airport and is part of the same ticket, in case 2 separate tickets are issued, it would not be treated as a transit passenger").

(vii) Passengers departing from IGI Airport, New Delhi, due to involuntary re-routing, i.e., technical problems or weather conditions."

2.12. Subsequently, in its letter dated 08.09.2015, MIAL has further explained that,

"4. Projected revenues from Metro stations for 10 years starting the date of commencement of operations:

MIAL is to get 500 sqm of area, at each of the three metro stations for metro passengers related retail, F&B and other such essential needs. It should be noted that the said 500 sqm of retail area is not meant for general retail, but essentially meant for metro passengers, as this area shall be approx 24 m under the ground and its clientele shall limited to metro passengers.

Retail area is provisioned at Metro station as a facility/ service essentially for metro passengers and not for revenue generation.

Revenue from this 500 sqm retail area is therefore not a consideration provided for metro station funding. In any case the expected revenue is minuscule, as its NPV is only Rs 1.47 Crores/station. Estimates of commercial earnings from Metro stations is enclosed as Annexure

Assuming commencement of operations from 1st April, 2021, an estimate of the revenues to generate from the commercial rights over maximum 500 square meter commercial area at each of the metro stations has been made. Such revenue estimates and their Present Value on 1st April 2015 for ten years from FY 2021-22 to FY 2030-31, shall be about Rs.2.94 crore for two metro stations.

In this connection, we request the Authority, not to consider such future revenue for determination of DF towards metro stations at this stage and consider the same as revenue towards tariff fixation for the future control periods when such commercial rights shall start generating revenue on commencement of metro operations.”

2.13. MIAL further submitted in its letter dated 25.08.2015 that,

“IV Further, MIAL wants to highlight that in case of any mismatch between actual amount collected through DF and amount of contribution to be paid to MMRC, the resultant interest cost to be paid for securitization of DF should also be allowed for recovery through DF.”

3. Authority's Examination on levy and collection of Development Fee (DF)

3.1. The Authority has noted MIAL's submission pertaining to levy of additional DF of Rs. 518 crores in order to fund the metro connectivity project and has examined the same carefully. The Authority's examination is presented below.

3.2. The Authority notes that as per the MoCA letter No. 24011/25/2014-AD dated 21.04.2015, MoCA has agreed to allow MIAL to levy and collect additional DF to the tune of Rs. 518 crores to fund 2 metro stations in the CSIA area, and the Authority is required to determine the DF per person to be levied on CSIA passengers in this respect.

3.3. The Authority has taken cognizance of the amended section 22 A of the Airports Authority of India Act, 1994 as reproduced below:

"Section 22A, for the portion beginning with the words "The Authority may" and ending with the words "for the purposes of –", substitute the following :-

"The Authority may,-

- (i) After the previous approval of the Central Government in this behalf, levy on, and collect from, the embarking passengers at an airport other than major airports referred to in clause (h) of Section 2 of the Airports Economic Regulatory Authority of India Act, 2008 (AERA Act) the development fees at the rate as may prescribed;*
- (ii) Levy on, and collect from, the embarking passengers at major airports referred to in clause (h) of Section 2 of the Airports Economic Regulatory Authority of India Act, 2008 the development fees at the rate as may be determined under clause (b) of sub-section (1) of section 13 of the Airports Economic Regulatory Authority of India Act, 2008,*

And such fees shall be credited to the Authority and shall be regulated and utilized in the prescribed manner, for the purposes of –"

3.4. Accordingly the Authority has followed the mentioned provisions in this amendment and is proceeding with the assessment of additional DF to be levied at CSIA, Mumbai through this consultation paper.

