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Consultation Paper No. 10/2015-16

सत्यमेव जयते

Airports Economic Regulatory Authority of India

Determination of Aeronautical Tariffs in respect of Chhatrapati Shivaji International Airport, Mumbai, for the Second Control Period (1.04.2014-31.03.2019)

New Delhi 16th March, 2016

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi- 110003

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1. Introduction

Brief Facts

1.1. Consortium led by the GVK Group was awarded the bid for operating, maintaining, developing, designing, constructing, upgrading, modernising, financing and managing the Chhatrapati Shivaji International (CSI) Airport at Mumbai. Post selection of the private consortium, a special purpose vehicle, namely Mumbai International Airport Private Limited (MIAL), was incorporated on 02.03.2006 with AAI retaining 26% equity stake and balance 74% equity stake being acquired by members of consortia. The GVK consortia comprised GVK Airport Holding Pvt Ltd, ACSA Global Limited and Bid Services Division (Mauritius) Ltd. On 04.04.2006, MIAL signed the Operation, Management and Development Agreement (OMDA) with AAI, whereby the AAI granted to MIAL the exclusive right and authority during the term to undertake some of the functions of AAI being the functions of operations, maintenance, development, design, construction, upgradation, modernising, finance and management of the CSI Airport and to perform services and activities constituting aeronautical services and non-aeronautical services (but excluding Reserved activities, as defined in OMDA) at the airport. MIAL took over the operations of CSI Airport on 03.05.2006. The OMDA has a term of 30 years wherein MIAL has been granted the right to extend the agreement for a further period of 30 years subject to its satisfactory performance under the various provisions governing the arrangement between MIAL and AAI.

1.2. In addition to the OMDA, MIAL also entered into the following agreements with other relevant parties:

1.2.1. ¢ Ķ Ŝ { ű ŀ ű Ŝ { dzLJLJ ƻ NJ ű ! ∃NJŜ Ŝ Ƴ Ŝ ý ű ó Ķ ŜNJŜ ƛ ý ŀ Ŧ ű Ŝ between the President of India acting through the Ministry of Civil Aviation (Hereinafter referred to as MoCA) and MIAL

1.2.2. Shareholder Agreement

1.2.3. CNS-ATM Agreement

1.2.4. Airport Operator Agreement

1.2.5. State Government Support Agreement

1.2.6. The Lease Deed

1.2.7. Substitution Agreement

1.2.8. Escrow Agreement

1.3. t NJ ƻ Ǿ ƛ ă ƛ ƻ ʏ ă NJ Ŝ Ǝ ŀ NJ Ř ƛ ʏ Ǝ ά ȼ ŀ NJ ƛ Ŧ Ŧ ŀ y 6Ř OMDA Ŝ and z f ŀ ű ƛ ƻ principles of tariff determination are further detailed out in the Schedule 1 read with clause 3.1 of the SSA.

1.4. As regards the 1st Control Period (namely from 01.04.2009 to 31.03.2014), MIAL submitted a proposal for revision of tariffs for aeronautical services at CSI Airport, a dz Ƴ ō ŀ ƛ Ʃ Ŧ ƻ NJ ű K Ŝ ! dz ű K ƻ NJ ƛ ű è Ω ă Ŏ ƻ ʏ ă ƛ Ř Ŝ NJ ŀ ű ƛ ƻ ʏ submission, a series of discussions/ meetings/presentations were held on the proposal including discussions in respect of the financial model developed by MIAL for this purpose.

1.5. The Authority considered and analysed the views of various stakeholders on the proposals of the Authority on various building blocks in respect of determination of aeronautical tariff for CSI Airport, Mumbai and determined the aeronautical tariff vide its Order No. 32 /2012-13 dated 15.01.2013 in the matter of Determination of Aeronautical Tariff in respect of CSI Airport, Mumbai for the 1st Regulatory Period (01.04.2009, 31.03.2014) (subsequently referred to as MIAL Tariff Order No. 32 /2012-13 in this document).

1.6. The Authority also issued following Orders in respect of Development Fee (DF) to be levied at CSI Airport, Mumbai:

1.6.1. Order no. 29 / 2012-13 dated 21.12.2012 in the matter of levy of Development Fee by Mumbai International Airport (P) Ltd. (MIAL) at CSI Airport, Mumbai.

1.6.2. Order No. 46/2015-16 dated 28.01.2016 in the matter of levy of DF in respect of the Metro Connectivity Project for CSIA, Mumbai.

1.7. MIAL has now submitted a proposal for revision of tariffs for aeronautical services at CSI ! ƛ NJLJ ƨ NJ ű Σ a dz Ƴ ō ŀ ƛ Σ Ŧ ƨ NJ ű Ʀ Ŝ ! dz ű Ʀ ƨ NJ ƛ ű second Control Ŏ ƨ ƴ ă ƛ Period starting 01.04.2014 (01.04.2014 to 31.03.2019)

1.8. Briefly stated, MIAL filed their multi-year tariff proposal (MYTP) seeking a one-time increase of 68.11% in the X-Factor for determination of aeronautical tariffs in the 1st year followed by an annual revision equal to CPI inflation of 7.9% in the subsequent years. MIAL subsequently revised its MYTP vide its submission dated 05.08.2014 based on availability of audited numbers for FY2013-14. In the revised submission dated 05.08.2014, MIAL sought a one-time increase of 78.03% in the X-Factor for determination of aeronautical tariffs (for the 5 year tariff period FY2014-15 to 2018-19, and considered tariff revision from 01.11.2014), with an annual CPI correction revision equal to CPI inflation of 7.9% in the subsequent years. MIAL has revised its MYTP again vide its submission dated 08.09.2015 based on availability of audited numbers for FY2014-15, finalization of certain commercial contracts in respect of new T2, and revision in cost of capex planned during the second control period as detailed in MIAL letter no. MIAL/CEO/48 dated 31.07.2015. In this revised submission, MIAL sought a one-time increase of 104.82% in the X-Factor for determination of aeronautical tariffs (for the 5 year tariff period FY2014-15 to 2018-19, and considered tariff revision from 01.01.2016), with an annual CPI correction revision equal to CPI inflation 5.1% in the subsequent years.

1.9. MIAL has made further interim submissions in response to clarifications sought by the Authority on the various building blocks subsequent to its revised MYTP submission dated 08.09.2015. These submissions have been separately annexed to the consultation paper.

1.10. The Authority appointed a Consultant in order to assist the Authority in the review of the financial model prepared and submitted by MIAL as a part of its tariff application. The scope of the assignment included assistance in review and assessment of the models' arithmetic accuracy, check for logical and calculation integrity of the models and assistance in undertaking sensitivity analyses. The Consultant is required to assist the Authority in cell-by-cell inspection and sheet-by-sheet review of the arithmetic accuracy of formulae and calculations contained in the model including tracing items through the various interlinked sheets and calculations back to the input data; verifying the correct application of addition, subtraction, multiplication and division based on standard business and financial logic; verifying that the links within the model are working accurately; assessing that any macros that govern calculations in the model are running as intended; assessing that the model is logically constructed, internally consistent with respect to calculations and formulae and is fit for the purpose of undertaking analyses of relevant aspects for tariff determination by the Authority; assessing that assumptions in the Financial Model are at one place and that there are no hard coded numbers in calculations in the Financial Model that might influence calculation results in unexpected ways and checking whether the assumptions listed in the assumption sheet are getting correctly reflected in the various others sheets of the financial model.

1.11. Further, the Consultant is also required to assist the Authority in ensuring that the Cƛ ƴ ŀ ƴ Ŏ ƛ ŀ ƚ a ƨ Ř Ŝ ƚ ŀ Ŏ Ŏ dz NJ ŀ ű Ŝ ƚ è NJ Ŝ Ŧ ƚ Ŝ Ŏ ű ă ű Ķ Ŝ ! dz under the concession offered by the Central Government with respect to the key agreement(s), and financial documents as also the provisions in the AERA Act 2008.