- 3.5.** The Authority notes from MIAL's letter dated 25.08.2015 that the domestic and international passenger traffic projections used for computation of DF did not follow a consistent growth rate every year. For the domestic traffic projection, while the projection for FY 2015-16 to FY 2018-19 was found to be based on the five year historical CAGR of 7.73% per annum growth rate, the projection for FY 2019-20 was based on 3.09% growth rate. The Authority further noted that the growth rate for international traffic projection was considered to be below the five year historical CAGR. The Authority requested MIAL to submit a clarification in this regard.
- 3.6.** Subsequent to Authority's request for clarifications, MIAL submitted its responses via letter dated 08.09.2015. The Authority noted MIAL's submission regarding the growth rate of international traffic at the CSIA. MIAL submitted that four international airlines discontinued their operations at the CSIA recently and because of growing International traffic at other airports directly competing with CSIA, there is a drop in International traffic growth at CSIA (refer para 2.9 above). MIAL further stated that although there was substantial growth in International passenger traffic at other airports, at CSIA the growth was only 3.8%. In view of the same, MIAL assumed a growth rate of 3.8% for projecting traffic and not at the 5 year historical CAGR of 6.78% for International passengers.
- 3.7.** The Authority reviewed MIAL's submission and deliberated that despite four international airlines recently discontinuing their operations from CSIA, the airside capacity constraints at CSIA will likely make other international airlines take up the slots vacated by these four airlines, and therefore there shouldn't be any adverse impact on the international passenger traffic at CSIA. Moreover, a reduction in the number of airlines would result in redistribution of passengers to other airlines and would not necessarily cause a drop in overall passenger traffic at the airport. Thus, the Authority proposes to project passenger traffic based on a five year CAGR on international traffic, a growth rate equal to 6.78% as computed in Table 1 below.
- 3.8.** The Authority further proposes to project domestic passenger traffic based on the CAGR of actual passenger traffic over the last five years i.e. 7.73%. The computations based on the proposed growth rates have been presented in Table 1 below. The Authority has relied on

passenger traffic data as per AAI's website¹ for the computation of CAGR over the previous five year period.

Table 1: Total Passenger Traffic during FY 2009-10 to FY 2014-15 as per AAI website

Passengers (in millions)	2009- 10	2010- 11	2011- 12	2012- 13	2013- 14	2014- 15	5 yr CAGR
Domestic Passengers	17.37	20.00	21.04	20.28	21.88	25.21	7.73%
International Passengers	8.23	9.08	9.70	9.93	10.34	11.43	6.78%
Total Passengers	25.61	29.07	30.75	30.21	32.22	36.63	

3.9. The Authority has further noted from MIAL's submission that certain passengers will be exempt from levy of DF as per para 2.11 above. Consequently, the Authority sought auditor's certificate from MIAL for the number of domestic and international passengers embarking at CSIA and billed for DF till FY 2014-15. The Authority also requested AAI to provide passenger data for the number of billed passengers at the CSIA during FY 2013-14 and FY 2014-15. However, AAI submitted to the Authority that it does not collect the data in this form, i.e. data on billable passengers. Noting AAI's response, the Authority proposes to use the passenger data as given in MIAL's submission, for the purpose of estimation of DF.

3.10. In its e-mail dated 03.10.2015, MIAL has submitted the historical data on billed passengers vis-à-vis total embarking passengers at the CSIA. An extract of the information submitted by MIAL is reproduced below,

“

	<i>FY 13*</i>	<i>FY 14</i>	<i>FY 15</i>
<i>Total Embarking passengers (in Mn)</i>	<i>13.85</i>	<i>16.13</i>	<i>18.40</i>
<i>Total billed passengers (in Mn)</i>	<i>10.23</i>	<i>13.15</i>	<i>14.65</i>
<i>% of passengers exempt</i>	<i>74%</i>	<i>82%</i>	<i>80%</i>
<i>DF billed (in Rs. Crs.)</i>	<i>268.60</i>	<i>348.96</i>	<i>380.08</i>
<i>Interest on delayed payment (in Rs. Crs.)</i>	<i>1.64</i>	<i>3.62</i>	<i>2.23</i>
<i>Total billing (in Rs. Crs.)</i>	<i>270.24</i>	<i>352.58</i>	<i>382.31</i>

¹ The Authority noted that passenger data from AAI website matches the data in the Auditor's Certificates submitted by MIAL as a part of their MYTP submissions. Therefore, the Authority proposes to use the AAI website data