1.12. The Consultant is further required to assist the Authority in identifying such elements that may need to be certified from auditors/ chartered accountants of MIAL and also assist the Authority in reviewing the implications / change in results through sensitivity analysis of various factors as directed by the Authority.

1.13. During the course of the review and clean up of the financial model, MIAL was requested to furnish to the Authority, certifications from its auditors / chartered accountants in support of figures taken as the base for their projections/forecast as well as other inputs / clarifications.

1.14. MIAL made a number of submissions in response to the clarifications / information desired by the Authority. The Authority has also undertaken several discussions with MIAL to understand and reconcile their submissions. These submissions have been examined and based on the adequacy of response, have been considered by the Authority towards its review of the MYTP. Wherever required, the Authority has requested for information further to the clarifications submitted by MIAL.

1.15. ¢ ЌŜ !dzǘЌ ƨNJ ƛǘ è Ωă ŜÈ ŀŸ ƛ ƴ ŀ ǘ its proposals with respect to L ! [ă d various building blocks has been presented in the subsequent and respective sections.

Principles for Determination of Aeronautical Tariff

a MIAL Submission on Principles of Determination of Aeronautical Tariff

1.16. As part of its tariff application dated 26.12.2013, MIAL stated the following regarding its methodology for determining the aeronautical tariffs for the second Control Period,

> *ά ¢ЌŜ {{! NJŜŀŘ ǿƛǘЌ h a 5! LJNJƨǾƛŘŜă ǘЌŜ ŦNJŀ for CSIA. Schedule 1 of SSA describes Principles of Tariff Fixation and methodology to calculate aeronautical charges in the shared till inflation - x LJNJƛǑŜ ǑŀLJ Ÿ ƨŘŜ f Φέ*

1.17. CdzNJǘЌŜNJΣ a L ! [Ωă ădzō Ÿ ƛ ă ă ƛ ƨ ƴ NJŜ∃ ŀNJŘ ƛ ƴ∃ ƛ ƴ Ŧ f inflationary increase over and above tariff increase inflation is as below,

> *ά / ƨ ƴ ădzŸ ŜNJ tNJƛǑŜ L ƴ Ř Ŝ-ÈW) as specified in Schedule ŦNJƛ ŀ f ² ƨNJ ĩ 1 of SSA, is assumed 7.90% as per RBI forecast for the second control period.*
>
> *(Source: http://www.rbi.org.in/scripts/QuarterlyPublications.aspx?head=Survey%20of%20Professional%20Forecastersύέ*

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1.18. a L ! [Ωă ădzō Ÿ ƛ ă ă ƛ ƨ ƴ ŀ ă Ld 05.08.2014 regarding tariffs levied ŀ LJL by it at MIAL for period outside of the second Control Period for which revised tariffs have not yet been finalised is as below,

> *ά !dzǘЌ ƨNJ ƛ ǘ è ǾƛŘ Ŝ 15 dated 21st April 2014, had decided that н л м п the Aeronautical tariffs approved by it vide Order no. 32/2012 shall continue up to 31st October 2014, or until final determination of tariffs for the second control period, whichever is earlier. MIAL has made this revised submission considering change in aeronautical tariffs effective from 1st b ƨǾŜ Ÿ ō ŜNJ н л м п έ*

b !dzű K ƨ NJ ƛ ű è Ω ă 9 È ŀ Ƴ ƛ ƴ ŀ ű ƛ ƨ ƴ ƨ Ŧ a L ! [Ω ă ădzō Ƴ ƛ ă ă ƛ ƨ
Aeronautical Tariff and the Control Period

Legislative Policy Guidance and Principles

1.19. The Authority has noted that MIAL has made a specific mention computation of Tariff and X factor in line with the Schedule 1 of the SSA.

1.20. The legislature has provided policy guidance to the Authority regarding the determination of tariff for the aeronautical services 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 (1) of the AERA Act, which reads as under:

1.20.1. To determine the tariff for the aeronautical services;

1.20.2. To determine the amount of the development fees in respect of major airports;

1.20.3. To determine the amount of the passenger service fee levied under rule 88 of the Aircraft Rules, 1937 made under Aircraft Act, 1934;

1.20.4. 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 authorised by it in this behalf;

1.20.5. To call for such information as may be necessary to determine the tariff under clause 13 (1) (a)

1.20.6. To perform such other functions relating to tariff, as may be entrusted to it by the Central Government or as may be necessary to carry out the provisions of this Act.

1.21. Further to the functions to be performed by the Authority, the AERA Act 2008 also provides policy guidance on the factors, which are to be considered by the Authority in performing these functions. As per 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:

1.21.1. The capital expenditure incurred and timely investment in improvement of airport facilities;

1.21.2. The service provided, its quality and other relevant factors;

1.21.3. The cost for improving efficiency;

1.21.4. Economic and viable operation of major airports;

1.21.5. Revenue received from services other than the aeronautical services;

1.21.6. Concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;

1.21.7. Any other factor which may be relevant for the purposes of the Act

1.22. As per Section 13 (1) (a) of the Act, the Authority is to determine the tariff for the aeronautical services taking into consideration, inter alia, *ά ó Ǿ ƛ ύ ű K Ŝ Ŏ ƶ ʯ Ŏ Ŝ ă ă ƛ the Central Government in any agreement or memorandum of understanding or ƶ ű K Ŝ NJ ǁ ŝ ă Ŝ ΅* . In so far as CSI Airport, Mumbai is concerned, the principles of tariff fixation and mechanism thereof have been laid down in clause 3.1 read with Schedule 1 of the SSA.

1.23. The Authority vide its Order No. 13/2010-11 dated 12.01.2011 (Airport Order) had laid down the overall approach which it would adopt for regulation of aeronautical services provided by the Airport Operators. In para 17.5.13 of the Airport Order, the Authority had indicated that

> *ά ¢ K Ŝ ! ǳ ű K ƶ NJ ƛ ƚ ǉ proposes to operationalize the regulatory philosophy and approach as decided above through detailed guidelines. A draft of "The Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011" is being issued ă Ŝ LJ l· NJ l· ű Ŝ ƚ è Ŧ ƶ NJ ă ű l· ǀ Ŝ K ƶ ƚ Ř Ŝ NJ Ŏ ƶ ʯ ă ǳ ƚ ű l· ű ƛ ƶ ʯ ō*

1.24. Accordingly, after appropriate stakeholder consultations, the Authority finalized its Airport Guidelines, which was issued on 28.02.2011. In para 1.4 of these Guidelines contain provisions with respect to Indira Gandhi International Airport, New Delhi and Chhatrapati Shivaji International Airport, Mumbai as under,

> *ά ¢ K Ŝ ă Ŝ D ǳ ƛ Ř Ŝ ƚ ƛ ʯ Ŝ ă ă K l· ƚ ƚ ō Ŝ l· LJ LJ ƚ ƛ Ŏ l· ō ƚ Ŝ ű Airport, New Delhi, Chhatrapati Shivaji International Airport, Mumbai and the*

Civil Enclaves at Goa and Pune in such form and manner as the Authority may
ō è l· ă ŜLJl·NJl·ű Ŝ ƻNJŘ ŜNJ Ř Ŝ ű ŜNJƳ ƛ ƴ Ŝ Ф ɛ

1.25. Accordingly, the Authority issued the tariff determination order, MIAL Tariff Order 32/ 2012-13, after analysing the provisions of SSA as well as other relevant documents viz. OMDA etc. The Authority examined the covenants of SSA and OMDA in respect of DIAL and MIAL for its implications on principles and mechanics of tariff fixation and has accordingly considered these provisions while determining the aeronautical tariff in NJŜ ăLJŜ Ŏ ű ƻ Ŧ ű Ķ Ŝ ă Ŝ l· ƛNJLJƻNJű ă Ф ¢ Ķ Ŝ ! dzű Ķ ƻNJƛ ű è Ω detailed in its Order No. 3/2012-13 dated 24.04.2012 in the matter of Determination of Aeronautical Tariff in respect of IGI Airport, New Delhi and MIAL Tariff Order No. 32 / 2012-13 dated 15.01.2013.

1.26. In line with the above approach, the Authority proposes to determine the Target Revenue (TR) by aggregating terms in the following formula:

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Where;

- TR = target revenue
- RB = regulatory base pertaining to Aeronautical Assets and any investments made for the performance of Reserved Activities etc. which are owned by MIAL. The Assets other than Aeronautical Assets will be excluded from the scope of Regulatory Asset Base (RAB).

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Where: for the 1st regulatory period, RB would be the sum total of

- o the Book Value of the Aeronautical Assets in the books of MIAL and
- o the Hypothetical Regulatory Base computed using the then prevailing tariff and the revenues, operation and maintenance cost, corporate tax pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation

- WACC = nominal post-tax weighted average cost of capital, calculated using the marginal rate of corporate tax

- OM = efficient operation and maintenance cost pertaining to Aeronautical Services
- D = Annual Depreciation charged on aeronautical assets based on depreciation reference rates prescribed as per the Companies Act, 1956 and now amended under the Companies Act, 2013
- T = Corporate taxes on earnings pertaining to Aeronautical Services
- S = 30% of the Gross Revenue generated from the Revenue Share Assets, which are defined to include:
    - Non-Aeronautical Assets; and
    - Assets required for provision of aeronautical related services arising at the Airport and not considered in revenues from Non-Aeronautical Assets (e.g. Public admission fee etc.)
- i = Number of year in the regulatory control period

1.27. Based on the reading of the provisions of SSA and MIAL submission, it appears that the LJNJ ƛ ŷ Ŏ ƛ LJ ƚ Ŝ ă ƚ ŀ ƛ Ř ϮdzƱ ƛ ŷ Ʊ K Ŝ { { ! ŀ NJ Ŝ ō NJ Ϯ ŀ Ř ƚ philosophy and approach as stated in its Airport Order and Airport Guidelines. It is observed that the draft of the SSA formed part of the bid documents in respect of CSI Airport. It has been a consistent view of the Authority that the provisions of the SSA should be taken on board as far as these are consistent with the provisions of the Act. Further, the provisions of SSA should also be reconciled to the extent possible with the provisions of the Act. It is only where the provisions of the SSA are not consistent with the Act and cannot be reconciled there to, a deviation from the provisions of SSA may need to be made to the extent of repugnancy to the express provisions of the Act. There are certain important provisions in Schedule 1 of SSA, which are at variance with the approach decided by the Authority in respect of other airports, which can be summarised as below:

1.27.1. <u>Shared Till</u>: 30% of the gross revenue generated by the JVC from revenues share assets shall be used to subsidize target revenue for any given year. The costs in relation to such revenues shall not be included while calculating aeronautical charges.

1.27.2. <u>Hypothetical RAB</u>: The opening RAB for the 1st regulatory period would be the sum total of the Book Value of the Aeronautical Assets in the books of the JVC and the hypothetical regulatory base computed using the then prevailing tariff and the revenues, operation and maintenance cost, corporate tax pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation.

1.27.3. <u>No cost pass through</u> (read with Clause 3.1.1) the Upfront Fee and the Annual Fee paid/payable by the JVC to AAI below the OMDA shall not be included as part of costs for provision of aeronautical services and no pass through would be available in relation to the same.

1.28. The Authority has also noted the difference between the provisions of the Act and those of OMDA in treating certain services as aeronautical or non-aeronautical. For eg. the Act mentions services provided for ground handling services relating to aircraft, passengers and cargo at an airport as well as services provided for cargo facility at an airport as aeronautical services whereas OMDA mentions cargo handling, cargo terminals, and ground handling services under non-aeronautical services.

1.29. The above principles including the variances have been considered by the Authority in its determination of aeronautical tariff in respect of CSI Airport, Mumbai for the 1st Control Period. The Authority proposes to adopt the same principles for its determination of aeronautical tariff for the current Control Period from 01.04.2014 till 31.03.2019.

Normative Approach of the Building Blocks of AERA Economic Regulations

1.30. The Authority has issued Consultation Paper No. 05/2014-15 dated 12.6.2014, in the matter of Normative Approach of Building Blocks in Economic Regulations of Major Airports. { ű l· ˥ Ŝ K Ƹ ſ Ř ŜNJ ă Ω Ŏ Ƹ ʏ ă dz ſ ű l· ű ƛ Ƹ ʏ ǿ l· ă K Ŝ ſ Ř Ƹ ʏ ű K Ŝ l· ... submission of the evidence-based feedback and comments from stakeholders on the proposal was 07.07.2014 which was subsequently extended at the request of the Stakeholders vide Authority Public Notice no 12 / 2014-15 is by 08.12.2014.

1.31. In the Consultation Paper No. 05/2014-15 dated 12.06.2014, the Authority has dealt with the following matter extensively:

1.31.1. Debt Equity Ratio and WACC

1.31.2. Equity Return

1.31.3. Rate of Depreciation for Regulatory Purpose

1.31.4. Asset allocation between aeronautical and non-aeronautical assets.

1.31.5. Operation and Maintenance cost allocation between aeronautical and non-aeronautical.

1.31.6. Operation and Maintenance Expenditure

1.31.7. Incentivising based on the efforts of the airports operators to increase non-aeronautical revenues.

1.31.8. Norms for incurring expenditure on capital nature and its allowable ceiling cost.

Note: The Authority is yet to issue the separate consultation paper on the Rate of Depreciation to be adopted for the regulatory purpose.

1.32. The Authority, in its Proposal 8(g) of the Consultation Paper No. 05/2014-15 dated 12.6.2014, has indicated that the proposal of incentivisation of airport operators to increase non aeronautical revenue (NAR) will not apply to Delhi and Mumbai. This is based on the premise that the revenue shared to AAI that has been agreed by DIAL and MIAL, was as a result of market based discovery and competitive bidding process.

1.33. The Authority is of the view that after receipt of comments from the stakeholders, the Authority would appropriately finalize the Order based on the normative approach of building blocks for the major airports.

1.34. After issuance of such order, MIAL, which is also a major airport, will be covered under the normative approach, to the extent the Authority decides it to be applicable for MIAL.

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1.35. ¢ Ƙ Ŝ ! dz ű Ƙ ƻ NJ ƛ ű è Ƙ Ƚ ă ƴ ƻ ű Ŝ Ř Ŧ NJ ƻ Ƴ a L ! second ă dz ō Ƴ ƛ Control Period to commence from 01.04.2014 to last till 31.03.2019.

1.36. The Authority had decided as per Decision 2 of MIAL Tariff Order 32/2012-13, to reckon the 1st regulatory period, in respect of tariff determination for aeronautical services in respect of CSI Airport, Mumbai, from 01.04.2009 to 31.03.2014. Accordingly, as per the regulatory principles adopted by the Authority, the second Control Period with respect to

CSI Airport, Mumbai will commence from 01.04.2014 for a period of five years till 31.03.2019.

1.37. ¢ĸŜ !dzűĸ≥NJλűè initial submission regarding change in tariffs to be considered effective from 0.1.11.2014 as part of its tariff application dated 05.08.2014. However, considering the delay in the tariff determination exercise in respect of CSI Airport, Mumbai, the Authority had issued Orders dated 26.03.2014, 02.05.2014, 15.10.2014, 28.01.2015, 26.05.2015, 24.08.2015 and 20.11.2015 extending the period for which aeronautical tariffs determined for the 1st Control Period would be levied on users at CSI Airport Mumbai.