** DF collection started from 1st May 2012 as per AERA Order No. 02/2012-13 dated 16th April, 2012. ”*

- 3.11.** The Authority has noted from this submission that historically, the ratio of number of billed passengers to number of actual embarking passengers has been around 80%. Based on the above observation, the Authority proposes that for the purpose of estimation of embarking passengers for both domestic and international passengers which are likely to pay DF, 20% of embarking passengers be considered exempted from being charged DF. The Authority also proposed to consider 50% of the total passengers as embarking passengers. The Authority may reconsider these assumptions based on the responses received on this Consultation Paper.
- 3.12.** The Authority has further noted that MIAL has proposed to levy the additional DF from 01.11.2015 to 31.03.2020. However, in view of the practicality of time schedule with respect to the consultation process and the requirement to reassess various issues based on stakeholder comments, the Authority proposes to consider 01.01.2016 as the start date of levy. Moreover, the Authority further proposes to make DF co- terminus with the payment schedule to MMRDA as part of the MOU dated 16.09.2015 signed between MMRC and MIAL and shared with the Authority by MIAL. Combining the approach proposed in para 3.11 above with its approach for projecting the total domestic and international passengers in Table 1 above, the Authority has computed the estimated billable domestic and billable international passengers. The resulting traffic projections for FY 2015-16 to FY 2023-24 thus considered by the Authority are as below,

Table 2: Estimated Billable Embarking Passengers for FY 2015-16 to FY 2023-24

Particulars (in millions)	FY 2015- 16	3m ending March 2016	FY 2016- 17	FY 2017- 18	FY 2018- 19	FY 2019- 20	FY 2020- 21	FY 2021- 22	FY 2022- 23	FY 2023- 24
Projected total domestic passengers	27.15	6.79	29.25	31.51	33.95	36.57	39.40	42.44	45.72	49.25
Projected total international passengers	12.20	3.05	13.03	13.91	14.86	15.86	16.94	18.09	19.31	20.62
Projected Billable domestic passengers	10.86	2.72	11.70	12.60	13.58	14.63	15.76	16.98	18.29	19.70
Projected Billable international passengers	4.88	1.22	5.21	5.57	5.94	6.35	6.78	7.23	7.73	8.25

3.13. The Authority has further examined MIAL's submission regarding the schedule of payments to be made to MMRC. The Authority has noted that in response to the clarification sought by it from MIAL on the schedule of payments to be made to MMRC, MIAL has responded with the DF collection schedule as specified in para 2.8 above as the payment schedule. Subsequently, the Authority asked for the actual schedule as per agreement, if any, between MIAL and MMRC. Correspondingly, MIAL via its email dated 06.10.2015, submitted the payment schedule as part of the Memorandum of Understanding (MOU) signed between MMRC and MIAL on 16.09.2015. An excerpt of the MOU is reproduced below,

“Both the parties agree that this contribution shall be made by MIAL, subject to AERA's approval to AAI / MIAL for funding of cost of two metro stations through levy and collection of Development Fee. Agreed Schedule of payments is as under:

Period (by 31st March each year)	Cost of T1 & T2 Forecourt Stations (Subject to and as per AERA's Approval for Development Fees) (in crores)	Sahar Road Station (in crores)
Year 1 :2105-16	Rs. 30.00	Rs. 25.00
Year 2 :2016-17	Rs. 70.00	Rs. 35.00
Year 3 :2017-18	Rs. 75.00	Rs. 35.00
Year 4 :2018-19	Rs. 75.00	Rs. 35.00
Year 5 :2019-20	Rs. 75.00	Rs. 35.00
Year 6 :2020-21	Rs. 75.00	Rs. 35.00
Total Amount	Rs. 400.00	Rs. 200.00
E&M (Electro Mechanical) Systems Cost		
Year: 2021-22		Rs. 59.00
Year: 2022-23		Rs. 59.00
Year: 2023-24		Rs. 59.00
Total Amount		Rs. 177.00

“

3.14. In the meeting held between MIAL and the Authority on 09.10.2015, MIAL's payment schedule to MMRDA was discussed in conjunction with the MOU submitted by MIAL. Regarding payments for electromechanical works, MIAL clarified that each of the Rs. 59 crores payment required to be made towards these works in FY 2021-22, FY 2022-23 and FY 2023-24 as per the MOU pertains to all three stations together. The Authority noted that contribution for one of the stations is to be funded through real estate infrastructure deposit (refer para 1.10 above) and accordingly, the Authority proposes to consider two-third of each of the Rs. 59 crore payments, i.e. Rs. 39.33 crores for the computation of DF in each of those three years. The Authority also notes that the MOU clearly identifies the payment schedule of Rs. 400 crores for the two metro stations (T1 & T2 Forecourt Stations) which are supposed to be funded through DF.