1.38. As per the Order No. 42/2015-16 dated 20.11.2015 the Authority further ordered that:

1.38.1. Aeronautical tariff(s) approved by the Authority vide MIAL Tariff Order No. 32/2012-13 dated 15.01.2013 shall continue up to 28.02.2016 or until the final determination of the tariffs for the second Control Period (i.e. 2014-2019), whichever is earlier.

1.38.2. The revenue so collected by the airport operator (MIAL) during such period shall be adjusted from the Aggregate Revenue Requirement for the second Control Period starting w.e.f 01.04.2014.

1.39. Accordingly, in line with the provisions of the AERA Act as well as the covenants of SSA, the Authority proposes to consider the second Control Period to commence from 01.04.2014 till 31.03.2019. The Authority also proposes that the revised tariffs will be effective from 1st May 2016.

Proposal No. 1. Regarding Principles for Determination of Aeronautical Tariffs and Control Period in respect of CSI Airport, Mumbai based on the material before it and its analysis, the Authority proposes

1.a. To consider the principles (laid out above) for determination of aeronautical tariff in respect of CSI Airport, Mumbai.

1.b. To follow the Normative Approach for determination of Building Blocks, except incentivisation of NAR, to the extent the Authority decides it to be applicable for MIAL.

1.c. To consider the second Control Period for the purposes of determination of aeronautical tariffs with respect to CSI Airport, Mumbai, commencing from 01.04.2014 to 31.03.2019.

1.d. To consider revised tariffs effective from 1st May 2016.

2. Development Fee and its adjustment to RAB

2.1. The Central Government had, vide its Order No. AV 24011/001/2009-AD dated 27.02.2009, granted approval for levy of DF @ Rs. 100/- per departing domestic passenger and @ Rs. 600/- per departing international passenger at the CSI Airport, Mumbai, inclusive of all applicable taxes by M/s. Mumbai International Airport Private Limited (MIAL), under section 22 A of the Airports Authority of India Act, 1994, purely on an ad-hoc basis, for a period of 48 months w.e.f. 01.04.2009. This ad-hoc determination by the government was subject to various conditions, some of them are given below:

2.1.1. At the stage of final determination, Regulator/Central Government would ensure adequate consultation with the users.

2.1.2. The amount collected through DF would under no circumstances exceed the ceiling of Rs. 1,543 crores and in case of any cost escalation beyond Rs. 9,802 crores, the amount representing the escalation would have to be brought in by MIAL through other sources. The ceiling amount would be exclusive of taxes, if any.

2.1.3. An Independent auditor appointed by AAI would audit the receipts/accruals of MIAL on periodical basis. Periodicity of the audit would be decided by AAI in consultation with MIAL. AAI would report the results of audit to the Government/Regulator for necessary directions.

2.2. After establishment of this Authority (September 01, 2009 when the Government notified, inter alia, Chapter III, namely, the powers and the functions of the Authority, which included the power of determination of DF), Ministry of Civil Aviation (MoCA), vide its letter dated 24.11.2009, forwarded MIAL's request for bridging the funding gap of Rs. 2,350 crores, as against that of Rs. 1,543 crores (as permitted by MoCA), through levy of a DF. MIAL made a number of other submissions to the Authority on the issue of determination of DF. The Authority proceeded to examine the request of MIAL and issued Consultation Paper No. 33/2011-12 dated 06.01.2012 for determining the quantum of DF at that point of time, wherein the Authority had specifically referred to the letter of MoCA dated 27.02.2009, which was also annexed.

2.3. The Authority had noted that in response to the Consultation Paper No. 33/2011-12 dated 06.01.2012, MoCA had not indicated that the Authority should not take into account any escalation in the project cost beyond Rs 9,802 crores while finally determining the DF amount. Thereafter, the Authority had issued the Consultation Paper No. 22/2012-13 dated 11.10.2012, wherein the Authority had proposed to take into account the project cost of Rs 12,380 crores, subtracting disallowances (including costs not considered in current control period) of Rs 732.54 crores, to arrive at the allowable project cost of Rs 11,647.46 crores for the 1st Control Period. The Authority had calculated the funding gap of Rs 4,219.05 crores in that consultation paper. MoCA had ƴƨű ∃ƛǾŜƴ ŀƴè Ŏƨ ƳƳŜƴűă ƨƴ !dzűƘƨNJƛűèΩă LJNJƨ furthermore, in its Press Release 88444 dated 16.10.2012, MoCA has referred to the funding gap of Rs 4,200 crores in respect of MIAL.

2.4. !ŦűŜNJ ŦdzNJűƘŜNJ ŜȅŀƳƛƴƛƴƎ űƘŜ ƳŀűűŜNJ ŀƴŘ aL! Order No. 29/2012-13 dated 21.12.2012, decided to determine the Development Fee that should be available to MIAL for the project at Rs. 3,400 crores (Decision No. II.a). It further decided to include the interest component in the allowable DF billing if DF is securitized (Decision No. II.b).

2.5. As per the Order No. 29/2012-13 dated 21.12.2012, the Authority decided to cap the project cost at Rs. 11,467 crores and allowed Rs. 422. 34 crores for deferred projects. The project cost also includes the escalations, claims, and contingencies of Rs. 630 crores. The Authority disallowed project cost worth Rs. 310.20 crores.

RAB adjustment on account of DF

2.6. The Authority had noted as part of MIAL Tariff Order 32/2011-12 that the adjustment of RAB on account of DF has meaning when DF is received by the airport operator for funding aeronautical assets. The Authority had decided to adopt the principle based approach for DF adjustment to RAB based on apportionment of DF collected over all the eligible asset, proportionately. The Authority notes that MIAL has considered determination of DF adjustment for to RAB in any given year of the first Control period on the basis of actual date of capitalization of aeronautical assets rather than the approach considered by the

Authority in its MIAL Tariff Order 32/2012-13. The Authority has noted that MIAL has also projected the amount of DF adjustment for the first Control Period based on this concept. However, as mentioned in its MIAL Tariff Order No. 32/ 2012-13, the Authority had considered DF adjustment proportionally as per the methodology for the determination of RAB.

2.7. The Authority also notes that MIAL has considered DF towards funding of entire capex, including operational capex in the first Control Period. The Authority further notes that the DF funding was allowed as a means of finance to MIAL for the development of airport project and not for any operational capital expenditure at the airport and therefore, such expenditure ought to be excluded in the adjustment of DF. As DF is utilised for funding only the aeronautical assets that are part of the project cost (excluding operational capital expenditure) the Authority proposes to consider the same ratio of the overall asset overall allocation. For year 2013-14, The Authority is in receipt of MIAL submission pertaining to the aeronautical operational expenditure of Rs. 93.7 crores. The Authority proposes to accept this figure for DF adjustment.

2.8. The Authority also notes that the assets should be allocated between aeronautical and non-aeronautical assets and for this purpose an independent study was conducted by ICWAI. The details of the study are discussed in para 3.19 below. Upon review of the study, the Authority has proposed to consider the asset allocation based on earmarked area in the masterplan unless there is a compelling reason to change the master plan. These details not available with the Authority for the first control Period at present. Thus the Authority has decided to accept the ratios submitted by MIAL for T1 and old T2 as provided in para 3.17 below for the years FY2009-10 to FY2012-13. For FY2013-14, the Authority has considered the allocation as per para 3.20 below 4.13 and 4.14 below.

2.9. Thus, the Authority has recomputed the DF capitalization on the basis of approach determined in the MIAL Tariff Order No. 32 / 2012-13 as below,

Table 1: Computation of DF capitalization considered under true up by the Authority in the 1st Control Period

	Computation of DF, Rs. Crores	FY08-09	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
A=R(n)-R(n-1)	Aeronautical assets capitalizatio during the year (including DF funded assets)		396.94	559.01	511.61	455.22	6412.87
B	Operational Assets capitalized during the year		2.15	9.31	26.75	111.31	698.86
C	% of Aeronautical assets		88.00%	90.46%	91.78%	91.38%	84.52%
D=B*C	Aeronautical operational Assets capitalized during the year		1.89	8.42	24.55	101.71	93.70
E= A-D	Aeronautical assets net of operational capex capitalized during the year		395.05	550.59	487.07	353.51	6319.17
F	Project capex incurred during th year		1241.20	1632.10	1990.32	2222.90	1688.70
G	Aeronautical Project capex incurred during the year		1218.10	1599.80	1966.40	2206.00	1622.40
g	Aeronautical CWIP of previous year (only Project Cost)		968.27	1791.31	2840.52	4319.85	6172.35
H=G+g	Total Aero Capex Available for D Adjustment		2186.37	3391.11	4806.92	6525.85	7794.75
I=E/H	Ratio for apportionment of DF pertaining to Capitalized Assets		18.07%	16.24%	10.13%	5.42%	81.07%
J	DF disbursed by AAI to MIAL+DF Securitized		285.61	325.13	25.86	1865.40	898.01
K	Disbursement made by the lender to MIAL in that year on account of securitization		0.00	0.00	0.00	0.00	0.00
$L=(N-O)_{n-1}$	B/F DF considered as a part of CWIP		0.00	234.00	468.35	444.13	2184.42
M	Repayment of DF securitized loa (principal and interest)		0.00	0.00	0.00	0.00	0.00
N=J+K+L+M	Total DF Available to be apportioned **		285.61	559.13	494.20	2309.53	3082.43
O= Min (N,N*I)	DF apportioned to Capitalized Assets		51.61	90.78	50.08	125.11	3082.43
P=Cumulative (O)	Cumulative DF Apportioned	0.00	51.61	142.39	192.46	317.57	3400.00
Q=N-O	DF considered as part of CWIP		234.00	468.35	444.13	2184.42	0.00
R	Cumulative Aero Assets Before DF Adjustment	881.51	1278.45	1837.47	2349.08	2804.29	9217.17
S=R-P	Net Aero Assets after DF Adjustment	881.51	1226.85	1695.08	2156.61	2486.72	5817.17
T=A-O	Net Aero Addition per year after DF adjustment		345.34	468.23	461.54	330.11	3330.45

2.10. The Authority notes that MIAL has considered depreciation amount based on actual date of capitalisation of DF funded assets. However, for the estimation of return on RAB, depreciation on DF funded assets is not considered. Thus to account for depreciation applicable for return on RAB, the Authority is proposing to adopt an approach wherein depreciation on the all the aeronautical assets capitalized in a year (nth year) divided by, the total value of all the aeronautical assets capitalized in that year (nth year) would provide the weighted average rate of depreciation applicable for that year (nth year). Such weighted average rate of depreciation would be applied over the DF apportioned over the capitalized aeronautical assets in that year (nth year) to arrive at the value of depreciation applicable to DF funding of these assets. The value of depreciation on DF funded aeronautical assets thus arrived at is deducted from the value of depreciation for all the aeronautical assets capitalized in a year in order to arrive at the value of depreciation to be considered towards determination of aeronautical tariff.

2.11. The depreciation on DF as determined by the Authority based on this approach is presented below considered for the purpose of computing true up of depreciation (net of DF) for the first Control Period.

Table 2: Depreciation on DF capitalized assets as computed and considered under true up by the Authority for the 1st Control Period

In Rs. Crore	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
Depreciation on DF Capitalized asse (as calculated by the Authority)	2.25	6.89	9.33	15.19	70.90

Proposal No. 2. Regarding Development Fee and its adjustment to RAB: Based on the material before it and its analysis, the Authority proposes

2.a. To consider DF funding of RAB such that fund available to MIAL on account of DF for investment in a year (including any DF apportioned towards CWIP in the previous year brought-forward to the given year) would be apportioned over expenditure incurred on the aeronautical assets capitalized in the given year and the expenditure incurred on aeronautical CWIP in the given year, as per the scheme indicated in Para 8.63, 8.64 and 8.65 of MIAL Tariff Order No. 32/2012-13. Further, while the fund apportioned to the expenditure incurred on the aeronautical assets capitalized in a year would be adjusted from RAB in the given year, that amount which is apportioned to expenditure incurred on aeronautical

CWIP is proposed to be carried over to the subsequent years for adjustment from RAB in those years. However, the Authority proposes that in the year that the terminal 2 is commissioned the remaining balance of DF allowed by the Authority would be adjusted in the RAB i.e. in FY2013-14.

2.b. Accordingly, to adjust total DF of Rs 3,400 crores allowed, vide Order No. 29/2012-13 dated 21.12.2012 in respect of CSI Airport, Mumbai from the capitalizations made by MIAL by FY 2013-14.

2.c. Based on the above, to consider the adjustments in RAB in respect of CSI Airport, Mumbai on account of DF as per Table 1 above.

3. Consideration of True-ups for 1st Control Period in respect of MIAL

3.1. In MIAL Tariff Order 32 / 2012-13, the Authority, while determining various elements of the building blocks, provided for true-ups in respect of certain items. These true-ups were to be considered based on the actual values of respective items that ought to be accounted, based on financial statements, in the 1st Control Period towards determination of aeronautical tariff for the next Control Period (namely second Control Period commencing from 01.04.2014).

3.2. As regards to broad approach of the Authority with respect to true-up of various building blocks for determination of aeronautical tariff, those are individually indicated in the relevant decisions of MIAL Tariff Order No. 32 / 2012-13. As per the Order, the Authority had proposed to provide true-ups for certain elements of specific building blocks. However, on account of delay in commissioning of the new terminal T2 at CSI Airport, Mumbai, as well as the fact that a portion T2 for handling domestic passenger operations is yet to be opened at the airport, the Authority is of the view that the operations at CSI airport, Mumbai cannot be considered as stable operations for the time being. Thus it is not appropriate to compare actual realised values of selected items assuming stable and efficient management of the terminal versus the values projected at the time of determination of tariffs for the 1st Control Period. This also poses a challenge of comparing 2013-14 actual financial figures with the projected figures for 2014-15 and beyond.

3.3. The Authority recognizes that the overarching purpose of true-ups is to enable the Airport Operator get a fair rate of return on its investments (consistent with quality of service as well as the risk factors for the airport in question). Hence, one part of the exercise at the end of the Control Period is to compare the ex-post (at the end of the Control Period) Aggregate Revenue Requirements (ARR) of the ex-ante with what was actually collected in 1st Control Period. The actual ARR that the Airport Operator is entitled to at the end of the Control Period depends on the various regulatory building blocks. Within the above framework, the Authority indicates here dz ƴ Ř Ŝ NJ a L ! [Ω ă ă dz ō Ύ ƛ ăup ƛ ƻ ƴ ǿ ƛ
ƻ Ŧ Ǿ ŀ NJ ƛ ƻ dz ă ƛ ű Ŝ Ύ ă ŀ ă ǿ Ŝ ŧ ŧ ŀ ă ű Ҝ Ŝ ! dz ű Ҝ ƻ NJ ƛ ű è Ω

3.4. While submitting its computation of true-ups in respect of various building blocks as part of tariff application dated 26.12.2013, MIAL submitted:

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Rs./Crs.