3.15. Subsequent to the meeting with the Authority, MIAL via its email dated 13.10.2015, submitted the Amendment to Memorandum of Understanding dated 16.09.2015 between MMRC and MIAL. This amendment was executed on 12.10.2015. Via this amendment, MIAL submitted the revised Schedule of Payments agreed between MIAL and MMRC. The excerpt from the Amendment is reproduced below:

“

1. This Amendment shall come into effect on and from the date of MOU.

2. Clause 2.1.1 of the MOU is substituted with the following clause 2.1.1:

"2.1.1 Both the parties agree that this contribution shall be made by MIAL, subject to AERA's approval to AAI/ MIAL for funding of cost of two metro stations through levy and collection of Development Fee. Agreed Schedule of payments is as under:

Period (by 31st March each year)	Cost of T1 & T2 Forecourt Stations (Subject to and as per AERA's Approval for Development Fees) (Rs.in crores)	Sahar Road Station (Rs.in crores)	Total Amount (Rs.in crores)
Year 1 :2015-16	42	5	47
Year 2 :2016-17	108	20	128
Year 3 :2017-18	114	20	134
Year 4 :2018-19	121	20	141
Year 5 :2019-20	133	20	153
Year 6 :2020-21	--	115	115
Total Amount	518	200	718
E&M (Electro-Mechanical) Systems Cost			
Year : 2021-22	--	--	--
Year: 2022-23	--	--	--
Year: 2023-24	--	59	59
Total Amount	518	259	777

“

Subsequent to MIAL's submission, MMRC also submitted a similar payment schedule to the Authority vide its letter dated 29.10.2015, requesting the Authority to consider this schedule for the purpose of determination of DF levy for the metro connectivity project.

3.16. The Authority has reviewed the MMRC submission and the amendment to the MOU made between MIAL and MMRC. It has noted that there is an inconsistency in the tenure of payments to MMRC regarding the two metro stations to be funded through DF and the third metro station to be funded through proceeds of real estate development. While

payments for the two metro stations funded through DF would be completed by FY 2019-20, payments for the third metro station would continue till FY 2023-24. The Authority is of the view that given the nature of the project, the progress on the three metro stations is likely to happen simultaneously. The Authority notes that the metro station works have not been awarded and it is unclear when the physical work is likely to commence. Accordingly, advancing the payments schedule for the 2 metro stations to be funded by DF is against the interest of the airport users. Therefore, it is proposed that the payment schedule as agreed upon as per the MOU dated 16.09.2015 be used for the computation of DF.

- 3.17.** Accordingly, the Authority has considered the payment schedule to MMRC for the purpose of computation of DF as given below,

Table 3: Payment Schedule to MMRC considered by the Authority

Particulars (in Rs. Crores)	FY 2015- 16	FY 2016- 17	FY 2017- 18	FY 2018- 19	FY 2019- 20	FY 2020- 21	FY 2021- 22	FY 2022- 23	FY 2023- 24
Payments to MMRC	30	70	75	75	75	75	39.33	39.33	39.33

- 3.18.** The Authority has further noted from MIAL's submission dated 26.11.2014 to MoCA, the options considered for proportionate split of DF between domestic and international embarking passengers. Keeping in mind the ratio of 1:6 for existing DF levy at CSIA, the Authority proposes to consider an approximate split of 1:6 between domestic and international embarking passengers for the additional DF, subject to rounding-off of the calculated DF levy amounts.

- 3.19.** The Authority also re-examined MIAL's submission on future commercial revenues in its letter dated 08.09.2015. The Authority proposes not to consider commercial revenues from the retail area of the two metro stations for the purpose of determination of DF for the metro project. However, the same shall be considered towards revenue income for tariff fixation for future control periods.

- 3.20.** Considering the above proposals, the Authority has computed the DF levy for domestic and international embarking passengers at CSI Airport, Mumbai. The estimated DF levy is

determined to be Rs. 68.75 for international passengers and Rs. 11.50 for domestic passengers.