Revenue streams	FY 10	FY 11	FY 12	FY 13	FY 14	Total
Landing charges	-	-	-	9	70	79
Parking charges	-	-	-	1	(2)	(0)
Aerobridge charges	-	-	-	(2)	(12)	(13)
UDF	-	-	-	55	144	199
PSF (FC)	-	-	-	(3)	-	(3)
Unauthorized Overstay	-	-	-	-	(6)	(6)
Fuel concession Fee				9	9	17
Total (A)	-	-	-	70	203	274
Adjustment in RAB due to actual date of capitalization and Adjustment due to DF	(17)	3	2	(42)	(198)	(252)
Change in WACC	11	14	16	17	24	83
Change in Operating expenditure (Property Tax and NA Tax, changes in unit rate of electricity and Water, CPI)	-	-	-	(1)	67	66
Adjustment in depreciation due to actual date of capitalization and DF Adjustment	4	2	2	2	(88)	(79)
Share of Revenue from Revenue Share Assets	-	-	-	(29)	(26)	(55)
Total (B)	(2)	19	21	(52)	(223)	(237)
Total True-up amount	(2)	19	21	18	(19)	37

Rs./Crs.

Revenue streams	FY 10	FY 11	FY 12	FY 13	FY 14	Total
Total True-up amount with carrying cost	(3)	30	29	22	(22)	57

3.5. MIAL made the following submission as part of its tariff application dated 05.08.2014 based on their actual audited financial accounts up to FY 2013-14, according to which the true-up requirement is submitted as below,

Revised Rs./Crs.

Revenue streams	FY 10	FY 11	FY 12	FY 13	FY 14	Total
Landing charges	-	-	-	9	61	71
Parking charges	-	-	-	1	0	2
Aerobridge charges	-	-	-	(2)	(13)	(15)
UDF	-	-	-	55	123	178
PSF (FC)	-	-	-	(3)	-	(3)
Unauthorized Overstay	-	-	-	(6)	(6)	(12)
Fuel concession Fee				9	7	16
Total (A)	-	-	-	64	172	237
Adjustment in RAB due to actual date of capitalization and Adjustment due to DF	(19)	0	6	(34)	(199)	(246)
Change in WACC	12	15	17	19	25	87
Change in Operating expenditure (Property Tax and NA Tax, changes in unit rate of electricity and Water, CPI)	-	-	-	(1)	67	66
Adjustment in depreciation due to actual date of capitalization and DF Adjustment	2	1	3	6	(91)	(78)
Share of Revenue from Revenue Share Assets	0	(0)	(0)	(31)	(33)	(63)
Total (B)	(5)	17	27	(41)	(231)	(234)
Total True-up amount	(5)	17	27	23	(59)	3
Total True-up amount with carrying cost	(9)	26	38	29	(66)	18

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3.6. The Authority proposes to provide a true-up after working the actual entitlement of MIAL in terms of Aggregate Revenue Requirement (ARR) based on actual values of regulatory building blocks for the 1st Control Period, covering Regulatory Asset Base (RAB), Hypothetical Regulatory Asset Base (HRAB), Weighted average Cost of Capital (WACC), Depreciation, Operating Expenses, Taxation and Non-Aeronautical Revenue for the 1st Control Period as per the actual audited financial and traffic information. The actual entitlement is subsequently proposed to be compared with the actual aeronautical revenue as per audited financials to arrive at the true-up value of over / under recovered ARR that are to be accounted for the second Control Period. This computation has been elaborated below.

True-up of Weighted Average Cost of Capital (WACC)

3.7. The Authority had estimated the return on RAB in the 1st Control Period based on the WACC of 11.45%. As per its Decision No. 12 of MIAL Tariff Order No. 32 / 2012-13, the Authority had decided to true up the WACC on account of changes in equity, and reserves and surplus, adjustments to cost of debt (including cost of bond Rs. 819.05 crores in ű K Ŝ Ƴ Ŝ Ŀ ƴ ă ƻ Ŧ Ŧ ƛ ƴ Ŀ ƴ Ǒ Ŝ ú Ŀ ƴ Ř Ŀ Ř Ř ƛ ű ƛ ƻ ƴ Ŀ ť Ƴ Ŝ Ŀ ƴ ă

3.8. ¢ K Ŝ ! dz ű K ƻ NJ ƛ ű è K Ŀ ă ƴ ƻ ű Ŝ Ř Ŧ NJ ƻ Ƴ a L ! [Ω ă ă dz ō Ƴ ƛ ă Rs. 700 crores in FY2013-14. As per its Decision No. 3 of MIAL Tariff Order No. 32 / 2012-13, the cost of debt would be trued up subject to the ceiling of 11.5%. After taking into account the additional loan availed by MIAL, the Authority has computed the weighted average cost of debt for the 1st Control Period to be 10.48% as shown in Table 4 below.

3.9. The Authority had discussed the issue of treatment of RSD in detail in the MIAL Tariff Order No. 32/ 2012-13. The Authority had noted that right from the time MIAL applied for DF to the Government, MIAL had factored an amount of Rs. 1,001 crores to be raised through RSD. As late as, July 2012, MIAL had stated that it will be able to raise the entire amount before August 2014 albeit in 3 tranches. At the time of determination of tariffs for 1st Control Period, the Authority did not find any reasons to believe that such RSD may not come forth from MIAL either in full or part during the Period. Thus, the Authority [illegible] 220.75 crores, Rs. 435.09 [illegible] crores and Rs. 344.16 crores in FY2012-13, FY2013-14 and FY2014-15 respectively, totalling to Rs. 1,000 crores, from monetization of land in the period. Further, vide its Order No. 29/2012-13 the Authority had determined DF of Rs. 3,400 crores as a measure of last resort, after considering all possible means of finance which included the RSD of 1,000 crores.

3.10. T[illegible] submission [illegible] application dated 05.08.2014 that because of various encumbrances, monetization of land was delayed and MIAL was unable to raise Rs. 1,000 crores in the 3 tranches that were considered as per the MIAL Tariff Order 32/2012-13. The Authority has noted that while MIAL has not been able to collect any RSD in the first Control Period but it has raised some RSD in FY 2014-15 and has commitment for further monetization in FY 2015-16. The Authority has noted that MIAL has been able to monetize small parcels of land to raise Rs. 207 crores in FY2014-15 and FY 2015-16 (refer paragraph 8.7 below) and has also taken debt to meet the RSD requirement. The Authority is of the view that the amount raised through RSD is inadequate considering the location of the concerned land in Mumbai. The Authority expects MIAL to monetize this entire land in the second Control Period. In view of the ongoing monetization by MIAL, the Authority has considered NIL RSD in each of the years in the first Control Period.

Table 3: Year-wise RSD considered under true-up by the Authority for the 1st Control Period

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
RSD	-	-	-	-	-

3.11. The Authority has noted from the Balance Sheet that MIAL has earned profits and a portion of that has been taken as reserves and surplus to the Balance Sheet. Also, the Authority has noted that MIAL had included the MAT credits for calculation of the reserves. This has been removed from the reserves and surplus as these are provisions only and MAT credit entitlement does not arise at this stage. The WACC has been calculated taking into account equity (including reserves & surplus), debt and RSD on an average basis (average of opening and closing balance).

3.12. Thus, considering the RSD as per Table 3 and cost of equity at 16% as per Decision No. 10 of MIAL Tariff Order No. 32 / 2012-13 and the weighted average Cost of Debt at 10.48%, the Authority had computed the WACC to be 12.05%.