3.21. The Authority undertook a comparison of the cash inflows on account of DF collection with cash outflows on account of payment obligation to MMRC. The Authority expects that there might be a deficit in some of the years during the collection period (from FY 2015-16 to FY 2023-24) as presented in Table 4 below. A comparison of payment schedule to MMRC considered and likely inflows from DF receipts is calculated below:

Table 4: Estimated DF inflow vis-à-vis payments required to be made to MMRC

Particulars (in Rs. crores)	FY 2015- 16	FY 2016- 17	FY 2017- 18	FY 2018- 19	FY 2019- 20	FY 2020- 21	FY 2021 -22	FY 2022- 23	FY 2023- 24
Payments to MMRC	30.00	70.00	75.00	75.00	75.00	75.00	39.33	39.33	39.33
DF Inflows	11.51	49.29	52.76	56.47	60.45	64.71	69.26	74.14	79.37
(Deficit) / Surplus	(18.49)	(20.71)	(22.24)	(18.53)	(14.55)	(10.29)	29.93	34.81	40.03

3.22. As can be seen, the DF receipts in the initial few years is less than the expected payment outflow to MMRDA whereas for rest of the years, the DF receipt is expected to be more than the required amount of DF.

3.23. Consequently, the Authority assumes that MIAL will obtain a loan by securitizing the DF collection due in future and use these funds to meet the periodic payments to MMRC during the deficit years. Accordingly, the Authority proposes to compute the DF rate such that present value of the total DF collected from international and domestic passengers between 01.01.2016 and 31.03.2024 (total inflows) is equal to the present value of payments to the MMRDA (total outflows).

3.24. The Authority further proposes that the interest rate on securitization of the DF be taken as 11.25%, which is the cost of loans as computed in Order no. 29/2012-13. Given, the interest rate scenario in the country right now, the Authority expects MIAL to exercise its best endeavours to undertake securitization of DF receipts at a rate lesser than 11.25% and will review the same as part of its DF review.

3.25. Accordingly, the proposed DF has been computed by equating the present value of MIAL's DF collection inflows with present values of scheduled payments with MMRC as given below,

Table 5: DF Computation by the net present value method

Particulars (in Rs. crores)	FY 2015- 16	FY 2016- 17	FY 2017- 18	FY 2018- 19	FY 2019- 20	FY 2020- 21	FY 2021- 22	FY 2022- 23	FY 2023- 24
Outflows of MIAL									
Payments to MMRC	30	70	75	75	75	75	39.33	39.33	39.33
Present Value of Outflows	29.60	64.62	62.24	55.94	50.28	45.20	21.31	19.15	17.22
Inflows of MIAL									
DF Inflows	12.73	54.50	58.33	62.44	66.83	71.54	76.57	81.97	87.74
Present Value of Inflows	12.56	50.31	48.41	46.57	44.81	43.11	41.48	39.91	38.40
NPV of inflows/ outflows	365.56								

Table 6: Computed DF for domestic and international passengers

Particulars	Amount
Discount Rate for Computation of NPV	11.25% p.a.
DF Levy for domestic passengers	Rs. 12.50 per domestic passenger
DF Levy for international passengers	Rs. 76.50 per international passenger
Combined DF levied on domestic passenger	Rs. 112.50 per domestic passenger
Combined DF levied on international passenger	Rs. 676.50 per international passenger

3.26. The Authority notes that the calculated DF figures need to be rounded-off for the ease of implementation of levy. Accordingly, the Authority proposes to round-off the DF levy amounts to Rs. 15 for each embarking domestic passenger and Rs. 75 for each embarking international passenger. The above DF levy shall be exclusive of any applicable service taxes.

3.27. The Authority notes that there might be a variance in the actual collection period of this additional DF because of the abovementioned approximation and variations in the actual traffic vis-à-vis the projected traffic. Accordingly, the Authority proposes to review these DF

levy amounts along with a review of overall DF collection on a periodic basis and undertake appropriate changes in the future.

- 3.28.** The Authority further proposes not to consider any escalation in the project cost over the duration of project construction beyond Rs. 518 crores.
- 3.29.** Given the nature of the project, the Authority proposes that Airports Authority of India release payments to MIAL based on the actual award and progress of the project and upon receipt of demand notice from MMRC. Also, as the DF collected may remain in the escrow account for a significant period of time, the Authority proposes to account and consider any earning through interest on the DF deposits with the Airports Authority of India (AAI). The Authority thus requires AAI to undertake necessary amendment to the escrow account SOP if required.
- 3.30.** The Authority has also noted that as per DF Order No. 29/2012-13 dated 21.12.2012, it had allowed MIAL to levy Rs. 100 and Rs. 600 from domestic and international passengers respectively towards DF collection, for a total DF of Rs. 3,400 crores (refer Table 1 of the Order No. 29/2012-13), estimated to be recovered between 01.01.2013 and April 2021. However, the Authority does not want to create two separate charges for the DF amount to be levied.
- 3.31.** Accordingly, the Authority proposes to charge a single consolidated DF amount from the passengers, as demonstrated in Table 6 above. However, the Authority requires MIAL as well as AAI to maintain separate accounts for collection and use of existing approved DF collection of Rs. 3,400 crores and the proposed metro DF of Rs. 518 crores.
- 3.32.** The Authority is also undertaking a separate process for reviewing the collection and securitization against existing DF levy at CSI Airport by MIAL and had requested MIAL to submit details pertaining to the same. MIAL has submitted the details of drawls against the securitization of existing DF vide their e-mail dated 07.10.2015. An extract of the e-mail has been reproduced below :

“Amount in Rs. Crores DF Securitization – based on DF Interim Order – 16th April 2012

<i>Disbursement date</i>	<i>Disbursement amount</i>
31-Aug-12	300.00
28-Sep-12	300.00
29-Nov-12	75.00
05-Dec-12	75.00
<i>Total DF Loan 1</i>	<i>750.00</i>
<i>Repayment till February 2013</i>	<i>111.41</i>
<i>DF Loan 1 Outstanding as on Feb 2013</i>	<i>638.59</i>

DF Securitization – Based on Final DF Order – 21st Dec 2012

<i>Disbursement date</i>	<i>Disbursement amount</i>
15-Mar-13	750.00
28-Mar-13	530.00
30-Mar-13	470.00
13-May-13	223.90
21-Jun-13	350.00
10-Jun-13	223.90
24-Jun-13	100.00
<i>Total DF Loan 2</i>	<i>2,647.80</i>

3.33. Based on the above submission, the Authority examined and reconciled the DF collection figures with auditors’ reports available with the Authority. The authority also examined and reconciled existing DF collection till 30-September-2015, its total securitization amount of Rs 2647.8 Cr, and its draw down schedule for appropriate accounting as indicated in Table 7 and Table 8 below. The Authority noted from the submission of MIAL that there are 11 draw down schedules amounting to a total of Rs. 2647.8 Cr. The Authority has also noted that the drawls were done in two parts. The first was a securitization of Rs. 750 crores drawn against an Interim DF order dated 16.04.2012. The repayment of this was done using proceeds of the second securitization of Rs. 2647.80 crores, drawn against the Final DF order dated 21.12.2012. The Authority proposes that the DF collections, securitization, etc. be reviewed as part of the consultation process for the determination of tariff at CSIA for the 2nd Control Period.

Table 7: DF of Rs 3400 cr considered by Authority and collection accounted till 30-September-2015:

Sl. No.	Particulars	Amount (in crores)
a	Total DF allowed to be collected vide order no 02/2012-13 dated 16.04.2012	3400.00
b	DF collected by MIAL against DF order of MOCA and as per DF Audit report	640.77
C	Difference between collection shown by AAI and MIAL (to be reconciled)	3.00
d	Additional Collection till July 2012	108.43
	Balance (a-b-c-d) securitized by MIAL	2647.80
	Collection pursuant to Securitization	
e	Addition DF accrued from May, 12 to 30.09.2015 as per audit report/ MIS submitted by MIAL	1197.68

Table 8: Securitization details of DF based on Authority orders and based on DF Interim Order – 16.04.2012

Sl.no	Bank Disbursement Date	Bank Disbursement Amount
1	31.08.2012	300.00
2	28.09.2012	300.00
3	29.11.2012	75.00
4	05.12.2012	75.00
5(1 to 4)	Sub Total DF Loan-A	750.00
6	28.03.2013	530.00
7	30.03.2013	470.00
8	13.05.2013	223.90
9	21.06.2013	350.00
10	10.06.2013	223.90
11	24.06.2013	100.00
12(6 to 11)	Sub Total DF Loan -B	1898.80
5+12	Total DFA Loan –(A+B)	2,647.80

3.34. Based on the Authority's examination of submissions made by MIAL, the Authority proposes the following:

Proposal 1: Regarding the levy of DF for the metro connectivity project

1.a. To project both domestic and international passenger traffic based on the previous five year CAGRs of 7.73% and 6.78% respectively, as calculated in Table 1.

1.b. For the estimation of future billable passengers, to accept MIAL's submission that for both domestic and international passengers, 50% of the total passengers be assumed as embarking passengers and 20% of embarking passengers be considered exempted from being charged DF, as reasoned in para 3.11.

1.c. To levy an additional DF of Rs. 15 for each embarking domestic passenger and Rs. 75 for each embarking international passenger towards Metro connectivity project, as calculated in Table 6 and further reasoned in para 3.26. The above DF levy is exclusive of any applicable service taxes.

1.d. To review the DF levy amounts and overall DF collection on a periodic basis and undertake appropriate changes, as may be necessary.

1.e. To merge the metro DF levy with the existing DF levy of Rs. 100 per embarking/departing domestic passenger and Rs. 600 per embarking/departing international passenger, and levy a single figure of DF as Rs. 115 per embarking/departing domestic passenger and Rs. 675 per embarking/departing international passengers.

1.f. To consider 01.01.2016 as the start date of DF levy and 31.03.2024 as the current estimated end date of additional DF levy.

1.g. Regarding commercial revenues from the retail area of the two metro stations, to not consider them for the purpose of determination of DF for the metro project but rather consider them as revenue income for tariff fixation for future control periods.

1.h. To not consider any escalation in the project cost over the duration of project construction beyond Rs. 518 crores.

1.i. To request Airports Authority of India to release payments to MIAL upon receipt of demand notice from MMRC and after ascertaining award and progress of the project

1.j. To maintain separate accounts for existing approved DF collection of Rs. 3,400 crores and the proposed metro DF collection of Rs. 518 crores and review periodically for appropriated determination of cut-off date to discontinue the DF.

4. Stakeholder Consultation Timeline

In accordance with the provisions of Section 13(4) of the AERA Act 2008, the proposal contained in the Summary of Proposals (Para 3.34 above) read with the Authority's analysis, is hereby put forth for Stakeholder Consultation. To assist the stakeholders in making their submissions in a meaningful and constructive manner, necessary documents are enclosed **(Annexure - I to III)**. For removal of doubts, it is clarified that the contents of this Consultation Paper may not be construed as any Order or Direction of this Authority. The Authority shall pass an Order, in the matter, only after considering the submissions of the stakeholders in response hereto and by making such decision fully documented and explained in terms of the provisions of the Act.

The Authority welcomes written evidence-based feedback, comments and suggestions from stakeholders on the proposal made in Para 3.34 above, **latest by 26.11.2015** at the following address:

**OSD-II to Secretary
Airports Economic Regulatory Authority of India
AERA Building,
Administrative Complex,
Safdarjung Airport,
New Delhi- 110003
Email : radhika.r@aera.gov.in
Tel: 011-24695043 Fax: 011-24695039**

**S. Machendranathan
Chairperson**

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6. List of Annexure

Annexure - I	MIAL Submissions
	25.08.2015 - DF Proposal to the Authority
	08.09.2015 - Clarifications furnished in response to Authority's queries
	03.10.2015 - Historical data on billed passengers vis-à-vis total embarking passengers at the CSIA
	06.10.2015 - MoU with MMRC and letter to MMRC regarding schedule of payment
	07.10.2015 - Details on DF Loan disbursement
Annexure - II	MoCA letter dated 21.04.2015 - Approval to allow MIAL to levy and collect DF in respect of cost of two metro station
Annexure - III	MMRC's letters to Authority
	25.06.2014 - Request to accept MIALs proposal for levy of DF
	29.10.2015 - Payment schedule for agreed contribution towards Metro Stations