3.13. The Authority has computed WACC at 12.04% based on the revised submission of MIAL, as below,

Table 4: Computation of WACC as computed and considered under true-up by the Authority for the 1st Control Period

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Opening Cumulative Debt (D_0)	1470.13	2020.68	2946.81	4547.58	4700.98
Closing Cumulative Debt (D_n)	2020.68	2946.81	4547.58	4700.98	5450.98
Average Cumulative Debt, D= Avg(D_0,D_n)	1745.41	2483.75	3747.20	4624.28	5075.98
Opening Equity (E_0)	246.15	446.15	646.15	846.15	1046.15
Closing Equity (E_n)	446.15	646.15	846.15	1046.15	1046.15
Opening Reserves (R_0)	286.23	383.51	539.98	722.83	872.58
Closing Reserves (R_n)	383.51	539.98	722.83	872.58	1030.15
Average Equity, E=Avg(E_0,E_n) + Avg(R_0,R_n)	681.02	1007.89	1377.55	1743.85	1997.51
Opening RSD (RSD_0)	0.00	0.00	0.00	0.00	0.00
Closing RSD (RSD_n)	0.00	0.00	0.00	0.00	0.00
Average RSD, R=Avg(RSD_0,RSD_n)	0.00	0.00	0.00	0.00	0.00
Average Capital Employed, C=D+E+R	2426.42	3491.64	5124.75	6368.13	7073.49
Average Debt (%), D% = D/C	71.93%	71.13%	73.12%	72.62%	71.76%
Average Net Worth (%), NW% = E/C	28.07%	28.87%	26.88%	27.38%	28.24%
Average RSD (%), R% = R/C	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of Capital (%)					
Weighted Average Gearing %	72.20%				
Weighted Average Equity %	27.80%				
Weighted Average RSD %	0.00%				
Cost of Debt %	10.20%	9.79%	10.13%	10.76%	11.02%
Weighted Average Cost of Debt %	10.51%				
Cost of Equity %	16.00%				
Cost of RSD %	0.00%				
WACC %	12.04%				

True-up of Asset Allocation

3.14. The Authority had decided, as per Decision No. 3 of its MIAL Tariff Order 32/2012-13, to accept the MIAL proposal for allocation of assets between aeronautical and non-aeronautical as below,

Table 5: Allocation of Assets as per Order No. 32/2012-13 for the 1st Control Period

Parameter	FY 10	FY 11	FY 12	FY 13	FY 14
Aeronautical Assets as % of Total Assets	89.92%	91.87%	91.18%	92.78%	93.11%

3.15. The Authority had also decided to commission an independent study to determine the allocation of assets in respect of the CSI, Mumbai Airport and take corrective action, as may be necessary, at the commencement of the second Control Period. It had further decided that upon analysis / examination pursuant to such a study, the Authority may conclude that the allocation of assets considered needs to be changed and if that is the case then it will consider truing up the asset allocation and consequently RAB at the commencement of the second Control Period.

3.16. ¢ K Ŝ ! dz ű K 2 NJ ƛ ű è K Ɩ ă ẏ 2 ű Ŝ Ř a L ! [Ω ă NJ Ŝ Ǿ ƛ ă Ŝ Ř ă dz aeronautical services for the 1st Control Period as submitted in para 4.3 below. The Authority notes that there was delay in the commissioning of the terminal T2 at CSI Airport, Mumbai, and subsequently there was a delay in opening of the domestic terminal. The Authority has sought the basis for change in allocation of assets by MIAL as ǿ Ŝ ƒ ƒ Ɩ ă ! dz Ř ƛ ű 2 NJ Ω ă / Ŝ NJ ű ƛ Ŧ ƛ Ŏ 1st Control Period Ǝ Ɩ NJ Ř ƛ ẏ Ǝ Ɩ

3.17. The Authority is in receipt of a study by KPMG on allocation of assets at CSI Airport, Mumbai on the basis of which MIAL has provided the asset allocation for FY2011-12 to FY2013-14. The Authority is also in receipt of the detailed workings of the asset allocation for the 1st Control Period submitted by MIAL. Further, the Authority is in receipt of the ! dz Ř ƛ ű 2 NJ Ω ă / Ŝ NJ ű ƛ Ŧ ƛ Ŏ asset allocation by MIAL for the 1st K Ŝ ẏ ű NJ 2 ƒ t Ŝ NJ ƛ 2 Ř Σ submission dated 01.07.2014. An extract of the same has been reproduced below,

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Rs. in Million

Particulars	*As at 31Mar, 10*	*As at 31Mar, 11*	*As at 31Mar, 12*	*As a t 31Mar. 13*	*As at 31 Mar, 14*
Gross Block of:					
Aeronautical assets	*12,964*	*18,755*	*23,993*	*28,545*	*97,251*
Non-aeronautical assets (incl Cargo assets)	*1,769*	*1,978*	*2,149*	*2,692*	*12,419*
	14,733	*20,733*	*26,142*	*31,237*	*109,670*
% of Aeronautical assets	*88.00*	*90.46*	*91,78*	*91.38*	*88.68*
% of Non-aeronautical assets (incl Cargo assets)	*12.00*	*9.54*	*S.22*	*8,62*	*11.32*

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3.18. In the MIAL Tariff Order 32/2012-13, the Authority had decided to commission an independent study for asset allocation. In adherence to this decision, ICWAI conducted an independent study on asset allocation at CSIA, Mumbai. As part of the study, MIAL provided to ICWAI details on classification of aeronautical and non-aeronautical assets. Aƴ ŜȄ űǋŀŎű ƻŦ to ICWAI has been reproduced below. MIAL has provided ŀŘŘƛűƛƻƴŀƭ ŘŜűŀƛƭă ƻƴ űKŜ ŀƭƭƻŎŀűƛƻƴ ƻŦ ăŜ detailing reclassification of certain assets as well.

άMIAL has five existing Terminals IA, 1B, IC, 2B and 2C and new T 2. In all these terminals, each of the asset has been identified between Aeronautical, Non-Aeronautical or Common Assets. For the purpose of allocation of Common Assets, MIAL has considered the area used by Aeronautical services and Non-Aeronautical Services, including sitting areas for provision of Non-Aeronautical Services. Detailed calculation of bifurcation of Terminal Areas in aero and Non Aero is discussed below.

In section 'A', MIAL has taken the area for each terminal. In section 'B', Area in sq. metre given to concessionaires as at year end is aggregated. Non Aeronautical area in Terminal is based on contracts entered between MIAL and concessionaire and details of area occupied is directly captured from the accounting system (SAP).

	(A)		Non-aero (B)			
Terminal	Total Terminal Area	FY 10	FY11	FY 12	FY 13	FY 14
Terminal IA	34,984	5,588	6,229	5,567	4,396	5,478
Terminal 1B	40, 545	6,618	8,555	7,144	6,453	6,027
Terminal IC	27 ,602		1,678	2,011	3112	3,266
Terminal 1	103,131	12,207	16,463	14,722	13,962	14,771
Terminal 2B	40,382	8,376	6,200	6,549	6,260	5,969
Terminal 2C	63,457	12,599	14,806	16,330	16,796	15, 144
Terminal 2	103,839	20,975	21,006	22,879	23,056	21,112
Terminal 1&2	206,970	33,182	37,469	37,601	37,018	35,884
New Terminal T02	439,203				2,299	22,249

In section 'C, MIAL has identified the sitting areas in five categories viz: (i) Purely Aeronautical

(100:0), (ii) Predominantly Aeronautical (90: 10), (iii) Common (50:50), (iv) Purely Non-Aeronautical (0:100) and (v) Predominantly Non-Aeronautical (10:90). In addition in section 'D', year wise total non-aeronautical area including proportionate non aeronautical sitting areas are added.

3.19. The Authority was also in receipt of the independent study on asset allocation conducted by ICWAI for the first Control Period. An extract of the ICWAI report is provided below,

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Table Final Allocation of Gross Block of Assets up to 31st March 2014 (Rs. Cr)

Particulars	MIAL's submission		As per ICWAI Study	
	Amount	% of total	Amount	% of total
Aeronautical	9,725.13	88.68%	9,579.30	87.36%
Non-Aeronautical	1,241.95	11.32%	1,386.52	12.64%
Total	10,967.06	100%	10,965.83	100%

Final allocation to Aeronautical as per FAR submitted by MIAL was 88.68% which after making the suggested changes to allocation of assets is *NJŜŎƐYLJdzűŜŘ lă ymΦoc ƐŦ űƐűlƭ ∃NJƐăă ōƭƐŎ*

3.20. The Authority has noted the above detailed submission made by MIAL in response to its ljdzŜNJè lƴŘ ăűdzŘon asset allocation at the CSIA, Mumbai. The Authority has noted that ICWAI has not commented on the asset allocation for the first four years of tKŜ ŦʎNJăű /ƐƴűNJƐƭ tŜNJʎƐŘΦ Lű Kl ă lƭăƐ ƴƐűŜ Study that the area has been apportioned on the basis of the handed over area rather than the earmarked area in the Master Plan. The Authority proposes to consider asset lƭƭƐŎlűʎƐƴ ŦƐNJ űKŜăŜ ŦʎNJăű since the details of Master lă LJ Plan were not available and the new terminal was commissioned in FY2013. The Authority had sought the Master Plan from MIAL and is in receipt of partial information. MIAL has submitted a worksheet related only to the earmarked concessionary area of the ƴŜǿ ¢нΦ !ă LJŜNJ űKŜ άCʎƴlƭʎăŜŘ 5ŜăʎƎƴ tƭlƴ area is non-aeronautical. However, a significant portion of the area is yet to be accounted for in the MIAL submission, based on the principle of usage. Thus, from FY2013-14 onward, the Authority proposes to consider the asset allocation based on the ICWAI report as indicated in para 4.14 below

3.21. As per the latest report of ICWAI, the aeronautical asset allocation has been computed as 84.52%

True-up of Regulatory Asset Base

3.22. As part of MIAL Tariff Order 32/2012-13, the Authority had decided to true up the difference between the return on RAB calculated based on actual date of commissioning/ disposal of assets and the return on RAB calculated considering that such asset has been commissioned/ disposed off half way through the Tariff Year by adjusting the differences for each year in the Control Period at the end of the Control Period. The Authority had also noted that the Development Fee (DF) received by MIAL was for the purpose of aeronautical assets only and accordingly had adjusted RAB (DF applicable for adjustment) for each year of the 1st Control Period. The Authority had provided the mechanism of adjustment of RAB on account of DF in the Decision No. 5 of MIAL Tariff Order 32/2012-13. According to the Order, the Authority decided to consider DF funding of RAB such that fund available to the Airport Operator on account of DF for investment in a year (including any DF apportioned towards CWIP in the previous year brought forward to the given year) would be apportioned between expenditure incurred on the aeronautical assets and capitalized in the given year and the expenditure incurred on aeronautical CWIP in the given year as per the methodology indicated in Para 8.63, 8.64 and 8.65 of the MIAL Tariff Order 32/2012-13 dated 15.01.2013. Additionally, while the fund apportioned to the expenditure incurred on the aeronautical assets capitalized in a year would be adjusted from RAB in that given year, that amount which is apportioned to expenditure incurred on aeronautical CWIP will continue to be carried over to the subsequent years for adjustment from RAB in those years as per the same principle and methodology.

3.23. The Authority has noted MIAL [illegible] DF adjustment to RAB in any given year of the 1st Control period on the basis of actual date of capitalization of aeronautical assets as well as DF adjustment for the 1st Control Period based on this concept. The Authority has recomputed the DF capitalization on the basis of approach determined in the MIAL Tariff Order No. 32 / 2101-13 and audited values submitted by MIAL as provided in Table 1. The depreciation on DF as determined by the Authority based on this approach is also presented in Table 2. The same has been detailed in para 2.6 to 2.8 above.

3.24. Vide its Decision No. 4 of its MIAL Tariff Order 32/2012-13, the Authority had decided to consider operational capital expenditure of Rs.177.3 crores for FY 2012-13 and Rs.85.3 crores for FY 2013-14, after appropriate allocation into aeronautical assets, towards determination of X factor for the 1st Control Period.

3.25. The Authority had further decided that the future operational capital expenditure (FY 2012-13 and FY 2013-14) incurred by MIAL during the 1st Control Period based on the audited figures and evidence of stakeholder consultation as contemplated in the SSA, as well as the review thereof that the Authority may undertake in this behalf, be reckoned for the determination of X factor. This review will also include the operational capital expenditure for FY 2012-13 and FY 2013-14, which the Authority had reckoned for the determination of X factor.

3.26. The Authority also noted from the DF Order that the allowed project cost of Rs. 11,647.46 crores also included escalations and claims to the tune of Rs. 450 crores and contingencies to the tune of Rs. 180 crores. The Authority proposed to cap the project cost as per the DF Order, and provide for statutory costs unforeseen at the time of the DF Order. MIAL has submitted the total capitalization cost, discussed by the Authority in para 5.108 below. The Authority proposes to consider aeronautical RAB after taking into account the asset allocation ratio, towards the determination of RAB for the 1st Control Period, for the purpose of true-up.

3.27. Further, with regards to Hypothetical RAB (HRAB), as per its Decision No. 6 of MIAL Tariff Order 32/2012-13, the Authority had decided to consider HRAB as Rs. 966.03 crores and allowed depreciation of the HRAB at the tariff year wise average depreciation rate for aeronautical assets. The Authority has noted from the Tariff Model submitted as part of tariff application dated 05.08.2014 that MIAL has applied the opening Hypothetical RAB value of Rs. 966.03 crores in FY2008-09 and considered depreciation on HRAB based on [illegible] MIAL Tariff Order 32/2012-13 as below. Accordingly, the closing HRAB in FY2013-14 has worked out to be Rs. 753.94 crores.

In Rs. Crores	*2009-10*	*2010-11*	*2011-12*	*2012-13*	*2013-14*
Opening HRAB [A]	*966.03*	*921.77*	*874.02*	*825.58*	*776.74*
Depreciation for the year [B]	*44.26*	*47.75*	*48.44*	*48.84*	*22.80*
Closing HRAB [A-B]	*921.77*	*874.02*	*825.58*	*776.74*	*753.94*

3.28. The Authority notes that MIAL has considered the depreciation rates as per the Companies Act 1956. Based on the auditor certificates provided by MIAL as well as based on the depreciation on DF funded assets as considered by the Authority, the depreciation being proposed by the Authority for consideration is presented below:

Table 6: Depreciation on RAB considered under true up by the Authority for 1st Control Period

	Depreciation, Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
A	Total Depreciation for the Year	69.42	104.40	131.71	154.66	235.90
B	Depreciation on Upfront Fee	5.14	5.15	5.15	5.14	5.14
C	Depreciation on Other Assets	0.00	0.00	0.00	0.00	0.00
D	Aeronautical Assets (%)	88.00%	90.46%	91.78%	91.38%	84.52%
E	Depreciation on Aeronautical DF Funded Assets	2.25	6.89	9.33	15.19	70.90
F	Depreciation on Disallowed Aeronautical Capitalized Assets	0.86	0.81	2.33	2.48	2.84
E=[(A-B-C)*D]-E-F	Depreciation on Aeronautical Assets	53.46	82.07	104.50	118.96	121.30

3.29. The Authority has also noted that the average depreciation rate in the 1st Control Period ǿ ƛ ƫ ƫ Ǿ Ŀ NJ è Ŧ NJ ƻ Y ű K Ŝ Ŀ Ǿ Ŝ NJ Ŀ Ǝ Ŝ NJ Ŀ ű Ŝ Ŏ ƻ ƴ ă ƛ Ř Ŝ NJ Ŝ Ř and approach for DF adjustment indicated in the order. Accordingly, the depreciation on HRAB needs to be revised and HRAB roll forward to be accordingly computed. Further, the Authority has noted that MIAL has made certain asset disposals in the first Control Period. The RAB has been adjusted for such disposals. In view of above proposals and considerations, the Authority has estimated the RAB for the purpose of determining ARR for the 1st Control Period as presented below: