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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
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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, 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. The State Support Agreement (hereinafter referred to as "SSA") dated 26.04.2006 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. Provisions regarding "Tariff and Regulation" have been made in Chapter XII of OMDA and 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, Mumbai, for the Authority's consideration and approval on 11.10.2011. Pursuant to their 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 – 31.03.2 014) (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 Airport, Mumbai, for the Authority's consideration and approval for the second Control 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 of 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 Financial Model accurately reflects the Authority's decisions towards various provisions 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. The Authority's examination of the MIAL submissions and its proposals with respect to 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,

> *"The SSA read with OMDA provides the framework for Tariff Determination for CSIA. Schedule 1 of SSA describes Principles of Tariff Fixation and methodology to calculate aeronautical charges in the shared till inflation–x price cap model."*

1.17. Further, MIAL's submission regarding inflation forecast, considered in its request for inflationary increase over and above tariff increase inflation is as below,

> *"Consumer Price Index for Industrial Workers (CPI-IW) as specified in Schedule 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%20Forecasters)"*

Control Period

1.18. MIAL's submission as part of its tariff application dated 05.08.2014 regarding tariffs levied by it at MIAL for period outside of the second Control Period for which revised tariffs have not yet been finalised is as below,

> *"Authority vide its Order No. 5/2014-15 dated 21st April 2014, had decided that the Aeronautical tariffs approved by it vide Order no. 32/2012-13 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 November 2014"*

b Authority's Examination of MIAL's submission on Principles of Determination of 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, *"(vi) the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise".* 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

> *"The Authority proposes to operationalise 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 separately for stakeholder consultation before being finalised."*

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,

> *"These Guidelines shall be applicable to the Indira Gandhi International 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 by a separate order determine."

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 respect of these airports. The Authority's examination of these covenants has been 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:

$$\boldsymbol{TR_i = RB_i \times WACC_i + OM_i + D_i + T_i - S_i}$$

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).

$$RB_i = RB_{i-1} - D_i + I_i$$

  Where: for the 1st regulatory period, RB would be the sum total of
  - the Book Value of the Aeronautical Assets in the books of MIAL 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
- 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 submissions, it appears that the principles laid out in the SSA are broadly consistent with the Authority's regulatory 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 revenue 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. No cost pass through – (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 e.g. 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. Stakeholders' consultation was held on the above matter on 26.06.2014 and the last date for 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.

Control Period

1.35. The Authority has noted from MIAL's submissions that it has considered the second 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. The Authority had noted MIAL's 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. AV24011/001/2009AD 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 – 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 not given any comments on Authority's proposal under the said consultation paper and 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. After further examining the matter and MIAL's comments in detail, the Authority in its 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 32/2012-13 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 masterplan. 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 / 21012-13 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 capitalization 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 the 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 DF 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 loan (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 assets (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 the 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 airport 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 hereunder MIAL's submission with respect to true-up of various items as well as the Authority's examination of the same.

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:

"The Authority had passed tariff order for first control period FY 10-FY14 on 15.01.13 and had decided to true-up certain revenues and expenditures. True up workings have been done accordingly considering actual numbers up to FY 13 and estimated numbers for FY 14. Since FY 14 is yet to be completed, we request the Authority to finally true up the numbers for first control period based on audited numbers of FY 14.

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,

"Table: Truing up for the first control period – 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*

"

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 bridging Rs. 819.05 crores in the means of finance) and additional means of finance, after Authority's approval.

3.8. The Authority has noted from MIAL's submission that it has raised an additional loan of 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. 1,000 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 had considered MIAL's submission that it envisages to realise Rs. 220.75 crores, Rs. 435.09 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. The Authority has noted MIAL's submission in its tariff 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. The Authority has noted MIAL's revised submission regarding asset allocation towards 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 well as Auditor's Certificates regarding asset allocation for the 1st Control Period.

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 Auditor's Certificate on the asset allocation by MIAL for the 1st Control Period, in MIAL's submission dated 01.07.2014. An extract of the same has been reproduced below,

"Classification of assets between Aeronautical and Non-aeronautical and percentage thereof:

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*

"

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. An extract of MIAL's response to ICWAI has been reproduced below. MIAL has provided additional details on the allocation of seat area assets and provided auditor's certificates detailing re-classification of certain assets as well.

"MIAL 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,

"After reviewing each item of assets, other than assets valued at Rs. 5 lacs or less, we have suggested changes in allocation of few assets acquired up to 31st March 2014. After making the suggested changes, final allocation of gross block of assets, as on 31st March 2014, into Aeronautical and Non-Aeronautical activities is summarized in Table 14 below:

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 recomputed as 87.36% of total gross block of assets as on 31st March 2014."

3.20. The Authority has noted the above detailed submission made by MIAL in response to its query and studied ICWAI's report on 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 the first Control Period. It has also noted that from MIAL's submission as well as ICWAI 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 allocation for these first four years as per MIAL's submission since the details of Master Plan were not available and the new terminal was commissioned in FY2013-14. 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 new T2. As per the "Finalised Design Plans" submitted by MIAL, 14.71% of the new T2 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's submission regarding the 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 / 21012-13 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 the Decision No. 6 of the Authority's 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 will vary from the average rate considered by MIAL based on Authority's methodology 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:

Table 7: Computation of RAB trued up by the Authority in the 1st Control Period

Regulatory Asset Base (In Rs. Crore)		FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Computation of HRAB						
a	Opening HRAB	966.03	923.94	877.16	830.35	784.14
b	Depreciation for the year	42.09	46.78	46.81	46.21	20.14
c=a-b	Closing HRAB	923.94	877.16	830.35	784.14	763.99
d=Avg(a,c)	Average HRAB	944.98	900.55	853.76	807.24	774.07
Computation of RAB						
A	Opening Regulatory Asset Base	827.48	1119.31	1505.47	1862.51	2073.66
B	Less: Depreciation on RAB (ex. DF, Upfront fee)	53.46	82.07	104.50	118.96	121.30
C	Add: Pro-rata Addition to aero assets allowed during the year (excl. DF funded assets)	50.72	243.41	292.98	198.16	877.85
C'	Less: Assets discarded/ disposed-off during the year	4.10	1.40	3.50	0.40	0.00
X	Balance: Addition to aero assets carried forward to next year (excl. DF funded assets)	298.67	226.22	172.06	132.35	2452.60
D=A-B+(C-C')+X	Closing Regulatory Asset Base	1119.31	1505.47	1862.51	2073.66	5282.80
Calculation of Return on Aggregate RAB (RAB + HRAB)						
E= A-B+C-C’	Actual RAB for the year	820.65	1279.25	1690.45	1941.31	2830.20
F=d	Average HRAB	944.98	900.55	853.76	807.24	774.07
G=E+F	**Average RAB (including HRAB)**	**1765.63**	**2179.80**	**2544.21**	**2748.55**	**3604.27**
H	WACC	12.04%	12.04%	12.04%	12.04%	12.04%
I=G*H	Return on RAB (WACC x Average RAB)	212.51	262.36	306.22	330.82	433.81
Aggregate Aeronautical Depreciation on RAB						
J=b	Depreciation on HRAB	42.09	46.78	46.81	46.21	20.14
K=B	Depreciation on RAB (excluding DF)	53.46	82.07	104.50	118.96	121.30
L=J+K	**Net Aero Depreciation for the year**	**95.55**	**128.85**	**151.31**	**165.17**	**141.45**

True-up of Operating Expenses

3.30. The Authority, vide its Decision No. XIV of the Order No. 32 / 2012-13, had indicated a set of factors pertaining to operating expenditure that will be reviewed for the purpose of corrections (adjustments) to tariffs on a tariff year basis. These factors included:

3.30.1. Mandated costs incurred due to directions issued by regulatory agencies like DGCA;

3.30.2. Change in per unit rate of costs related to electricity and water charges as determined by the respective regulatory agencies;

3.30.3. All statutory levies in the nature of fees, levies, taxes and other such charges by Central or State Government or local bodies, local taxes/levies, directly imposed on and paid for by MIAL on final product/ service provided by MIAL, may be reviewed by the Authority for the purpose of corrections (adjustments) to tariffs on a Tariff year basis.

3.30.4. Furthermore, any additional payment by way of interest payments, penalty, fines and other such penal levies associated with such statutory levies, which MIAL has to pay for either any delay or non-compliance, the same were directed not to be trued up.

3.30.5. It was further stated that if MIAL has to pay higher input costs even on account of change in levies/taxes on any procurement of goods and services, the same would not be trued up.

3.31. The Authority vide its Order No. 32 / 2012-13 had proposed to commission an independent study to assess the efficient operating costs of CSI Airport, Mumbai. The Authority had further proposed that, if the costs of efficient operation and maintenance, assessed in the independent study are lower than the values used by the Authority, then the difference will be clawed back in the next Control Period commencing from 01.04.2014.

Cost Allocation

3.32. The Authority had sought clarification regarding consideration of utility expenses, rents, rates and taxes in 2009-10 and 2010-11 at 100%. MIAL responded to the same as below,

> *"Rents consist mainly of Rent paid for Guesthouse and Lease rent paid for Vehicles. Rates and Taxes consists mainly payment of Property taxes. It may be noted that in case of Property taxes the entire property tax pertaining to Non aeronautical/ commercial area is recovered from concessionaires.*

MIAL has revised its calculation for Rent, Rates and Taxes for FY 10 and FY I l. Rent paid has been considered as common expense and now has been allocated in overall ratio of Aeronautical and Non aeronautical expenses of 90.03% for FY 10 and 84.82% for FY 11. Property tax has been considered as aeronautical as entire property tax pertaining to Non aeronautical/ commercial area is recovered from concessionaires. Revised aeronautical/ non aeronautical allocation ratio for Rent, Rates and Taxes is as under:

For FY10

	Amount (Rs. million)			*%*		
	Total	*Aero*	*Non-Aero (incl Cargo)*	*Total*	*Aero*	*Non-Aero (incl cargo)*
Rent	*23*	*20*	*2*	*100.00*	*90.03*	*9.97*
Rates & Taxes						
Property Tax	*161*	*41*	*120*	*100*	*26*	*74*
Less: Recoveries	*-120*		*-120*	*100*		*100*
Rates & Taxes - Others	*3*	*3*		*100*	*100*	
Total - Rent, Rates & Taxes	*66*	*64*	*2*	*100*	*97*	*3*

FY11

	Amount (Rs. million)			*%*		
	Total	*Aero*	*Non-Aero (incl Cargo)*	*Total*	*Aero*	*Non-Aero (incl cargo)*
Rent	*33*	*28*	*5*	*100.00*	*84.82*	*15.18*
Rates & Taxes						
Property Tax	*133*	*72*	*61*	*100*	*54*	*46*
Less: Recoveries	*-61*		*-61*	*100*		*100*
Rates & Taxes - Others	*19*	*19*		*100*	*100*	
Total - Rent, Rates & Taxes	*124*	*119*	*2*	*100*	*96*	*4*

Power expenses for FY 10 Aeronautical / Non-Aeronautical allocation ratio for Power expenses for FY 12 is now considered for FY 10 also i.e. 94.80%."

3.33. The Authority had sought clarification regarding the methodology for allocating AOA fee into aeronautical and non-aeronautical expense. In response, MIAL has submitted that,

"The fee payable to the Airport Operator (AO) is paid as per Airport Operator Agreement (AOA) dated 28.04.2006 between MIAL and ACSA Global Limited, which was entered into after the approval of AAI. AO is required to undertake the operation, maintenance and management of the airport to meet the requisite performance standards so as to ensure performance by the JVC of its obligations (in particular, satisfying the Objective and Subjective Service Quality requirements as described under the OMDA). MIAL has to pay to the AO, Performance Fee which is a Fixed Annual Amount of US$ 1,000,000 escalated at US CPI annually. Performance Fee paid by MIAL to AO is cost for MIAL. Performance fee is fixed and does not increase even in case Objective and Subjective Service Quality requirements are exceeded.

It is important to note the following:

1. As per the provisions of OMDA and AOA, AO is responsible for, inter alia, operations and maintenance of aeronautical and non-aeronautical assets and not for aeronautical and non-aeronautical revenues. Further, payment of Performance Fee as per our AOA is not linked to revenues, EBITDA, EBIT or Profits as mentioned in Schedule 8 of the OMDA. This clearly demonstrates that in case of MIAL there is no linkage between the payment of Performance Fee and revenue, EBITDA, EBIT or Profits and AO does not gain or lose on account of any increase or decrease in any of these parameters. It is also important to note that Schedule 8 of OMDA (suggesting principles to be incorporated in AOA) provides a list of about 19 services that need to be included in the scope of AOA. Perusal of these 19 services clearly shows that most of them are primarily related to operations and maintenance of the airport assets and facilities. Not even a single service is linked to enhancement of non-aeronautical revenues and therefore allocation of Performance Fee based upon revenues will be completely inappropriate.

2. AOA agreement provides for separate payment for any specific consultancy services to be availed from AO. If AO is engaged for specific services such as study/ measures etc. to increase non aeronautical revenues, in that case specific fees paid for such engagement can be considered as non-aero.

3. The performance fee which is being paid is not linked to revenue or profits of the company as mentioned above. Otherwise also even if it is linked to revenue or profits, allocation of the same has to be done based upon services provided by the AO and not in proportion to aeronautical and non-aeronautical revenues.

In view of the above facts, the Authority is requested to kindly consider and allocate the AOA fees as under:

a) In the overall ratio of aeronautical and non-aeronautical assets OR

b) In the overall ratio of aeronautical and non-aeronautical expenses"

3.34. The Authority is also in receipt of the independent study by ICWAI with respect to efficient operation costs are CSIA, Mumbai. The Authority has noted that the Study has considered the cost allocation as per auditor certificates furnished by MIAL for the first Control Period as well as the revised submission by MIAL on allocation of rent, rates and taxes (refer para 3.32 above).

3.35. The Authority proposes to review the allocation submitted by MIAL as well as the ICWAI report on certain items namely VRS, AAI compensation loan, consumables and stores, airport operator fee and operations support cost; as these expenses pertain to both aeronautical and non-aeronautical activities at the airport.

3.36. Accordingly, the Authority proposes to consider the cost allocation submitted by MIAL as part of their tariff application dated 08.09.2015 as well as clarifications provided in para 3.32 above, with following exceptions:

Allocation for VRS Expenses

3.36.1. The Authority notes that the AAI employees at MIAL were required to provide operational support for the functioning of the entire airport and not specifically for the aeronautical operations. Accordingly, the cost of VRS expense as well as any interest cost on account of loan taken by MIAL to meet such expense include cost for both aeronautical and non-aeronautical services and thus, this entire cost cannot be considered as 100% aeronautical as submitted by MIAL. The Authority thus proposes to consider the allocation of such cost in the same ratio, as proposed by MIAL for other employee costs at the airport. Therefore, the Authority also proposes to consider the allocation for VRS expense for AAI employees, operational support cost and AAI retirement compensation interest cost same as the allocation of employee cost between aeronautical and non-aeronautical components.

Allocation of Airport Operator Fee

3.36.2. The Authority noted MIAL's initial submission wherein the allocation ratio applicable on the Airport Operator Fee has been taken as 100%. The Authority also noted MIAL's subsequent submission dated 16th January 2016 wherein MIAL proposed to consider allocation for AOA fees on the basis of either the overall aeronautical and non-aeronautical assets or overall aeronautical and non-aeronautical expenses. The Authority delved into the matter in great detail but the views among the authority were divided regarding the methodology to be adopted for the allocation of AOA fees.

3.36.2.a. One view is that the Airport Operator service scope covers both aeronautical and non-aeronautical services, and the OMDA has a guiding principle under Schedule-8 for financial remuneration. Accordingly, any one out of the four parameters provided therein, i.e. PAT, EBIT, EBITDA or Revenue, may be adopted. There is no explicit formula for apportionment of airport operator fees in the agreement executed between MIAL and ACSA. The guiding principle for apportionment of financial remuneration in the absence of any such formula should then be found in the OMDA, which should have primacy as per law. Any other methodology, if adopted, then the so determined quantum for aeronautical services will be more than that determined according to the guiding financial remuneration principles of OMDA.

3.36.2.b. Another view takes into consideration the representation of MIAL, wherein the MIAL has submitted that the fee has to be allocated based on assets or expenditure. This submission was supported by MIAL on the ground that in their agreement with ACSA, there is no direct link between revenue earned by the Airport and the Airport Operator fees.

3.36.3. Because of a lack of consensus pertaining to this issue, the Authority asked ICWAI to study the same and give its recommendation on the matter. The ICWAI report on this matter suggests that the Airport Operators Fee payable over the period of 7 years is the compensation for transfer of technical knowhow and should be taken as an asset and amortized over the period of time. The allocation therefore should be based on the ratio of aeronautical to non-aeronautical assets. The Authority examined this recommendation but noted that MIAL has not capitalized the AOA fees in its books of accounts, and has considered it as an expenditure. Therefore it was decided not to go by the recommendation of the ICWAI report in this matter.

3.36.4. After duly considering the abovementioned assessments and recommendation, the Authority has noted that the agreement signed between MIAL and Airport operator stipulates that the performance fee be a fixed annual amount to be escalated in line with US-CPI. However, as per the agreement the Airport operator is supposed to provide services both of aeronautical and non-aeronautical expenditure and therefore needs to be allocated. The Authority notes that in the DIAL's AOA the performance fee is payable as a percentage of revenue (3% of the revenue). Accordingly 3% of aeronautical revenue was considered towards aeronautical expense. Since the airport operator fee is not linked to revenue in case of MIAL, it is proposed that allocation of the airport operator fee be based on the same allocation as that for the manpower expenses. The rationale behind this apportionment is that the airport operator will provide personnel for providing services almost in the same proportion as MIAL, and therefore the manner in which the apportionment should be similar should be similar to the apportionment of the manpower cost of MIAL. The majority opinion favoured this approach and therefore it has been adopted.

Allocation for Consumption and Store expenses

3.36.5. MIAL has considered aeronautical allocation for Consumption and Store expenses at 100% in FY2009-10 and FY2010-11, 95.69% in FY2011-12, and 96.95% in FY2012-13. Further, it has considered the allocation at 89.29% in FY2013-14 and in each year of the second Control Period. In the Authority's view the allocation in the first four years of the first Control Period appears to be high and it proposes to consider 89.29% in each year of both the Control Periods.

Allocation for Expense pertaining to Collection charges for DF

3.36.6. MIAL has considered collection charges for DF for FY2012-13 and FY2013-14 as entirely aeronautical. However, as per Decision 29 of the Order No. 32/2012-13, the Authority had decided not to consider collection charges in respect of DF as operating expense. The Authority has decided to continue with this treatment in respect of the first Control Period and subsequent Control Periods.

Allocation for Provision for PSF (SC) disallowances

3.36.7. The Authority has also noted that MIAL has considered allocation for "Provision for PSF(SC) disallowances" to be entirely aeronautical in nature, considering entire expense in FY 2012-13 and FY 2013-14 towards estimation of the ARR for the 1st Control Period. The Authority has noted MIAL submission with respect to this expenses item as below,

"One of the component of Passenger Service Fee is Security Component – PSF (SC)- this amount is prescribed by MoCA and collected by MIAL to be kept in escrow account to be utilised as per guidelines of MoCA. From time to time there have been amendments carried out by MoCA subsequent to execution of SSA. Amount of PSF (SC) is not subjected to Revenue Share as it is collected on behalf of GoI for security related expenses and security is a sovereign

function. Role of MIAL is mainly to utilize the amount as per directions from MoCA from time to time. Hence, it acts as a custodian of Government funds.

It is understood that in future, may be even for the past, capital expenditure being met through PSF(SC), will have to be incurred by respective Airport Operators. Such capital expenditure will be treated as part of Project Cost. Since there is no clarity as on date, it is assumed that capital expenditure towards security expenses will continue to be incurred through PSF (SC). However if any such amount is required to be incurred by Airport Operators and, consequently, is to be incorporated as Project Cost it shall result in increase in tariff to that extent. However, in order to maintain exclusion of such amount from Annual Fee it is imperative that tariff for this purpose is determined separately and is not subjected to Revenue Share (AF).

It is requested that the Authority takes note of the above. The Authority may have to obtain clarifications from MoCA in this respect. Also, MIAL had incurred certain expenses out of PSF (SC) which, to the best of MIAL's knowledge and belief, pertained to security requirements at the airport and accordingly were eligible to be incurred from PSF (SC). However, MoCA decided that certain expenses like expenses on Private security for landside security and other expenses were not allowable, accordingly it directed MIAL to reverse these expenses. Since it is not possible to exactly quantify all the expenditure at this stage which MoCA may disallow from PSF (SC) account, we request the Authority to kindly consider the expense for the purpose of truing up as and when decided by MoCA."

3.36.8. The Authority has noted that MIAL has made a provision of Rs. 19.94 crores in FY13 in respect of expenditure related to PSF (SC). This includes Rs. 15.22 crores comprising landside security cost, consultancy cost etc. disallowed by MoCA and Rs. 4.72 crores comprising in-line baggage screeners cost and others incurred by MIAL on security related expenses. MIAL has incurred towards inline-baggage screeners a cost of Rs. 8.34 crores in FY14 and that due to lack of clarity from MoCA, it has made provisions for the same in the books. The Authority notes from MIAL submission dated 22.09.2014 that MIAL has represented MoCA against its decision to not allow certain expenses and that MoCA is yet to take a decision in this matter.

3.36.9. The Authority has noted further clarification provided by MIAL in this regard via its letter to the Authority dated 31.07.2015, as reproduced below,

"

Particulars	*FY 08*	*FY 09*	*FY 10*	*FY 11*	*FY 12*	*FY 13*	*FY 14*	*Total (FY 08-FY 14)*
Operating expenses pertaining to Security	***Disallowed by MoCA/ C&AG***							
Private Security	*4.54*	*7.81*	*7.07*	*-*	*-*	*-*	*-*	*19.41*
MIAL Security Salary	*-*	*1.74*	*1.76*	*-*	*-*	*-*	*-*	*3.50*
Screeners Salary	*-*	*-*	*2.00*	*3.35*	*5.36*	*8.09*	*8.61*	*27.42*
Consultancy charges and Professional & Retainers fees	*0.06*	*1.81*	*0.45*	*-*	*-*	*-*	*-*	*2.32*
Salary of Loaders	*-*	*-*	*0.21*	*0.05*	*-*	*-*	*-*	*0.27*
Concertina Coil	*-*	*-*	*-*	*0.04*	*-*	*-*	*-*	*0.04*
Electricity & Water Charges (BCAS office)	*-*	*-*	*-*	*-*	*0.02*	*0.02*	*0.03*	*0.07*
Repairs and Maintenance	*-*	*-*	*-*	*-*	*0.06*	*0.07*	*0.25*	*0.37*
Administrative Cost	*-*	*-*	*-*	*-*	*0.01*	*-*	*0.04*	*0.04*
Interest on delay in transfer of funds by MIAL due to PSF(SC)	*-*	*-*	*-*	*-*	*-*	*-*	*0.24*	*0.24*
O&M Contract-Anchorage (follower staff)	*-*	*-*	*-*	*-*	*-*	*-*	*0.61*	*0.61*
Insurance charges	*-*	*-*	*-*	*-*	*-*	*-*	*0.25*	*0.25*
Operating expenses - Total	***4.60***	***11.36***	***11.49***	***3.45***	***5.45***	***8.19***	***10.01***	***54.54***
Provision made in MIAL books	*-*	*-*	***10.14***	*-*	*-*	***5.99***	***8.38***	***24.51***
Paid and Accounted in MIAL books	*-*	*-*	*-*	*-*	*-*	***14.21***	*-*	***14.21***
Balance to be provided for operating expenses	***4.60***	***11.36***	***1.35***	***3.45***	***5.45***	***(12.01)***	***1.63***	***15.82***
Total operating expenses to be recovered through separate tariff component	***4.60***	***11.36***	***11.49***	***3.45***	***5.45***	***8.19***	***10.01***	***54.54***
Total operating expenses to be recovered through separate tariff component with carrying cost	*9.56*	*22.20*	*20.58*	*5.50*	*8.01*	*11.13*	*12.34*	

"

3.36.10. The Authority notes MIAL's submission dated 31.07.2015 above and the financial figures of O&M indicated in Table 10 below are based on MIAL's book of entries and financial model. During the first control period (FY 2019-10 to FY 2013-14), MIAL has made a provision of Rs. 24.51 crores towards PSF security expenditure. MIAL has also accounted as paid Rs. 14.21 crores in FY 2012-13 towards PSF security. It is noted that the amount booked by MIAL towards PSF security escrow account under the category of disallowed amounts by MoCA/CAG amounts to Rs. 38.59 crores for the period from

FY 2009-10 to FY 2013-14, as against Rs. 38.72 crores already in the book of accounts of MIAL. Hence, there is no additional amount to be accounted for PSF security expense for the first Control Period. In addition, it is noted from MIAL's claim that an amount of Rs. 15.96 crores is also disallowed by MoCA/CAG during FY 2007-08 and FY 2008-09, prior to the first control period. This prior period expenditure is not to be allowed subsequently unless an exception is made. However, the Authority notes that MIAL needs to provide the evidence of reimbursement of Rs. 38.72 crores (i.e. Rs. 24.52 crores and Rs. 14.21 crores) for first control period into the escrow account of PSF (SC). In case no evidence is made available during the stakeholder consultation, this total amount shall be disallowed because allowing it shall amount to double entry of expenditure.

3.36.11. MIAL's claim under "MoCA disallowed" includes a penalty on account of interest on delay in transfer of funds by MIAL, which is not allowable.

3.36.12. The Authority notes that the screener's salary forms part of the expenses in the PSF (SC) account. Since MIAL was carrying out the screening function at cargo terminal. MIAL needs to clarify whether this screener's salary relates to cargo certification or cargo screening. Accordingly, the treatment for the same shall be accounted under the tariff determination.

3.37. Summary of the proposals for treatment of various expenses is as below,

Table 8: Cost allocation of Operating & Maintenance Expenses proposed by the Authority for the 1st Control Period

Cost Allocation, %	Decision	Basis for Decision (if not as per MIAL)
Employee Cost	As per MIAL	-
Operation Support Cost for AAI	As per Employee Cost allocation	Nature of expense similar to Employee Cost
Utilities Expenses	As per MIAL	As per MIAL's revised submission refer para 3.32 above
Repair & Maintenance Expense	As per MIAL	-
Rents, Rates & Taxes	As per MIAL	As per MIAL's revised submission refer para 3.32 above
Advertisement Expense	As per MIAL	-
Administrative Expenses	As per MIAL	-
AOA Fees (Lump Sum)	As per Employee Cost allocation	Refer para 3.36 above
Insurance Expense	As per MIAL	-

Consumption and Store Expense	As per MIAL	As per MIAL's revised submission refer 3.32 above
Operating Expenditure	As per MIAL	-
Bad debts written off	Aero Portion as per MIAL	Refer para 3.41 below
Working Capital loan Interest	As per MIAL	-
Financing Charges	As per MIAL	-
AAI Retirement Compensation interest cost	As per Employee Cost allocation	Refer para 3.36 above
VRS	As per Employee Cost allocation	Refer para 3.36 above
Collection charges on DF	Not allocated	As per Decision 29, Order No. 32/2012-13
Provision for PSF(SC) disallowance	Allowed subject to production of evidence of reimbursement into the PSF (SC) account	Refer para 3.36 above

3.38. Accordingly, the Authority proposes to consider the following cost allocation for the first Control Period.

Table 9: Cost allocation of Operating & Maintenance Expenses proposed by the Authority for the 1st Control Period

Cost Allocation, %	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Employee Cost	86.49%	82.48%	78.05%	78.19%	77.70%
Operation Support Cost for AAI	86.49%	0.00%	0.00%	0.00%	0.00%
Utilities Expenses	94.80%	99.00%	94.80%	96.80%	96.63%
Repair & Maintenance Expense	94.09%	93.95%	93.65%	81.80%	96.10%
Rents, Rates & Taxes	97.00%	96.00%	97.90%	94.56%	90.60%
Advertisement Expense	99.33%	99.02%	88.38%	92.30%	98.85%
Administrative Expenses	90.03%	84.82%	84.89%	82.07%	84.50%
AOA Fees	86.49%	82.48%	78.05%	78.19%	77.70%
Insurance Expense	91.35%	91.38%	91.78%	91.38%	88.68%
Consumption and Store Expense	89.29%	89.29%	89.29%	89.29%	89.29%
Operating Expenditure	70.16%	66.01%	64.11%	58.29%	70.07%
Miscellaneous Expenses	0.00%	0.00%	0.00%	0.00%	0.00%
Provision for doubtful debt	0.00%	0.00%	0.00%	0.00%	0.00%
Bad debts written off*	0.00%	0.00%	100.00%	100.00%	100.00%
Interest on Loan for AAI retirement Compensation	86.49%	82.48%	78.05%	78.19%	77.70%
VRS Payment Amount to AAI	86.49%	82.48%	78.05%	78.19%	77.70%
Provision for PSF(SC) disallowance	0.00%	0.00%	0.00%	100.00%	100.00%
Working Capital loan Interest	90.03%	84.82%	84.89%	82.07%	84.50%
Financing Charges	90.03%	84.82%	84.89%	82.07%	84.50%
Loss on scrapping of assets	0.00%	0.00%	0.00%	0.00%	0.00%
Collection charges over DF	0.00%	0.00%	0.00%	0.00%	0.00%
CSR cost	0.00%	0.00%	0.00%	0.00%	0.00%
Exchange gain and loss	0.00%	0.00%	0.00%	0.00%	0.00%

** Break up of Aeronautical Bad debt amounts assessed separately*

Actual Operating Expenses

3.39. The Authority had noted MIAL's submission with respect to Bad debts in its tariff proposal dated 05.08.2014 as below,

"An amount of Rs. 17.28 Crs. has been written off as bad debts due to failure of Kingfisher Airlines during FY 13 and FY 14. With continuous efforts it was possible to bring down dues from Kingfisher Airlines to this level. It was ensured that balance amount was also covered through post-dated cheques. In spite of all these precautions, Rs. 17.28 Crs. could not be realised and, being non-recoverable, Board of Director decided to write off this amount. This is a onetime issue which was beyond control of MIAL. Similarly bad debt of Rs. 0.6 Crs pertaining to Bahrain Air written off in FY 13 should also be allowed as Bahrain Air is under liquidation. In case of other airlines all out efforts are made to realise the amount though there may be some delays specifically in case of Air India. We request the Authority to allow this amount of Rs. 17.88 Crs. as O&M Cost. "

3.40. The Authority sought further details of the Bad Debts that were written off by MIAL in the first Control Period. MIAL has submitted the following in this regard in 01.08.2016,

"Partwise details of the Bad debts written off during FY 10-FY 14 are as under:

Bad debts written off during FY 11 Rs. Crs.

Name of the debtor	*Total*
Maxima Exports	*0.12*

Bad debts written off during FY 12 Rs. Crs.

Name of the debtor	*Total*
Others	*0.03*

Bad debts written off during FY 13 Rs. Crs.

Rs. Crs. Name of the debtors	*Total*
Kingfisher Airlines	*14.41*
Others	*0.74*
Total	*15.15*

Bad debts written off during FY 14 Rs. Crs.

Name of the debtors	*Total*
*Customs**	*7.01*

Kingfisher Airlines	*2.12*
TDI International India Pvt. Ltd.	*1.85*
ALITALIA AIRWAYS	*0.50*
Others	*0.57*
Total	***12.05***

"

3.41. Considering these clarifications, the Authority has proposed to consider the written-off bad debts on account of airlines as aeronautical expenses. The Authority has considered expenses in respect of Kingfisher Airlines in FY2012-13 and FY2013-14 at Rs. 14.41 crores and Rs. 2.12 crores respectively as per the latest submission above. However, specific expenses have not been mentioned in the "Others" category in its January 2016 submission in para 3.40 above, the Authority proposes to consider this non aeronautical expense for the time being. Thus, Bad debts considered in FY2012-13 amount to Rs. 14.41 crores. In FY2013-14, the Authority has also considered bad debts on account of Alitalia Airways at Rs. 0.50 crores. The total bad debts considered in FY2013-14 is Rs. 2.62 crores. The total bad debts considered for the both the years amounts to Rs. 17.03 crores.

3.42. The Authority is of the opinion that on the face of it certain costs relating to consultancy, legal and travel expenses seem to be high. MIAL may explain reasons for any abnormal increases in these costs and also take steps to control such expenses in the future. Though the ICWAI report says that the O&M expenses incurred in 2010-11 may be considered as efficient, it will be difficult for the Authority to go into each and every item and disallow any increase, in part or full, in the cost. However, wherever one-time expenses have been incurred, for instance expenses relating to Airport Operations Readiness (AOR) and consultancy cost for business development, etc. should not be considered for later years. Further, the legal fee must be allocated into aeronautical and non-aeronautical expenses.

3.43. With respect to interest on working capital loan, the Authority is in receipt of the following clarification from MIAL,

"MIAL would like to clarify to the Authority that MIAL has incurred only Rs. 6.59 crs. During the entire first control period which is a very insignificant in light of its significantly large operations and working capital.

Rs. In crs.

	FY10	*FY11*	*FY12*	*FY13*	*FY14*
Working Capital Loan Interest	-	-	*0.22*	*1.80*	*4.57*

Year ending	*31-Mar-10*	*31-Mar-11*	*31-Mar-12*	*31-Mar-13*	*31-Mar-14*
Current Assets, Loans and Advances					
Current Investments	-	-	-	-	*166*
Inventories	*4*	*5*	*4*	*4*	*4*
Trade receivables	*270*	*317*	*373*	*319*	*462*
Cash and Bank balances	*150*	*278*	*483*	*1105*	*944*
Short-term loans and advances	-	-	*162*	*191*	*279*
Other current assets	*38*	*36*	*10*	*27*	*95*
Loans and Advances	*113*	*144*	-	-	-
Total	*575*	*779*	*1032*	*1646*	*1950*
Current liabilities					
Short-term borrowings	-	-	*810*	*563*	*486*
Trade payables	-	-	*111*	*160*	*202*
Other current liabilities	-	-	*509*	*841*	*909*
Short-term provisions	-	-	*14*	*17*	*21*
Liabilities	*638*	*800*	-	-	-
Provisions	*9*	*11*	-	-	-
Total	*646*	*811*	*1445*	*1581*	*1618*
Working Capital	*-71*	*-32*	*-413*	*65*	*332*

"

3.44. The Authority has noted the clarification submitted by MIAL regarding working capital loan interest above. The Authority proposes to consider Rs. 6.59 crores for the entire first Control Period as per the above submission.

3.45. As regards, the security related operating expenses in the first Control Period, Authority's proposal has been presented in paras 3.36.7, 3.36.8, 3.36.9, 3.36.10, 3.36.11, and 3.36.12.

3.46. The Authority is also in receipt of the independent study by ICWAI with respect to efficient operation costs are CSIA, Mumbai. The ICWAI study has concluded that certain costs are not in the control of MIAL. It further comments that operating expenses incurred by MIAL in 2010-11 can be considered efficient. The Authority has noted the same and accordingly proposes to consider the 2010-11 operating expenses as efficient.

Voluntary Retirement Scheme – Treatment of payments made to AAI

3.47. As per the Order No. 32 / 2012-13, the Authority had decided to expense out the actual amount paid or to be paid by MIAL to AAI towards retirement compensation during the control period instead of capitalising the same. The Authority has noted the following relevant excerpt from the Auditor Certificate submitted by MIAL as a supporting document for the projected payment to AAI:

"

a. Historic payments made

(Rs in Millions)

Particulars	*FY 2009-10*	*FY 2010-11*	*FY 2011-12*	*FY 2012-13*	*FY 2013-14*
Historic Payments	*1,542*	*#(312)*	*544*	*211*	*208*

 # Excess paid during the financial year 2009-10 was adjusted during the financial year 2010-11 Source: Audited Financial Statements

a. Schedule of future payments

(Rs in Millions)

Particulars	*FY 2014-15*	*FY 2015-16*	*FY 2016-17*	*FY 2017-18*	*FY 2018-19*	*FY 2019-20*
Future Payments	*204*	*200*	*193*	*186*	*179*	*15*

Source: Claim from AAI

Since the procedures performed in connection with certification of VRS Payments schedule of both historic and future period to Airport Authority of India (AAI) do not constitute either an audit or a review made in accordance with the generally accepted auditing standards in India we do not express any opinion."

3.48. Accordingly, MIAL has claimed the expenditure as shown in Table 10 below. The Authority proposes to allow these VRS payments made by MIAL to the AAI for the time being, subject to reconciliation by MIAL and AAI, and confirmation of the same during stakeholder consultation. With regards to the projection for second control period also, the figures indicated by MIAL has been taken for the time being, which needs to be confirmed by AAI, along with the period up to which this VRS payment is payable by MIAL

Financing Charges

3.49. The Authority has noted from MIAL's claim in respect of financing charges under O&M expenses as shown in Table 10 below. From MIAL's submission, it is understood that these expenditures are for borrowing amounts, upfront fees, processing charges, and furnishing of bank guarantees. The Authority also notes from the financials of MIAL that the borrowing costs of loans are part of the asset capitalized. Hence, the Authority is of the view that no additional expenses towards loan availed need to be part of the financing charges in the O&M expenses. The Authority is of the view that other charges pertaining to processing charges and furnishing of bank guarantees can be considered under allowable financing charges. However, MIAL needs to make a specific claim along with the working details along with supporting evidence. Accordingly, for the time being for true up, the Authority has considered the financing charges as provided by MIAL as per auditor certificates. The abovementioned details and supporting evidence need to be provided by MIAL during the consultation process.

3.50. The Authority proposes to consider the following operating and maintenance expenses on submissions made by MIAL as well as proposals of the Authority presented above:

Table 10: Total Operating & Maintenance Expenses considered under true-up by the Authority for the 1st Control Period

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Employee Cost	79.80	83.78	103.37	115.19	154.94
Operation Support Cost for AAI	13.08	0.00	0.00	0.00	0.00
Utilities Expenses (Net off)	60.87	23.37	36.88	43.72	63.80
Repair & Maintenance Expense	29.40	27.38	39.35	49.82	113.30
Rents, Rates & Taxes	6.63	12.41	12.14	56.65	27.70
Advertisement Expense	4.47	5.95	3.97	4.51	16.48
Administrative Expenses	31.77	33.72	54.31	58.93	75.93
AOA Fees	5.34	5.43	6.14	6.76	7.92
Insurance Expense	2.89	2.62	2.74	3.07	3.79

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Consumption and Store Expense	4.25	4.56	4.38	3.90	4.31
Operating Expenditure	43.73	49.69	59.67	65.33	86.36
Miscellaneous Expenses	5.99	7.02	0.00	3.82	0.00
Provision for doubtful debt	2.73	0.00	3.00	1.26	-1.92
Bad debts written off	0.00	0.00	0.03	15.01	2.62
Interest on Loan for AAI retirement Compensation	0.00	6.80	5.63	3.95	0.23
VRS Payment Amount to AAI**	154.23	-31.16	54.37	21.13	20.78
Provision for PSF(SC) disallowance#	0.00	0.00	0.00	19.94	8.34
Working Capital loan Interest	0.00	0.00	0.22	1.80	4.57
Financing Charges	2.71	3.02	1.13	0.56	11.36
Loss on scrapping of assets	0.00	0.00	0.00	0.00	0.00
Collection charges over DF	0.00	0.00	0.00	0.84	1.97
CSR cost	0.00	0.00	0.00	0.00	0.00
Exchange gain and loss	0.00	0.00	0.00	0.00	0.00
Total Operating & Maintenance Expenses	**447.87**	**234.59**	**387.32**	**472.16***	**602.48**

* Includes reduction of Rs. 4 crores in FY 2012-13 due to reconciliation with balance sheet

** MIAL to provide documentary evidence for VRS as per Para 3.49 and for finance Para 3.50

Refer paras 3.36.7, 3.36.8, 3.36.9, 3.36.10, and 3.36.11 for Authority assessment of PSF (SC).

^ In FY2009-10, the total O&M expenditure includes PSF security persons amounting to Rs .10.15 crores.

3.51. The values of aeronautical operating & maintenance expenses considered for the purpose of true-up, based on the auditor certificates provided by MIAL, proposed cost allocation and total expenses above, is computed as below:

Table 11: Aeronautical Operating & Maintenance Expenses considered under true-up by the Authority for the 1st Control Period

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Employee Cost	69.02	69.11	80.68	90.07	120.39
Operation Support Cost for AAI	11.31	0.00	0.00	0.00	0.00
Utilities Expenses (Net off)	57.70	23.13	34.96	42.32	61.65
Repair & Maintenance Expense	27.66	25.72	36.85	40.75	108.88
Rents, Rates & Taxes	6.44	11.92	11.88	53.56	25.10
Advertisement Expense	4.44	5.89	3.51	4.16	16.29
Administrative Expenses	28.60	28.60	46.10	48.36	64.16
AOA Fees	4.62	4.48	4.79	5.29	6.15
Insurance Expense	2.64	2.39	2.52	2.80	3.36
Consumption and Store Expense	3.79	4.07	3.91	3.49	3.84
Operating Expenditure	30.68	32.80	38.25	38.08	60.51
Miscellaneous Expenses	0.00	0.00	0.00	0.00	0.00

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Provision for doubtful debt	0.00	0.00	0.00	0.00	0.00
Bad debts written off	0.00	0.00	0.03	15.01	2.62
Interest on Loan for AAI retirement Compensation	0.00	5.61	4.39	3.09	0.18
VRS Payment Amount to AAI	133.40	-25.70	42.44	16.52	16.15
Provision for PSF(SC) disallowance	0.00	0.00	0.00	19.94	8.34
Working Capital loan Interest	0.00	0.00	0.19	1.47	3.86
Financing Charges	2.44	2.56	0.96	0.46	9.60
Loss on scrapping of assets	0.00	0.00	0.00	0.00	0.00
Collection charges over DF	0.00	0.00	0.00	0.00	0.00
CSR cost	0.00	0.00	0.00	0.00	0.00
Exchange gain and loss	0.00	0.00	0.00	0.00	0.00
Total Operating & Maintenance Expenses	**382.74**	**190.58**	**311.46**	**382.14***	**511.08**

* Includes reduction of aeronautical portion of Rs. 4 crores in FY 2012-13 due to a reconciliation with balance sheet

** MIAL to provide documentary evidence for VRS as per Para 3.49 and for finance Para 3.50

Refer paras 3.36.7, 3.36.8, 3.36.9, 3.36.10, and 3.36.11 for Authority assessment of PSF (SC).

^ In FY2009-10, the total O&M expenditure includes PSF security persons amounting to Rs. 10.15 crores.

True-up of Tax

3.52. As regards taxes, the Authority had decided as per its MIAL Tariff Order 32/2012-13 to consider the corporate tax pertaining to earnings from aeronautical services as calculated using revenue share (annual fee) paid to AAI on these earnings as element of cost. The Authority had projected that MIAL will pay nil taxes in each of the years in the 1st Control Period, for regulatory purposes on its earning from aeronautical operations. The Authority has also noted that MIAL has adopted the approach considered by the Authority for the purpose of determining tax on aeronautical operations and based on that the actual tax to be considered for such operations is NIL. Thus, the Authority proposes to consider as NIL, the taxes for the purpose of calculating ARR for the 1st Control Period based on actual numbers.

True-up of Revenue from Revenue Share Assets

3.53. The Authority vide its Decision No. XVI of the Order No. 32 / 2012-13, had decided to retain the forecasts of revenues from Revenue Share Assets (non-aeronautical) for FY2012-13 and FY2013-14 as proposed by MIAL. The Authority had recognised that in case of CSI Airport, Mumbai, the construction of the new terminal is under way and the concessions for the non-aeronautical activities for the new terminal had not been awarded till the time of previous Order. Further the determination of area, to be considered under commercial / non-aeronautical activities, was yet to be finalized. The Authority had also noted that the past trend of the non-aeronautical revenue may not be an appropriate factor to estimate non-aeronautical revenue in the future because a new terminal is being put in place and accordingly had decided to true-up the actual revenue from Revenue Share Assets at the time of tariff determination for the next Control Period. However, the Authority had also stated that once the new terminal building is completed in the beginning of the second Control Period, the Authority may reckon the level of actual revenue from Revenue Share Assets in the 1st Control Period as a floor for the second Control Period.

3.54. The Authority has examined the Auditor Certificates submitted by MIAL, for the actual revenue from Revenue Share Assets collected by MIAL during the 1st Control Period. In line with its adopted approach discussed above that involves truing up all the building blocks on actual basis, it has decided to true up the revenue from Revenue Share Assets based on the actual revenue collected by MIAL during the 1st Control Period.

3.55. However, the Authority has noted that certain income items such as interest from banks and others, income from investments and others have not been considered as non-aeronautical revenues by MIAL. The Authority is of the view that MIAL is able to earn such income on account of funds generated from the airport and therefore proposes to treat the same as non-aeronautical revenue. Accordingly, these have been included in the estimation of total non-aeronautical income.

3.56. Regarding the cute counter charges and cargo screening costs, the Authority's view can be found in paragraph no. 14.23.

Revenue from Lease Land

3.57. The Authority notes from the Non-Aeronautical revenue for first control period summarised below in Table 12 that it includes the revenue stream of land lease, which has been categorized by MIAL as revenue from non-transfer assets. The Authority has examined the matter of land lease revenue in detail in CP No. 16/2014-15 pertaining to tariff review of Delhi International Airport Limited (DIAL). The Authority notes that the project agreement for MIAL is similar to that of DIAL. The Authority is of the view that the underlying land provided for non-transfer assets is always on land-lease terms and as such the land itself is not a part of the non-transfer assets. The term non-transfer asset is linked with the handing-over of the land back to the AAI on expiry of the lease period of the demised premises as provided in the agreements. It is also understood that the balance sheet of the JV or the third party will not contain cost of the land as part of the respective assets. With specific reference to MIAL's claim of this revenue stream under revenue from non-transfer assets, it is noted that the revenue is from land lease, and the concerned land was leased before the formation of the MIAL JV. Hence, the claim for this revenue stream should not arise from land monetization effort of MIAL. It is not clear that these assets novated to MIAL by AAI fall under the land earmarked for commercial development. However, assuming that these properties fall under the commercial area, these revenues are not being taken into consideration for tariff determination for the time being. However, in case it is proved that these assets fall outside the commercial area, these revenues will have to be taken as part of Non-aeronautical revenue and 30% of the same shall have to be taken towards tariff determination. In the case of tariff determination for DIAL also, the Authority has sought a clarification from MoCA and AAI vide letter no. AERA/20010/MYTP/DIAL/CP-II/2013-14/Vol II/8350 dated 12.05.20115, 10.07.2015 and 07.09.2015 as to whether the land lease revenue from the commercial area should be taken as income from non-transfer assets or not. The Authority expects that in the case of MIAL, a clarification should be provided by MoCA and AAI.

3.58. In the case of DIAL also, the Authority had flagged the issue relating to treatment of revenue from land allotted for commercial exploitation and wishes to reiterate that this needs to be resolved soon. The Authority desires that MoCA or AAI should give a clarification on the provisions of OMDA relating to land monetization.

3.59. The Authority proposes to consider revenue from Revenue Share Assets as per the audited financials submitted by MIAL for the 1st Control Period as well as para 3.55 above, as below,

Table 12: Non-Aeronautical Revenues considered by the Authority under true-up for the 1st Control Period

Rs. Crores	**FY2009-10**	**FY2010-11**	**FY2011-12**	**FY2012-13**	**FY2013-14**
F&B	22.03	25.70	30.08	32.42	35.00
Flight Kitchen	10.53	16.20	22.76	22.42	27.58
Retail concession	11.02	24.60	39.36	55.10	63.35
Foreign exchange, Banks & ATM	23.44	26.90	39.08	45.67	48.80
Communication	20.50	37.80	36.55	36.59	19.81
Car Rentals & Taxi Service	5.32	6.80	8.82	14.00	15.76
Duty Free Shops	60.49	45.70	45.82	62.22	91.25
Advertising Income	35.68	46.00	56.45	55.87	59.06
Car Parking	13.26	12.10	12.84	16.88	14.31
Ground Handling	26.87	39.40	52.78	86.50	89.76
Others	7.90	7.20	8.57	26.30	20.20
Retail Licenses Revenue [A]	**237.04**	**288.40**	**353.09**	**453.96**	**484.86**
Land Rent & Lease	21.49	27.79	37.08	35.02	37.74
Hanger Rent	1.06	4.43	4.35	8.01	8.60
Terminal Building Rent (excl. CUTE Counter charges)	12.07	15.03	22.95	24.22	25.70
CUTE Counter Charges	3.00	4.20	4.65	0.55	4.55
Lounges	20.48	20.10	22.39	24.41	21.93
Cargo Building Rent	17.17	36.50	17.53	20.98	21.27
Rent & Services Revenue [B]	**75.27**	**108.05**	**108.95**	**113.19**	**119.77**
Domestic cargo	0.13	6.05	10.74	12.51	8.08
Terminal charges	76.93	94.93	98.41	93.52	78.67
De-stuffing	12.82	16.27	16.27	14.78	11.77
Palletization	3.31	5.11	7.94	9.21	9.69
X-ray	11.92	15.22	16.39	16.59	17.18
Carting, packing and others	7.02	8.52	8.94	8.46	8.21
Perishable Cargo	0.00	0.00	2.15	2.60	2.97
Other Rental Incomes (Demurrage)	80.32	138.09	168.36	117.48	104.64
Courier Revenue	8.45	7.91	9.37	10.22	12.97
Outsourced Cargo Revenues	0.00	0.00	0.00	0.00	17.06
Total Cargo Revenue [C]	**200.90**	**292.11**	**338.57**	**285.36**	**271.26**
Other Income [D]	**6.91**	**4.89**	**6.60**	**17.92**	**18.61**

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Less: Revenue from Non Transfer Assets) [E]	**4.77**	**5.11**	**5.72**	**5.33**	**5.73**
Non-aeronautical Revenues [E=A+B+C+D-E]	**515.35**	**688.34**	**801.49**	**865.10**	**888.78**
30% of share of Non-Aeronautical Revenues [F=30% (E)]	**154.61**	**206.50**	**240.45**	**259.53**	**266.63**

3.60. The target aeronautical revenue for MIAL is compared against aeronautical revenues realised by MIAL as per its financial statements in the 1st Control Period. The difference in the net present value of the target revenue (entitlement) and actual aeronautical revenue (realisation) is considered by the Authority as the amount eligible for true-up. The actual aeronautical revenue figure is based on the balance sheet and auditor certificates submitted by MIAL.

3.61. The true-up is accordingly computed as below,

Table 13: ARR and actual revenue considered by the Authority under true-up for the 1st Control Period

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Landing charges	268.72	285.21	298.07	341.43	624.41
Parking charges	16.18	11.01	9.03	11.41	33.53
Aerobridge	20.11	0.00	0.00	4.15	29.88
User Development Fee	0.00	0.00	0.00	67.07	484.97
Passenger Service Fee	98.25	109.93	117.11	96.33	0.00
CUTE Counter Charges	0.00	0.00	0.00	0.00	0.00
Unauthorized Overstay	0.00	0.00	0.00	5.70	5.81
Fuel concession	73.17	79.96	82.95	95.76	101.66
Total Aeronautical Revenues	**476.44**	**486.11**	**507.16**	**621.84**	**1280.26**
Target Revenue					
Return on RAB (WACC x Average RAB)	212.51	262.36	306.22	330.82	433.81
Regulatory Base	1765.63	2179.80	2544.21	2748.55	3604.27
WACC	12.04%	12.04%	12.04%	12.04%	12.04%
OM - Efficient Operation & Maintenance cost	382.74	190.58	311.46	382.14	511.08
Aero Depreciation	95.55	128.85	151.31	165.17	141.45
Share of Revenue from Revenue Share Assets	154.61	206.50	240.45	259.53	266.63
Target Revenue	**536.19**	**375.29**	**528.54**	**618.60**	**819.71**
Determination of True-up amount					

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Target Revenue	536.19	375.29	528.54	618.60	819.71
Total Aeronautical Revenues	476.44	486.11	507.16	621.84	1280.26
Revenue Gap	59.75	(110.81)	21.38	(3.24)	(460.55)
Revenue Gap with carrying cost (NPV)	105.48	(174.59)	30.07	(4.07)	(515.98)
True-up					**(559.10)**

Proposal No. 3. Regarding truing-up of ARR for the 1st Control Period for MIAL based on the material before it and its analysis, the Authority proposes

3.a. To consider aeronautical asset allocation in FY2013-14 at 84.52%

3.b. To consider cost of debt in the first Control Period at 10.51% and WACC at 12.04%

3.c. To consider total working capital loan interest of Rs. 6.59 crores for the entire first Control Period

3.d. To consider true-up of negative Rs. 559.10 crore as on 31.03.2014 (over-recovery by MIAL in the 1st Control Period) towards determination of aeronautical tariff for the second Control Period as per Table 13.

3.e. To consider the above true-up in the ARR computed for determination of aeronautical tariff for the second Control Period.

3.f. To note the inclusion of PSF (SC) O&M expenditure of Rs. 38.72 crores for the year 2009-10 to 2013-14 as part of aeronautical service tariff determination. MIAL to provide evidence for reimbursement of this amount into the PSF (SC) escrow account, otherwise the same is proposed to be disallowed at the time of the Order

3.g. To consider the land lease revenue as part of revenue from non-transfer asset for the time being. MIAL to provide evidence that the land lease revenue is generated from the earmarked commercial area.

3.h. To treat the revenues from monetization of land based on the mechanism prescribed by AAI/MOCA on land monetization in case of MIAL (refer para 3.57)

4. Allocation of Assets (Aeronautical / Non-Aeronautical)

a MIAL Submission on Asset Allocation (Aeronautical / Non-Aeronautical)

4.1. MIAL's submission as part of tariff application dated 26.12.2013 with respect to asset allocation for tariff computation is as below,

"Segregation and allocation of Fixed Assets

As per definition of the RB given in the Schedule 1 of the SSA, the RB includes only the Aeronautical Assets, which necessitates segregation and allocation of assets into Aeronautical and Non-Aeronautical Assets.

KPMG has conducted a study for segregation and allocation of assets for the year FY2011-12 and FY 2012-13 using asset-by-asset segregation approach. The report of the study has been attached as Annexure 7(a) and the same basis has been adopted by MIAL in the current Multi Year Tariff Proposal.

In the asset-by-asset segregation approach, the asset base is segregated for Aeronautical and Non-Aeronautical Services based on the usage of the asset for the respective service. In case the assets located in the Terminal Building are jointly required by both services (common assets) they are allocated in proportion to the aeronautical and non-aeronautical areas of the terminal building where such assets are located.

In the entire approach the critical assumptions are:

• Assets defined as Aeronautical Assets in OMDA and used for provision of Aeronautical services (as listed in Schedule 5 of OMDA) are treated as aeronautical.

For example, lifts, escalators and passenger conveyors are specifically included under Schedule 5 of OMDA and hence, included under Aeronautical Assets.

Similarly, Assets used for provision of Non-Aeronautical Services (as listed in Schedule 6 of OMDA) are treated as Non-Aeronautical.

• Assets that cannot be identified as purely Aeronautical or Non-Aeronautical are classified as common assets.

The segregation of assets for the financial year ended 31st March 2012 and 31st March 2013 is as given below.

Segregation of Assets

	As at 31st March 2012	*As at 31st March 2013*
Aeronautical Assets	*2070*	*2448*
Non-Aeronautical Assets	*168*	*219*
Common Assets	*365*	*367*
*Total**	*2603*	*3034*

**Excluding Upfront Fee and Retirement Compensation*

MIAL has five existing Terminals 1A, 1B, 1C, 2B and 2C and new T2. In all these terminals, each of the asset has been identified as 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 seating areas for provision of Non-Aeronautical Services. In addition, it has allocated the common seating areas in three proportions of Aeronautical: Non-Aeronautical i) Predominantly Aeronautical (90:10), (ii) Predominantly Non-Aeronautical (10:90) and (iii) Common (50:50)

The Aeronautical and Non-Aeronautical Assets after allocation of the common assets based on the area ratio is as follows:

Aeronautical and Non-Aeronautical Assets after Allocation of Common Assets

Rs./Crs.

	As at 31st March 2012	*As at 31st March 2013*
Aeronautical Assets	*2374*	*2754*
Non-Aeronautical Assets	*229*	*280*
Total	*2603*	*3034*

Based on the above approach, Aeronautical and Non-Aeronautical Assets have been segregated for second control period. The overall ratio between Aeronautical Assets and Total Assets (i.e. Aeronautical and Non-Aeronautical

Assets) has been computed for each year of the control period, which is summarized below:

Overall Aeronautical Assets as a % of Total Assets *Percentage*

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Aeronautical Assets as % of Total Assets	*88.76*	*89.84*	*90.21*	*90.28*	*90.95*

4.2. MIAL's revised submission as part of tariff application dated 05.08.2014 with respect to Asset Allocation for tariff computation is as below,

Segregation and allocation of Fixed Assets

Based on the auditors certificate for first control period, overall ratio between Aeronautical Assets and Total Assets (i.e. Aeronautical and Non-Aeronautical Assets) has been taken for each year of the control period, which is summarized as below:

Table: Overall Aeronautical Assets as a % of Total Assets (for first Control Period) - submitted vide letter dated 26th December, 2013

Percentage

	FY 10	*FY 11*	*FY 12*	*FY 13*	*FY 14*
Aeronautical Assets as % of Total Assets	*89.92*	*91.87*	*91.22*	*90.76*	*87.62*

Table: Overall Aeronautical Assets as a % of Total Assets (for first Control Period) - Revised

Percentage

	FY 10	*FY 11*	*FY 12*	*FY 13*	*FY 14*
Aeronautical Assets as % of Total Assets	*88.00*	*90.46*	*91.78*	*91.38*	*88.68*

Due to change in Aeronautical assets % for FY 14 along with changes in capex and capitalization schedule as mentioned in para 2.1.1, revised % of aeronautical assets for FY 15-FY 19 is as under:

Table: Overall Aeronautical Assets as a % of Total Assets (for second Control Period) - submitted vide letter dated 26th December, 2013

Percentage

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Aeronautical Assets as % of Total Assets	*88.76*	*89.84*	*90.21*	*90.28*	*90.95*

Table: Overall Aeronautical Assets as a % of Total Assets (for second Control Period) – Revised

Percentage

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Aeronautical Assets as % of Total Assets	*89.97*	*91.26*	*91.60*	*91.64*	*92.09*

"

4.3. MIAL's revised submission as part of tariff application dated 08.09.2015 with respect to Asset Allocation for tariff computation is as below,

"2.1.2. Segregation and allocation of Fixed Assets

Based on the capitalization in FY 15, overall ratio between Aeronautical Assets and Total Assets (i.e. Aeronautical and Non-Aeronautical Assets) has been recalculated. Further, additions in each year have been considered in the same ratio of aeronautical and non-aeronautical assets as at FY 15.

Revised % of aeronautical assets for FY 15-FY 19 is as under:

Table: Overall Aeronautical Assets as a % of Total Assets (for second Control Period) – Revised

	FY 15	FY 16	FY 17	FY 18	FY 19
Aeronautical Assets as % of Total Assets	*87.58*	*87.58*	*87.58*	*87.58*	*87.58*

"

b Authority's Examination of MIAL's Submission on Asset Allocation (Aeronautical / Non-Aeronautical)

4.4. The Authority has noted MIAL's revised submission regarding asset allocation towards aeronautical services for the 1st and second Control Periods. The Authority has sought basis for change in allocation of assets by MIAL as well as Auditor's Certificates regarding asset allocation for the 1st and second Control Periods.

4.5. 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 Auditor's Certificate on the asset allocation by MIAL for the 1st Control Period, in MIAL's submission dated 01.07.2014, as provided in para 3.17.

4.6. The Authority is also in receipt of the allocation of assets in the terminal area between aeronautical and non-aeronautical from MIAL for the second Control Period. However, the Authority has noted that the asset allocation estimated by MIAL in its revised Tariff Model is based on addition to aeronautical and non-aeronautical assets in the second Control Period. The Authority has noted that MIAL has considered all additional capital additions in the second Control Period to be aeronautical in nature. Further, the Authority has noted that MIAL has submitted that non-aeronautical assets in 2014-15 are limited only to the real estate assets capitalized during the year, while all the remaining assets have been assumed to be taken as aeronautical. The Authority had requested MIAL to clarify reasons for such allocation with supporting documentation. Further, the Authority had requested MIAL to provide information regarding non-aeronautical and aeronautical assets considered at the T2 including the maps / master plans, total terminal area break-down list and worksheet, used to compute non-aeronautical asset area in the terminal.

4.7. The Authority is in the receipt of the level-wise maps from MIAL along with the following explanation that the total area utilized for non-aeronautical services at T2 as at 31.12.2-15 and additional areas to be commissioned from 01.01.2016 at South-east pier is 35,671 sq. metre, out of total T2 area of 444,203 sq. metre. MIAL has provided the following with respect to non-aeronautical area usage in T2:

"Total area utilized for non-aeronautical services at T2 as at 31.12.2-15 and additional areas to be commissioned from 01.01.2016 at South-east pier:

Particulars	Area in Sq. MT
Duty Free	6571
F&B	4452
Lounges	4090
Retail	4584
Offices	12995
Day Hotel	1841
Smoking lounge	382
Money Exchange	119
Passenger Service	232
Advertising	128
Bank/ATM	18
Car rental / Hotel Reservations	259
Total	35671

"

4.8. Further MIAL has also submitted that it has considered facilities of NACIL falling in the footprints of Apron associated with new T2, as aeronautical, in view of such expenditure being the enabling cost for construction of the new Apron. It has requested the Authority to consider such assets and the list of another 27 capex items as aeronautical in nature, stating that a further explanation may be provided in this regard. The Authority has also noted the detailed explanation provided by MIAL in its letter dated 30.01.2016 regarding the need for re-location of such assets and their treatment as aeronautical.

4.9. However, the ICWAI in its Study on asset allocation provided commented as below on this matter, *"After taking into considering the above response from MIAL, it is understood that assets pertaining to NACIL and Line Maintenance Building were falling in the footprint of T2 Apron and were relocated for T2 Apron development. As per MIAL, assets pertaining to NACIL and Line Maintenance Building should be allocated to Aeronautical Asset being enabling cost for creation of the intended asset (i.e. New T2 Apron). However, it is also to be noted that assets pertaining to NACIL and Line Maintenance Building are Non-Aeronautical by nature and revenue generated from those assets is also accounted under Non-Aeronautical Revenue. To allocate assets generating Non-Aeronautical Revenue under Aeronautical Assets will lead to conflict between nature of Asset and Revenue collected out of it.*

The current stand taken by MIAL for treating entire assets pertaining to NACIL and Line Maintenance Building is contrary to its earlier stand wherein the NACIL- New LMD. Hanger (Value at Rs. 67.97 crore) were treated as Non-Aeronautical Assets by MIAL itself. In view of above, allocation of assets pertaining to NACIL and Line Maintenance Building (Rs. 92.92 crore and Rs. 14 crore respectively) is changed from Aeronautical to Non-Aeronautical."

4.10. Accordingly, ICWAI has concluded in its Study the following total asset allocation,

"Summary of Location-wise Assets after Allocation of Common Assets to Aero and Non-Aero (Rs. in Crore)

S.No.	*Location Name*	*Non-Aeronautical*		*Aeronautical*		*Grand Total*
		Amount	*% of Total*	*Amount*	*% of Total*	*(Location-wise)*
1	*Airside*	*50.07*	*2.75*	*1,773.10*	*97.25*	*1,823.17*
2	*ATC Tower*	*0.66*	*0.5*	*133.41*	*99.5*	*134.08*
3	*CA Terminal*	*6.06*	*95.64*	*0.28*	*4.36*	*6.34*
4	*Cargo*	*65.48*	*99.84*	*0.11*	*0.16*	*65.58*
5	*Central Stores*	*0.27*	*72.49*	*0.1*	*27.51*	*0.37*
6	*Corporate Common*	*1.02*	*43.4*	*1.33*	*56.6*	*2.34*
7	*IT Deptt*	*1.16*	*2.71*	*41.52*	*97.29*	*42.68*
8	*Landside*	*1.75*	*10.26*	*15.27*	*89.74*	*17.02*
9	*MIAL Resid Complex*	*0*	*16.75*	*0.02*	*83.25*	*0.02*
10	*Navy Hangar*	*-*	*0*	*0.06*	*100*	*0.06*

S.No.	Location Name	Non-Aeronautical		Aeronautical		Grand Total
11	New Terminal 2	789.9	12.76	5,401.69	87.24	6,191.59
12	NT2 Forecourt Road	-	0	584.32	100	584.32
13	NT2 MLCP	578.2	100	-	0	587.2
14	NT2 NACIL	162.11	97.95	3.4	2.05	165.51
15	Others	0.29	33.2	0.58	66.8	0.87
16	Porta Cabin	1.74	5.06	32.63	94.94	34.37
17	Project office	0.97	5.92	15.36	94.08	16.33
18	RED office	-	0	2.53	100	2.53
19	Sahar Elevated Road	-	0	257.09	100	257.09
20	Sahar Police Stn	-	0	10.99	100	10.99
21	Terminal 1	17.5	19.2	73.65	80.8	91.15
22	Terminal 1&2	0.64	18.06	2.92	81.94	3.56
23	Terminal 1A	9.7	13.22	63.64	86.78	73.34
24	Terminal 1B	21.14	12.68	145.5	87.32	166.64
25	Terminal 1C	24.39	10.08	217.45	89.92	241.84
26	Terminal 2	0.4	11.83	2.97	88.17	3.37
27	Terminal 2A	0	16.75	0.01	83.25	0.01
28	Terminal 2B	8.71	15.28	48.31	84.72	57.02
29	Terminal 2BC	79.75	21.36	293.67	78.64	373.42
30	Terminal 2C	2.75	24.1	8.67	75.9	11.42
31	Vile Parle Police Station	0	0.27	0.8	99.73	0.8
32	Yellow Fever Hosp	-	0	9.81	100	9.81
	Total	1,824.65	16.64%	9,141.17	83.36%	10,965.83

"

4.11. The Authority has noted MIAL submission as well as ICWAI's comments pertaining to moving of NACIL and Line Maintenance Building. The Authority sought further details from MIAL on the ownership of the NACIL assets. In response, MIAL submitted its Agreement with NACIL regarding the re-location of the assets. The Authority has had reference to the Agreement and noted the following clause:

"…The entire cost of demolition as well as relocation of the facilities / buildings shall be borne by MIAL including the cost of Air-conditioning (wherever existing facilities of NACIL being relocated have similar facilities), electrical installations, data cabling and related works as existing which would on completion be owned by NACIL"

4.12. The Authority then sought from MIAL information on whether the assets have been handed over to NACIL. In response via its letter dated 25.02.2016, MIAL submitted that the assets have been handed over to NACIL and it will be furnishing an evidence on the same at a later date. It has also submitted a list of facilities constructed by MIAL for the purpose of relocation of the facilities which include line maintenance offices in the Terminal Building. An extract of the letter has been reproduced below,

"…we once again reiterate that such facilities have been made in lieu of

NACIL's pre-existing facilities which came under footprints of the apron associated with new Terminal 2 and the land occupied by such facilities was required for construction of upcoming apron associated with the new terminal 2. MIAL is getting space rental from NACIL for Line Maintenance offices located in the new terminal 2 and land lease rental from NACIL in respect of facilities relocated and developed for NACIL on the piece of land which was in possession of NACIL from earlier times.

Such facilities have been handed over to NACIL and the supporting documents shall be provided to the Authority in due course

We once again request the Authority to treat capital expenditure done for creation of facilities of NACIL / Air India which were enabling cost for construction of the apron associated with new T2, as aeronautical in nature."

4.13. The Authority has noted the above. The Authority has noted that while these assets are not owned by MIAL anymore, MIAL did incur a cost for relocating and constructing the facilities. Pending the receipt of the supporting documents from MIAL on the handing over of the assets to NACIL, the Authority proposes to consider this expense incurred by MIAL as aeronautical in nature. Thus in the table mentioned in para 4.10 above, the Authority has transferred the amount of Rs. 162.11 crores considered as non-aeronautical under item 14 "NT2 NACIL" to aeronautical. Therefore, the entire amount of Rs. 165.45 crores has been considered as aeronautical in nature. Accordingly, the Authority has recomputed the allocation of assets as 84.52% (aeronautical).

4.14. Further, the Authority has noted that the non-aeronautical area as of 31st March 2014 for New T2 is only 22,249 sq. mts. out of total area of 439,203 sq. mts., i.e. 5.07% of the total area of the airport. This allocation seems much lower compared to the non-aeronautical allocation for the old T2, which was around 20.33% of the old T2 area. The Authority has also noted from MIAL's submission above that the non-aero area in New T2 as of 31.12.2015 has increased to 35,671 sq. mts. out of total of 444,203 sq. mts., which works out to around 8.03%. The Authority is of the view that it seems that the allocation is based on handing over of the premises for commercial purpose, rather than on the basis of the earmarked space for non-aeronautical services. The Authority proposes to take into account non-aeronautical allocation of the terminal building based on the actual handed over area or earmarked area, whichever is higher. The common areas also need to be apportioned between aeronautical and non-aeronautical areas on the above basis. The Authority had sought the Master Plan from MIAL to determine the earmarked area for non-aeronautical purpose. MIAL has submitted the "Finalised Design Plans". As per the Master Plan 14.71% of the new T2 has been worked out as non-aeronautical in nature consisting of 57,094 square meter towards commercial area and 8,243 square meter as apportioned seating area. The Authority notes that even certain areas which have been earmarked as aeronautical could be part of non-aeronautical assets based on the treatment given to similar areas in the building. The apportionment of common areas also does not seems to be appropriate. Therefore the Authority proposes to consider the asset allocation as 84.52% (refer para 4.13 above) for the year FY2013-14 and second Control Period. The Authority will reconsider the reallocation if MIAL provides the details of the break-up for the entire area of the terminal building of 444,203 square meter and detailed breakup of its uses.

4.15. The Authority also proposes to take corrective action, as may be necessary, based on the independent study to be conducted to determine the allocation of assets in respect of the CSI, Mumbai Airport. At the commencement of the 3rd Control Period, the Authority, upon analysis / examination pursuant to such a study, may conclude that the allocation of assets considered needs to be changed in the second Control Period and if that is the case, then it will consider truing up the asset allocation and consequently RAB at the commencement of the 3rd Control Period, for the second Control Period.

Proposal No. 4. **Regarding Asset Allocation for second Control Period for MIAL based on the material before it and its analysis, the Authority proposes**

4.a. To consider asset allocation as per above para 4.14 above.

TruingUp No. 1. **Correction / Truing up for Allocation between Aeronautical and Non-aeronautical Assets**

1.a. The Authority proposes to take corrective action, as may be necessary, based on the independent study being conducted to determine the allocation of assets in respect of the CSI, Mumbai Airport at the commencement of 3rd Control Period.

5. Regulatory Asset Base

a MIAL Submission on additions to Regulatory Asset Base (RAB) and RAB in the Second Control Period

Additions to Regulatory Asset Base

5.1. MIAL submission as part of its tariff application dated 26.12.2013 of second Control Period regarding Capital Expenditure is as under,

"Capital Expenditure includes the following

i. Projects Capital Expenditure

Current Projects (Project Cost)

New Projects to be undertaken in second control period

ii. Operational Capital Expenditure

i) Projects Capital Expenditure

a) Current Projects (Project Cost)

The Authority vide its Order No. 29/2013 dated 21st December, 2012, in relation to determination of Development Fee had approved Project Cost of Rs. 12,069.80 Crs. against estimated cost of Rs. 12380 Crs. Thus disallowing Rs. 310.20 Crs. of Project Cost comprising of upfront fee of Rs. 153.85 Crs. and other capital expenditure of Rs. 156.35 Crs. The Authority had vide Orders no. 29 and 32 dated 21.12.2012 and 15.01.2013 respectively had capped overall Project Cost at Rs. 12069.80 Crs., which has been challenged by MIAL before AERAAT. While determining DF, the Authority had left funding gap of Rs. 1241.39 Crs. unaddressed which had to be met out of additional debt. The Authority's Order No. 29 specifically mentioned that increased IDC on such additional debt shall be considered by it as and when such additional debt is raised and evidential details are produced to the Authority. Such interest cost is estimated to be Rs. 140 Crs. Although capping of cost for an ongoing project has been challenged by MIAL but still Board of Directors of MIAL discussed the issue of Project Cost and to mitigate impact of increase in Project Cost of Rs.

435 Crs., after above orders of AERA, comprising of increase of Rs. 380 Crs. in project cost and Rs. 55 Crs. increase in IDC due to capitalisation of new Terminal on 1st January, 2014 instead of 31st August, 2013 envisaged earlier, decided to contain the cost by reviewing various projects so that, some of the projects could be dropped without material adverse effect on capacity and efficiency of the airport. After intensive review following projects have been dropped from the scope of the current projects. While dropping these projects it has been ensured that there is no significant impact on efficiency, capacity and operations of the airport. This effort in no way should be construed that these projects were earlier included without adequate requirements and justifications. Details of such projects are as follows:

Rs./Crs.

Particulars	*Estimated cost*
North West Pier (Part of New T2)	*60*
Apron for North West Pier (Part of Airside Projects)	*20*
Relocation of Air India GSD Facility (Part of Misc. Projects)	*60*
Airport Management Building (Part of Misc. Projects)	*40*
ATC Technical Block (Part of Additional Projects)	*200*
Total	*380*

While sanctioning Project Cost of Rs. 12,069.80 Crs., AERA had deferred, inter alia, Rs. 25 Crs. towards slum rehabilitation cost as it was expected to be reimbursed by HDIL. Subsequently on continuous failure of HDIL, MIAL had terminated Slum Rehabilitation Agreement dated 15th October, 2007, with HDIL, and accordingly it encashed Performance Security of Rs. 25 Crs. of HDIL and the same was appropriated towards receivables from HDIL. Hence effectively Project Cost as sanctioned by AERA may be considered as Rs. 12044.80 Crs. Adding Rs. 140 Crs. of IDC on additional debt, the sanctioned Project Cost may be considered as Rs. 12184.80 Crs. which, obviously, does not include Rs. 310.20 Crs. which has been disallowed by AERA (revised disallowed cost will be Rs. 260.20 Crs. considering that Rs. 50 Crs. pertaining to cargo *development is not to be incurred and accordingly also reduced from total Project cost) and not contested by MIAL, however MIAL has to arrange for funding of disallowed capex of Rs. 260.20 Crs also (Rs. 310.20 Crs. less Rs. 50 Crs. cost not to be incurred towards cargo development). However, the cap of Rs. 12069.80 Crs. imposed by AERA has been challenged by MIAL, looking into the fact that it is an ongoing project prone to various contingencies and unforeseen and uncontrollable circumstances. In spite of such increase of Rs. 380 Crs., Board of Directors of MIAL has taken pains to ensure that projects of Rs. 380 Crs. are dropped resulting in increase of only Rs. 55 Crs. in IDC due to change in the date of capitalization of new terminal, because of reasons beyond control of MIAL.*

Please find enclosed Annexure 1 providing details of projects of Rs. 380 Crs. being dropped to contain Project Cost as far as possible.

However, MIAL reiterates that capping of Project Cost by the Authority was not justifiable.

Construction of new terminal was completed on 31st August, 2013, which may be verified from the report of the Independent Engineer enclosed as Annexure 2, however commencement of operations could not take place because of the following reasons:

1) *Delay in settlement of issue of placement of Immigration counters after Security Check against present practice of placement of Immigration counters before Security Check. The matter could not be resolved at the level of administrative ministry, i.e. MoCA and even in the office of Cabinet Secretary, by Secretary (Coordination). Ultimately, the matter was taken to Cabinet Committee on Investments chaired by the Hon'ble Prime Minister. We understand in this committee decision was taken to continue with configuration implemented by MIAL for which SOPs were to be finalised by BCAS and to be approved by MoCA. Approved SOPs were issued by MoCA to BCAS on 6th December, 2013 and BCAS has forwarded*

the copy of the same to MIAL on 18th December, 2013 only. There was no possibility of starting operations from the terminal without SOPs being in place. Copy of letter received from BCAS dated 18th December, 2013 is enclosed for ready reference as Annexure 3.

We would like to bring to the notice of the Authority that before embarking on new configuration, all stakeholders including Bureau of Immigration (BoI) were kept informed. Objections were raised by BoI at very late stage when it was not possible to undo the configuration adopted, resolution of this matter, as indicated above, took unreasonable time leading to delay in commencement of operations.

2) *Delay in completion of MMRDA portion of Sahar Elevated Access Road which is mainly attributable to the delay in works of Vehicular Underpass at Western Express Highway, which was dependent on removal and relocation of existing foot over bridge. The foot over bridge was relocated on 13th October 2013 by MMRDA and consequently the vehicular underpass is expected to be completed by end December 2013.*

3) *Security clearance from BCAS for new terminal has been received only on 24th December, 2013. Letter received from BCAS dated 24th December, 2013 is enclosed for ready reference as Annexure 4. We would like to put on record the fact that application for security clearance was submitted well in advance. BCAS took its own time to give security approval. MLCP, integral part of the terminal, is yet to be security approved.*

Due to site constraints, it was not possible to construct Multi Level Car Park (MLCP) far away from the terminal. MLCP is compliant with the provisions of IATA Airport Development Reference Manual. However, BCAS is yet to approve MLCP as part of terminal. It was impossible to commence operations from terminal without security clearance from BCAS.

It may kindly be observed that commissioning of terminal was delayed because of clearances from main regulatory bodies, viz. BoI and BCAS. These *reasons were beyond control of MIAL. It is worthwhile to mention that adequate number of immigration staff is also not available. MIAL Letter No. MIAL/CEO/138 dated 18.11.2013 to Secretary, MoCA is enclosed for ready reference as Annexure 5. This issue was also raised by MIAL in 17th OIOC meeting held on 19th December, 2013 under chairmanship of Secretary, MoCA.*

As mentioned above, delay in commissioning led to change in expected date of capitalization of new T2 to 1st January 2014 instead of 31st August, 2013 which has resulted in increased IDC of Rs. 55 Crs.

b) New Projects to be undertaken in second control period

Please find enclosed Annexure 6 showing details of projects to be undertaken in second control period aggregating Rs. 1,448 Crs. including soft cost i.e. IDC, pre-operative expenses and anticipated inflationary impact during implementation of these projects. This is to inform to the Authority that MIAL has initiated the process of consultation with stakeholders for each project costing more than Rs. 100 Crs. as per provisions of OMDA and SSA. We shall keep the Authority apprised of progress of the same.

In absence of detailed guidelines for stakeholders / user consultation under SSA, MIAL has conceptualized the process of stakeholders consultation and the same shall be submitted to the Authority in due course.

ii) Operational Capital Expenditure

The Operational Capital Expenditure for the second control period is estimated at Rs 975 Crs. "

5.2. MIAL's submission regarding Capital Expenditure and Capitalization submitted as part of its tariff application dated 26.12.2013 is presented below,

"A summary of revised year-wise Capital Expenditure Incurrence and Capitalization, including contribution to MMRDA towards metro rail stations before Development Fee (DF) adjustment for the control period is as follows:

Table: Capital Expenditure Incurrence

Rs./Crs.

	*Estimated Incurrence up to FY 14**	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*	*Total FY 15-FY19*	*Total up to FY 14*
Current Projects	*11,263*	*962*	*268*	*7*	*0*	*0*	*1,237*	*12,500*
New Projects		*224*	*484*	*212*	*245*	*282*	*1,448*	
Operational Capex		*350*	*225*	*200*	*100*	*100*	*975*	
Total		*1,537*	*978*	*419*	*345*	*381*	*3,660*	

**** Excludes Retirement compensation to AAI***

Table: Capitalisation

Rs./Crs.

	*Estimated Upton FY 14**	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*	*Total FY 15-FY19*	*Total up to FY 14*
Current Projects	*10,865*	*798*	*672*	*165*	-	-	*1,635*	*12,500*
New Projects		-	*507*	-	-	*941*	*1,448*	
Operational Capex		*323*	*115*	*337*	*100*	*100*	*975*	
Total		*1,121*	*1,294*	*502*	*100*	*1,041*	*4,058*	

** Excludes Retirement compensation to AAI*

"

5.3. MIAL submitted the following as part of its tariff application dated 05.08.2014 regarding Capital Expenditure and Operational Capital Expenditure:

"Capital Expenditure

Capital Expenditure includes the following you d

Projects Capital Expenditure

a. Current Projects

b. Projects to be undertaken in second control period

Operational Capital Expenditure

i) Projects Capital Expenditure

a) Current Projects (Project Cost)

Construction of new terminal was completed on 31st August, 2013 and the same was inaugurated by Hon'ble Prime Minister of India on 10th January, 2014. MIAL has updated the projections of Capex incurrence and capitalization numbers for FY 15 and FY 16 considering actual numbers of FY 14.

b) Projects to be undertaken in second control period

In proposal dated 26th December, 2013, new projects to be undertaken in second control period aggregated Rs.1448 crores. The earlier projected capex has now been revised to Rs.1303 crores as detailed in Annexure 1. The net decrease of Rs. 145 crores is due to following reasons:

Reduction in Soft costs by Rs. 172 crores due to reduced pre-operative costs and Interest During Construction (IDC). IDC on cost of two stations has been excluded considering funding through DF.

Increase in estimated project cost for construction of South East Pier by Rs.25 crores (from Rs.370 crores to Rs. 395 crores).

Increase in estimated project cost by Rs.2 crore for relocation of existing IMD facilities to NAD colony of AAI.

Process of consultation with stakeholders has already been completed for each project costing more than Rs. 100 Crores proposed to be taken up during the second control period as per provisions of OMDA and SSA. First meeting with the Stakeholders was held on 5th March, 2014. Minutes of the meeting were circulated to all the stakeholders and the Authority.

Final consultation meeting with stakeholders was held on 23rd June, 2014. Minutes of the final consultation meeting have been submitted vide MIAL letter no MIAL/VPR/14-15/22 dated 5th August, 2014.

It may be noted from the minutes that, stakeholders have concurred with all the projects proposed by MIAL and were of the view that these projects should be taken up by MIAL on priority basis.

ii) Operational Capital Expenditure

The Operational Capital Expenditure for the second control period earlier estimated at Rs.975 crores has been revised to Rs 1081 Crores due to change in design of the proposed tunnel under runway 14/32 and few other changes. Details of operational capital expenditure are enclosed as Annexure 2."

5.4. MIAL also submitted the following as part of its tariff application dated 05.08.2014 regarding funding of Metro through DF:

"Funding of Metro stations through DF

One of the major components of the capital expenditure proposed to be taken up in this control period is contribution to MMRDA for two Metro rail stations in the CSIA area. Normally, provision of road and rail connectivity to airports is the primary responsibility of State Government. Creation of transportation infrastructure in any city is for usage of public and same is the case with providing connectivity to the airport for public. Ideally, such projects need to be funded by Government from exchequer. Government collects taxes from public which in turn are utilized for public purposes including, inter alia, for such projects.

In spite of MIAL's objections for contributing towards cost of metro project, decision was taken by National Facilitation Committee that MIAL may have to re-look into the matter. In case of Delhi Airport a precedent was set by DIAL by contributing Rs.350 crores towards cost of Delhi metro project.

MIAL with great difficulty tied up funding gap of Rs.1347 crores left by the Authority while sanctioning DF of Rs.3400 crores. MIAL already has huge borrowings and there is no scope of raising further debt or equity to fund contribution of Rs.518 crores towards metro project. Apart from above, all the *internal accruals generated by MIAL shall be deployed for the projected capex. In the current scenario it shall not be possible to debt finance this project.*

It is pertinent to note that in the last Board Meeting of MIAL, held on 23rd July, 2014, issue of likely funding gap in case of shortfall in internal accruals for funding of additional capex was discussed. Board was fully apprised of the difficulty expressed by the lenders for extending any further loans beyond Rs. 822 Crs. since it will not be possible to meet financial covenants. In this context, a detailed discussion took place about all possibilities of funding the gap including deliberations whether there is a possibility of bringing any additional equity over and above Rs. 1200 Crs. Representatives of all the shareholders including AAI expressed inability of brining any additional equity.

Since there is no possibility of raising further debt or equity or any other means, funding of this project has to be met, as a means of last resort through Development Fee pursuant to provisions of Section 22A of the AAI Act, 1994.

To collect Rs. 518 crores together with interest on loan to be obtained against securitisation of Development Fee, additional DF of about Rs. 35 per departing passenger for a period of about 10 years needs to be collected. However, based on ratio of 6:1 being DF on departing International and Domestic passengers respectively amount of DF per departing international and domestic passenger will be around Rs. 88 and Rs. 15 respectively."

5.5. MIAL further submitted the following regarding capital expenditure and capitalization in the second Control Period as part of its tariff application dated 05.08.2014:

"A summary of revised year-wise Capital Expenditure Incurrence and Capitalization, including contribution to MMRDA towards metro rail stations before Development Fee (DF) adjustment for the control period is as follows:

Table: Capital Expenditure Incurrence - Revised

Rs./Crs.

	Incurrence up to FY 14*	FY 15	FY 16	FY 17	FY 18	FY 19	Total FY 15-FY19	Total up to FY 14
	Actual	*Projected*						
Current Projects	*10,877*	*962*	*661*	*-*	*-*	*-*	*1,623*	*12,500*
New Projects		*202*	*498*	*155*	*161*	*287*	*1,303*	
Operational Capex		*313*	*380*	*239*	*77*	*72*	*1,081*	
Total		*1,477*	*1,540*	*394*	*238*	*359*	*4,007*	

** Excludes Retirement Compensation to AAI*

Table: Capitalisation - Revised

Rs./Crs.

	Upton FY 14*	FY 15	FY 16	FY 17	FY 18	FY 19	Total FY 15-FY19	Total up to FY 14
	Actual	*Projected*						
Current Projects	*10,272*	*1,034*	*1,067*	*126*	*-*	*-*	*2,228*	*12,500*
New Projects		*-*	*529*	*-*	*-*	*774*	*1,303*	
Operational Capex		*259*	*235*	*438*	*77*	*72*	*1,081*	
Total		*1,293*	*1832*	*564*	*77*	*846*	*4,612*	

** Excludes Retirement Compensation to AAI “*

5.6. MIAL also submitted details of capital expenditure not incurred by it at present:

“Capital expenditure presently not considered:-

Acquisition of land for housing of security personnel from Airport Security Group (presently CISF)

Providing housing to Airport Security Group (Presently CISF) is being desired by CISF. Security being a sovereign function, MIAL requested for allotment of 20 acres of land for providing housing to about 1900 security personnel, in the *meeting held on 7th December 2011 under chairmanship of Honourable Chief Minister of Maharashtra on Mumbai Airport Development.*

After continued persuasion 20 acres of land was identified at Village Nelje, Tehsil Kalyan, District Thane. A joint survey of land, bearing survey number 23 & 26, was conducted on 26th April, 2013 by Tehsildar Kalyan and two senior officials of MIAL. Though request made was for allotment of land on long term lease in name of AAI, GoM is agreeable to provide land on outright sale basis only. Ready reckoner rate for 2014 for purchase of the proposed plots is Rs.4.96 crores per acre (Rs.4.73 crores per acre for 2013), accordingly 20 acres of land shall cost about Rs. 100 crores at the current rates.

MIAL vide its letter dated 29th March, 2014 approached MoCA for allowing purchase of this land from PSF (SC) funds. In case use of PSF (SC) is not permitted and MIAL has to buy the land in such case cost of such land along with cost of construction of housing should be allowed as a cost pass through and return on such investment should be provided through UDF as a separate component for security related expenses, which should not be subject to Annual Fee to AAI. Authority is requested to consider such purchase of land and construction of housing blocks for security personnel for the purposes of return on such investment. MIAL shall separately approach the Authority for approval of such return through UDF (Security Component) at an appropriate time.

Capital expenditure being met through PSF (SC)

Capital expenditure related to security of the airport are being incurred from PSF (SC) account and therefore not included as part of project cost. However CAG has raised certain objections and consequently MOCA has issued an Order directing all airports to reverse entire capital expenditure incurred from FY 2006-07 onwards from PSF (SC) account. We have filed an appeal against the said Order which is pending at Bombay High Court. Pending outcome of the appeal, it is assumed that capital expenditure towards security expenses will *continue to be incurred through PSF (SC). However if any such amount is required to be incurred by Airport Operators including any amount for the past period and, consequently, is to be incorporated as Project Cost it shall result in increase in tariff. However, in order to maintain exclusion of such amount from Annual Fee to AAI it is imperative that tariff for this purpose is determined separately and is not subjected to Annual Fee to AAI (Revenue Share). Since it is not possible to exactly quantify all the expenditure which may be disallowed from PSF (SC) account, at this stage, we request the Authority to kindly consider such expenses for the purpose of truing up as and when decided.*

Issues covered under para 2.1.1 (a) and (b) are security related and any provision of tariff on this account, as already mentioned above, cannot be subjected to Revenue Share. AAI cannot be unduly enriched on account of increase in tariff solely for security function. In fact Authority had earlier brought out the Consultation Paper separately for such expenditure which was never finalised. Even today PSF (SC) is not subjected to revenue sharing. If MoCA constricts the scope of PSF (SC) and for that Airport Operator has to bear such expenditure there is no reason why it should be subjected to revenue sharing. Hence, it becomes necessary that tariff component for all security related expenditure have a separate identity. It will avoid any dispute with AAI. Details of such expenditure will be submitted to the Authority in due course."

5.7. As part of tariff application dated 08.09.2015, MIAL drew reference to its letter no. MIAL/CEO/48 to the Authority dated 31.07.2015, in which it has revised the current project cost from Rs. 12,500 crores to Rs. 12,630 crores; project cost of projects to be undertaken in the second Control Period to Rs. 1,320 crores and operational capital expenditure to Rs. 1,440 crores. Key extracts of the MIAL letter no. MIAL/CEO/48 to the Authority dated 31.07.2015 regarding project cost increase have been reproduced below:

"Escalation in Project Cost

There is escalation in Project cost due to statutory amendments and other reasons beyond the control of MIAL.

Project Cost Escalation:

A. Ongoing Projects - Rs-130 crs.

Project Description	*Existing*	*Revised*	*Increase*
Airside Projects	*1,648*	*1,657*	*9**
T1 Projects	*465*	*466*	*1**
T2 Projects	*5,870*	*5,896*	*26**
Landside Projects	*41*	***41***	*-*
Miscellaneous Projects	*389*	*393*	*4**
5.4 of OMDA (AAI Works Taken Over)	*24*	*24*	*-*
Technical Services/Consultancies	*863*	*865*	*2**
Additional Projects	*639*	*665*	*26#**
Expenditure during construction and Interest during construction	*2,561*	*2.623*	*62*
Total	***12,500***	***12,630***	***130***

**Increase due to withdrawal of Service Tax exemption - Rs. 50 crores*

#includes increase in land acquisition cost by Rs. 18 crs; balance Rs. 8 crs. due to withdrawal of service tax exemption

The reasons for the increase are explained below:

a) Additional cost due to withdrawal of Service tax exemption to Airport Project Construction - Rs. 50 crs.

Services by way of construction, erection, commissioning, or installation of original works pertaining to airports were exempted from service tax up to 31st March 2015. This exemption has been withdrawn w.e.f. 1 April 2015 vide notification no 6/2015-ST dated 1-3-2015. Consequently, expenditure on the services in the works (40%) which remain committed but not certified as on 31u March 2015 and /or which are yet to be committed post 31st March 2015 will be attracting service tax @14%, effective increase 5.6% (being 14% of 40%). Increase in capex due to the said withdrawal of the exemption of service tax on original works is Rs. 50 crs.

b) Increase in Interest During Construction- Rs. 62 Crores.

While determining tariff for the 1st control period the authority, based on estimated receipt of refundable interest free security deposit to the tune of Rs. 1,000 crores, had considered such deposit as one of the means of finance, *However, due to delay in availability of land and also due to Real Estate market turning unfavourable/specially hospitality segment, response to tender floated by MIAL for leasing of 8.75 acres of land consisting of four Plots was not very encouraging. In fact in one case involving two plots even after allowing extra time to fulfil obligations by the bidder, the bidder expressed inability to proceed with the offer. So far deposit of Rs. 100 crores has been received and there is firm commitment for another Rs. 107 crores. Out of four plots only two plots have been finalised.*

Though all efforts will continue to monetize the Real Estate and collect deposits in near future, but due to uncertainty it is essential that arrangement is made for funds to complete the project. As already informed, there is no possibility for getting long term loan / project loan for funding project cost. All shareholders including AAI had expressed inability to bring further equity. As a last resort, MIAL had to approach lenders; for mid-term loan in order to complete the project. In the view of this development, other than Security deposit already collected / committed aggregating Rs. 207 crs., an amount of Rs. 793 crs. has to be arranged through short /Mid-term loans, with a commitment to repay such loan in future out of Real Estate Deposits. Loan of Rs. 300 crs, has been sanctioned by Axis Bank and Rs. 350 crs. by Yes Bank aggregating Rs. 650 crs. Further, Rs. 273 crs. funding gap generated due to escalation in project cost and balance shortfall of RSD has also to be met through debt. It is envisaged that loan of Rs. 923 crs. shall be taken for the period of two/ three years with bullet repayments.

Increase in IDC is due to necessity for obtaining loan in absence of RSD and delay in completion of South East Pier Phase III from May, 2015 to September, 2015. Interest on additional loan of Rs. 650 crores till completion of the project is Rs. 14 crores. Increase in IDC of Rs. 48 crores is due to delay in completion of fuel line work and subsequent pavement in the related apron area caused by delay in demolition of Up-ramp. Up-ramp could not be demolished as planned, *due to delay in the relocation of pray area. The same has been temporarily re-located to another place till permanent pray area is available.*

c) Increase in cost of settlement of land - Rs.18 crs.

Increase in cost of settlement of land is due to higher demand by encroachers for critical pockets of land resulting in estimated additional payout of Rs. 18 crores.

d) Increase In Cost of Second Control Period projects - Rs.17 crs.

The withdrawal of exemption for Airport projects from Service tax, as discussed earlier, shall result into an increase of Rs. 17 crs. The said increase is due to statutory levy viz., service tax.

Increase in cost due to withdrawal of Service tax Rs. in Crs.

*Si. **no.***	***Projects in the second control period***	***Existing Project Cost***	***Revised Project Cost***	*Increase in **cost***
1.	*Metro Station - 2 nos*	*518*	*518*	*-*
2.	*Taxiway 'M' (Only Slum Rehab cost)*	*157*	*157*	
3.	*Air India Code 'C Hangar*	*51*	*53*	*2*
4.	*South East Pier*	*395*	*409*	*14*
5.	*Meteorological Farm*	*12*	*13*	***1***
	Expenditure during construction and Interest during construction	*170*	*170*	
	Total	*1,303*	*1,320*	*17*

5.8. In its tariff application dated 08.09.2015, MIAL has submitted the following details regarding the current and new project cost and operational capital expenditure as below,

"Capital Expenditure includes the following

i. Projects Capital Expenditure

a. Current Projects

b. Projects to be undertaken in second control period

ii. Operational Capital Expenditure

i) Projects Capital Expenditure

a) Current Projects (Project Cost)

As submitted earlier, MIAL vide its letter no. MIAL/CEO/48 dated 31st July, 2015 has stated that cost of current projects has been increased from Rs. 12,500 crs. to Rs. 12,630 crs. due to the reasons beyond the control of MIAL. Minutes of Board meeting held on 27th July, 2015 is enclosed as Annexure 1. Capex incurrence and capitalization numbers for FY 15 have been updated on actuals and FY 16 - FY 17 are accordingly updated.

Further, Terminal 2 domestic section which was envisaged to be opened in July 2015, will now be opened in two phases i.e. shifting of Air India in October 2015 and Jet Airways January 2016.

b) Projects to be undertaken in second control period

In proposal dated 20th August, 2014, new projects to be undertaken in second control period aggregated Rs. 1,303 crores. The earlier projected capex has now been revised to Rs.1320 crores as submitted by MIAL vide its letter no. MIAL/CEO/48 dated 31st July, 2015.

ii) Operational Capital Expenditure

The Operational Capital Expenditure for the second control period earlier estimated at Rs.1156 crores has now been revised to Rs. 1,440 Crores.

A summary of revised year-wise Capital Expenditure Incurrence and Capitalization, including contribution to MMRDA towards metro rail stations before Development Fee (DF) adjustment for the control period is as follows:

Table: Capital Expenditure Incurrence - Revised Rs./Cr

	Incurrence up to FY 14*	FY 15	FY 16	FY 17	FY 18	FY 19	Total FY 15- FY19	FY 20	Total up to FY 20
	Actual	*Actual*		*Projected*					
Current Projects	*10,877*	*729*	*861*	*163*	*0*	*0*	*1,753*	*0*	*12,630*
New Projects		*90*	*546*	*170*	*183*	*198*	*1,187*	*133*	*1,320*
Operational Capex		*321*	*557*	*164*	*256*	*142*	*1,440*	*0*	*1,440*
Total		*1,140*	*1,964*	*497*	*439*	*340*	*4,380*	*133*	*15,390*

**Excludes Retirement Compensation to AAI*

Table: Capitalisation - Revised

	Incurrence up to FY 14*	FY 15	FY 16	FY 17	FY 18	FY 19	Total FY 15- FY19	FY 20	Total up to FY 20
	Actual	*Actual*		*Projected*					
Current Projects	*10,272*	*223*	*1,878*	*257*	*-*	*-*	*2,358*	*0*	*12,630*
New Projects		*-*	*549*	*-*	*-*	*209*	*757*	*562*	*1,320*
Operational Capex		*312*	*507*	*104*	*53*	*464*	*1,440*	*0*	*1,440*
Total		*535*	*2,934*	*361*	*53*	*673*	*4,555*	*562*	*15,390*

**Excludes Retirement Compensation to AAI"*

5.9. As regards, Capital and operating expenditure related to PSF (SC) MIAL has submitted the following, drawing reference to its letter no. MIAL/CEO/48 dated 31.07.2015:

"In continuation of our earlier letter dated 31st July, 2015, wherein we have requested the Authority for allowing a separate Security Component of tariff for taking care of security related revenue and capital expenditure incurred up to FY 15 and in the balance control period, we have calculated the separate tariff in this connection. It may be noted that this needs to be determined as a

separate component as security is a sovereign function and state responsibility, it should not be subject to revenue share. This separate component shall also enable MIAL to obtain bank loans against distinct revenue stream emanating, which shall be necessary to facilitate reimbursement of expenses along with interest to the escrow account, towards the drawls already made towards disallowed expenses from PSF (SC) funds.

Operating expenses incurred up to FY 15 of Rs.64.28 crores include Rs.54.54 crores up to FY14 and Rs.9.74 crores in FY15. These expenses aggregate to Rs. 100.19 crores along with carrying cost. Expenses aggregating Rs.49.72 crores for balance 4 years of the 2nd control period have been considered as O&M expenses for arriving at the separate security component.

Apart from operating expenses incurred, capital expenses aggregating Rs. 487 crores have been considered as opening RAB as on 1st April 2016 towards capex incurred up to FY15 of Rs.327 crores plus the carrying costs of Rs. 160 crs. Returns by way of WACC and depreciation has been considered on the opening RAB.

The provisions towards security expenses made in earlier years have been excluded for arriving at the normal tariff for the aeronautical services, since the same have been considered for separate component towards security.

As earlier informed vide our letter dated 20th August, 2015, following expenses are not included in the current MYTP submission:

(a)Acquisition of land for housing of security personnel from Airport Security Group (presently CISF)

(b)Accommodation for Bureau of Immigration personnel

	FY 16	*FY 17*	*FY 18*	*FY 19*
Return from RAB	*66*	*71*	*72*	*71*
Operating Expenses	*111*	*12*	*13*	*14*
Depreciation	*26*	*32*	*32*	*29*

	FY 16	FY 17	FY 18	FY 19
Target Revenue	*202*	*115*	*117*	*115*
NPV of Target Revenue	*424*			

Further, we also request the Authority to kindly true up the associated tax pertaining to the proposed revenue collected by MIAL.

	FY 16	FY 17	FY 18	FY 19
Embarking pax (in Mn, net of exempt pax)				
- Domestic pax	*2.72*	*11.73*	*12.63*	*13.61*
- International pax	*1.15*	*4.79*	*4.97*	*5.16*
Rate per pax (in Rs.)				
- Domestic pax	*81*	*81*	*81*	*81*
- International pax	*163*	*163*	*163*	*163*
Proposed Revenue (in Rs. Crs.)	*41*	*173*	*184*	*195*
NPV of Proposed Revenue (in Rs. Crs.)	*424*			

We request the Authority to approve rate of Rs 81 and Rs. 163 per departing Domestic and International passenger respectively.

As stated in Para 6 above and in our letter MIAL/CEO/48 dated 31st July, 2015, Authority is kindly requested to approve a separate component of UDF towards following expenses incurred at CSI Airport, Mumbai for providing Security and for immigration personnel, which are sovereign function, so that such component is not subjected to Annual Fees to AAI"

Regulatory Asset Base (RAB) for the Second Control Period

5.10. MIAL's submission with regard to RAB as part of its tariff application dated 26.12.2013 of second Control Period is as under,

"The Regulatory Base for the first year of the control period has to be determined based on the RB for the year immediately preceding the second control period and has to be computed as follows:

"$\underline{RB_0}$ for the first regulatory period would be the sum total of

(i) the Book Value of the Aeronautical Assets in the books of the JVC and

(ii) 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."

The RB for any year i of the control period is to be computed using the following formula:

$RB_i = RB_{i-1} - D_i + I_i$

where,

D_i *= Depreciation for the year i*

I_i *= Investments capitalised in year I"*

5.11. MIAL has also made the following submission with regards to Regulatory Asset Base projected for the second Control Period,

"The Regulatory Base (RB) to be used for computation of the Target Revenue pertains to only Aeronautical Asset. Further, the SSA has defined that the RB for a year during the control period to be determined as follows:

$RB_i = RB_{i-1} - D_i + I_i$

RB for any year i (RB_i*) will be the sum of the closing value of the RB for the immediately preceding year (*RB_{i-1}*) and investments undertaken in the current year i (excluding capital works in progress and Upfront Fee) adjusted for the depreciation charged for the current year. Thus the RB for the year i is the closing value of RB for that year.*

For the second control period, RB for each year has been calculated as the average of opening and closing RB. However, for the first control period (excluding FY 14), due to availability of actual capitalisation dates and disposal dates, RB has been calculated considering such actual dates. This treatment is in line with The Authority's MIAL Tariff Order 32/2012-13 dated 15.01.2013.

Further, MIAL has excluded DF funded assets from the RB and has not claimed any depreciation on assets funded through DF assuming that replacement of such assets would also be funded through DF.

The estimated closing RB for FY 2013-14 forms the opening RB for the first year of the second control period i.e. FY 2014-15. The Assets capitalized during the year have been added to the opening RB and adjusted for depreciation charged during the year to arrive at closing value of RB for 2014-15. RB for other years of control period has been computed on similar basis. The CWIP not capitalized during the year has not been included in RB. The details of RB for the control period are as follows:

Computation of RB for the second control period as submitted by MIAL Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Opening RB	*6,530*	*6,764*	*6,997*	*6,939*	*6,466*
Less: Depreciation	*513*	*516*	*560*	*573*	*600*
Add: Capitalization during the year	*747*	*749*	*502*	*100*	*1,041*
Closing RB	*6,764*	*6,997*	*6,939*	*6,466*	*6,907*
Average RB	*6,647*	*6,880*	*6,968*	*6,703*	*6,687*
Average HRB	*1,359*	*1,246*	*1,136*	*1,024*	*914*
Average RB including HRB	*8,006*	*8,126*	*8,104*	*7,726*	*7,601*

Note: RB excludes Upfront Fee, Non-Aeronautical Asset and DF funded assets.

"

5.12. MIAL's submission regarding RAB as part of its tariff application dated 05.08.2014 is as below,

"Regulatory Base for the Control Period

Closing RB for FY 2013-14 forms the opening RB for the first year of the second control period i.e. FY 2014-15. The changes to computation of RB for the second control period have been made due to actual audited financials and the amendments to the projected capex. The details of RB for the control period are as follows:

Table: Computation of RB for the second control period –Revised Rs./Crs.

	FY 15	FY 16	FY 17	FY 18	FY 19
Opening RB	6,052	6,405	7,487	7,510	7,043
Less: Depreciation	480	493	539	544	538
Add: Capitalization during the year	834	1,575	562	77	326
Closing RB	6,405	7,487	7,510	7,043	6,831
Average RB	6,228	6,946	7,499	7,277	6,937
Average HRB	1,359	1,252	1,151	1,050	950
Average RB including HRB	7,588	8,198	8,650	8,326	7,887

Note: RB excludes Upfront Fee, Non-Aeronautical Asset and DF funded assets."

5.13. MIAL's submission regarding RAB as part of its tariff application dated 08.09.2015 is as below,

"Reclassification of Fixed Assets

MIAL has reclassified the Gross Block of assets as at 1st April, 2014 as per Schedule XIV to the Companies Act, 1956 to as per Schedule II to the Companies Act, 2013. Similar adjustment has been done to corresponding accumulated depreciation of these assets.

Regulatory Base for the Control Period

Closing RB for FY 2013-14 forms the opening RB for the first year of the second control period i.e. FY 2014-15. The changes to computation of RB for the second control period have been made due to actual audited financials and the amendments to the projected capex. The details of RB for the control period are as follows:

"Table: Computation of RB for the second control period –Revised Rs./Cr.

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Opening RB	*6,051*	*5,468*	*7,568*	*7,386*	*6,936*
Less: Depreciation	*434*	*430*	*498*	*496*	*495*
Add: Capitalization during the year	*-149*	*2,530*	*316*	*46*	*589*
Closing RB	*5,468*	*7,568*	*7,386*	*6,936*	*7,030*
Average RB	*5,760*	*6,518*	*7,477*	*7,161*	*6,983*
Average HRB	*1,355*	*1,249*	*1,156*	*1,058*	*963*
Average RB including HRB	*7,115*	*7,768*	*8,633*	*8,219*	*7,946*

Note: RB excludes Upfront Fee, Non-Aeronautical Asset, DF funded assets and assets related to disallowance from PSF (SC). "

b Authority's Examination of MIAL Submissions on Additions to RAB and RAB in the Second Control Period

5.14. The Authority had, vide its Order No.29/2012-13 dated 21.12.2012, decided to consider the allowable project cost at Rs 12,069.80 crores with respect to CSI Airport Mumbai, which included Rs 11,647.46 crores as allowable project cost during the 1st Control Period and Rs. 422.34 crores as cost of projects not included in the 1st Control Period. Further, the Authority had also decided to disallow Rs 310.20 crores from the project cost of Rs. 12,380 crores as submitted by MIAL. Furthermore, the Authority decided to cap the escalation, claim & contingencies of Rs. 630 crores to avoid project cost overrun which was included as part of the project cost of Rs. 11,647.46.

5.15. The Authority had also decided to consider total project cost of Rs 11,647.46 crores as basis of determination of RAB for 1st Control Period and that the project cost of Rs. 422.34 crores may be allowed by the Authority on the basis of the documentary evidence on incurrence of expenditure on items included in this category. Thus the Authority capped the total project cost at Rs. 12,069.80 crores.

5.16. Regarding the funding of cost of metro stations, the Authority had decided that inclusion or otherwise of the cost of metro stations, in future, will be subject to review of correspondences from Government of Maharashtra, MMRDA and Ministry of Civil Aviation to this effect as well as stakeholder consultations. It has been decided to finance this project through a separate development fee via Authority's Order No. 46/2015-16 dated 28.01.2016 and it will not be considered as part of the RAB for the purpose of determination of aeronautical tariffs in respect of the CSIA, Mumbai.

5.17. The Authority has noted the revisions to the project cost made by MIAL in its submissions dated 26.12.2013, 05.08.2014 and 08.09.2015. In its first submission, MIAL revised the project cost to Rs. 12,500 crores providing the following breakup in its Tariff Model submitted along with the tariff application:

Table 14: Revised Project Cost submitted by MIAL in its submission dated 26.12.2013

Sr. No.	Particulars	Rs. In Crores
1	Project cost allowed by Authority as per Order No. 29/2012-13	11,647.46
2	Project cost deferred by Authority as per Order No. 29/2012-13	422.34
3	Project cost disallowed by Authority as per Order No. 29/2012-13	310.20
4	Reduction in project cost due to encashment of Performance Security of HDIL and decision on cargo development	75.00
5	Increase in project cost	380.00
6	Increase in IDC due to delay in capitalisation of new terminal	55.00
7	Increase in IDC due to additional loan	140.00
8	Cost of projects dropped by MIAL	380.00
	Total (1+2+3-4+5+6+7-8)	**12,500.00**

5.18. Subsequently, MIAL provided further revision to the project cost quoting that certain project costs have further increased on account of withdrawal of service tax exemption on airport projects, increase in cost of settlement of land due to higher demand by encroachers and increase in IDC due to the delay in related fuel line and pavement work in apron area; total amounting to Rs. 130 crores. Considering all its submissions, MIAL has submitted the updated total project cost of Rs. 12,630 crores which includes deferred and disallowed project cost as well. This has been presented in detail in Table 15 below.

5.19. The Authority has noted that compared with the project cost of Rs. 11,647.31 crores (including escalations, claims and contingencies of Rs. 630 crores) capped by the

Authority in its Order No. 29/2012-13 dated 21.12.2012, MIAL has made the following revisions:

5.19.1. Increase in project cost (Rs. 575 crores)

5.19.2. Increase in project cost (Rs. 130 crores)

5.19.3. Drop in project cost (Rs. 380 crores)

5.20. The Authority had sought further details regarding each of these categories as well as increases in project cost on account of escalations, claims and contingencies. The Authority is in receipt of the clarification from MIAL mapping the escalations and increases in the various major items under the project costs considered by the Authority in the Order No. 29/2012-13 dated 21.12.2012. These have been discussed in detail in the following paragraphs. The Authority has consolidated the various changes made by MIAL in its submissions in the table below,

Table 15: Consolidated Changes in the Project Cost as submitted by MIAL

Project Cost Items, Rs. crores	Project Cost submitted by MIAL for MYTP FY09-FY14	Project Cost as per Order No. 29/2012-13 dated 21.12.2012				
		Disallowed	Deferred	Allowed	Additional Allowance	Total Allowed Project Cost
	(A)	(B)	(C)	(D = A-B-C)	(E)	(F = D+ E)
T1 projects	453.00	54.00	0.00	399.00		399.00
T2 projects	5083.00	0.60	0.00	5082.40		5082.40
Runway, Taxiway & Apron (Airside projects)	1545.00	0.00	32.34	1512.66		1512.66
Landside projects	41.00	1.00	0.00	40.00		40.00
Miscellaneous projects	562.00	52.00	25.00	485.00		485.00
5.4 of OMDA (AAI works taken over)	24.00	0.00	0.00	24.00		24.00
Technical services & consultancy	834.00	48.00	0.00	786.00		786.00
Capitalized interest (IDC)	1410.00	0	0	1410.00		1410.00
Additional / Mandated projects*	842.00	0.75	365	476.25		476.25
Expenditure during construction**	955.85	153.85	0	802		802.00
Escalations & Claims	0.00	0	0	0	450	450.00
Contingency	0.00	0	0	0	180	180.00
Total	**11749.85**	**310.20**	**422.34**	**11017.31**	**630.00**	**11647.31**

	Project Cost submitted by MIAL for MYTP FY14-FY19							
Project Cost Items, Rs. crores	**Escalations**	**Increase/ savings in project cost (05.08.2014)**	**Increase in project cost (08.09.2015)**	**Projects dropped from Allowed Project Cost**	**Projects dropped from Disallowed**	**Projects dropped from Deferred**	**Project Cost proposed by MIAL**	**Project Cost excluding Disallowed & Deferred**
	(G)	(H)	(I)	(J)	(K)	(L)	(M = A+G+H+I-J-K-L)	(N = M-B-C+K+L)
T1 projects	12	0	1	0			466.00	412.00
T2 projects	459	388	26	60			5896.00	5895.40
Runway, Taxiway & Apron (Airside Projects)	123	0	9	20			1657.00	1624.66
Landside projects	0	0	0	0			41.00	40.00
Miscellaneous projects	1	0	4	100	50	25	392.00	390.00
5.4 of OMDA (AAI works taken over)	0	0	0	0			24.00	24.00
Technical services & consultancy	30	0	2	0			866.00	818.00
Capitalized interest (IDC)	0	195	62	0			1667.00	1667.00
Additional / Mandated projects*	5	-8	26	0		200	665.00	499.25
Expenditure during construction**	0	0	0	0			955.85	802.00
Escalations & Claims	0	0	0	0			0.00	0.00
Contingency	0	0	0	0			0.00	0.00
Total	**630.00**	**575.00**	**130.00**	**180.00**	**50.00**	**225.00**	**12629.85**	**12172.31**

Notes:

*In its submissions, MIAL has combined the following capital expenditure items as part of project cost as per Order No. 29/2012-13 into "Additional / Mandated Projects - ATC equipment cost & technical block in NAD, Contribution to MMRDA for Sahara Elevated Road, WHSS Shivaji Smarak Memorial, Mithi river realignment, RET N5 & E2, Enabling cost for taking over of carved off assets (NAD col), Cost of land settlement

** In its submissions, MIAL has combined the following items as part of project cost as per Order No. 29/2012-13 into "Expenditure During Construction" - Capex for operations, Pre-operations expenditure and upfront fee to AAI

Escalations, Claims and Contingencies

5.21. The Authority has noted the increase in the project cost on account of escalations as submitted by MIAL in it against the projects allowed by the Authority in its Order No. 29/2012-13 dated 21.12.2012 (refer column G, Table 15 above). The Authority has noted that these amount to Rs. 630 crores, as permitted by it in the Order No. 29/2012-13 (refer column E, Table 15).

Additional Increase in project cost of Rs. 575 crores (MIAL submission dated 05.08.2014)

5.22. The Authority has noted MIAL's submission that that the total project cost has increased by Rs. 380 crores and increase in interest during construction of Rs. 195 crores (Rs. 140 crores and Rs. 55 crores respectively).

5.23. The Authority has noted MIAL's submission of the details of the increase in project cost of Rs. 380 crores on account of the following,

Table 16: Details of Increase in Project Cost of Rs. 380 crores submitted by MIAL

Sr. No.	Particulars	Rs. In Crores
A.	CENVAT Credit disallowance	45
B.	Increase in Custom duty	17
C.	Increase in cost of Imported Equipment	103
D.	Changes in Scope of New T2	184
E.	Increase in contribution to MMRDA for elevated road and cost of land settlement, net of saving in ATC Tower	(8)
F.	Overheads for T2 (domestic) for extended period from September 2014 to April 2015	39
	Total (A+B+C+D+E+F)	380

5.24. The Authority had sought further details of reasons regarding the nature of expenses under each sub-head of the increase in project cost by Rs. 380 crores, including the increase in project cost due to change in scope of New T2 amounting to Rs. 184 crores and overheads of T2 (domestic) for the extended period from September 2014 to April 2015 amounting to Rs. 39 crores.

5.25. The Authority is in receipt of details of the Rs. 380 crores project cost from MIAL which are certified by the Auditor. Details submitted by MIAL are as below,

Table 17: Further details of Increase in Project Cost of Rs. 380 crores submitted by MIAL

	Increase in project cost	**Submitted**
1	CENVAT Credit Disallowance	45
2	Time Delay Overhead for T2 Sep 2014 Apr 2015	39
3	Due to inability to avail EPCG benefit	17
4	Increase in cost of imported equipment	103
5	Interior works	55
6	Additional check in area	28
7	Arrival plaza	21
8	Electrical Works	16
9	Signage work	8
10	Bus Gate Canopy & Loading Dock	9

11	Head House stand road	8
12	Contribution to MMRDA for Sahar Elevated Access Road	20
13	Sahar Elevated Road (Deck Slab) (12) + at grade roads (11)	23
14	Staff Canteen	5
15	Change in Roof	4
16	Landscape work	5
17	Cost of settlement for land	32
18	MCR Finishing works	2
	Increase in project cost	**440**
19	ATC Tower	-60
	Net Increase in project cost	**380**

5.26. The Authority has also noted MIAL submission on reasons for delay in capitalisation of new terminal as below,

5.26.1. Delay in settlement of issue of placement of Immigration counters after Security Check against present practice of placement of Immigration counters before Security Check.

5.26.2. Delay in completion of MMRDA portion of Sahar Elevated Access Road

5.26.3. Delay in receipt of security clearance from BCAS for new terminal

5.27. Based on the reasoning presented by MIAL, the Authority is of the view that the reasons presented for delay in capitalization of the terminal, such as delay in completion of MMRDA portion of Sahar Elevated Access Road, were not under the control of MIAL. However, it is also of the view that it was MIAL's improper planning and co-ordination that resulted in delay in settlement of issue related to immigration counter and security clearance. Therefore the Authority proposes to consider only a part of these expenditures as part of the project cost. The Authority proposes the following stance on these projects:

Table 18: Increase in project cost considered by the Authority as part of the Rs. 380 crores

<table>
<tr><th>Increase in project cost</th><th>Cost submitted by MIAL, Rs. crores</th><th>Remarks</th></tr>
<tr><td>CENVAT Credit Disallowance</td><td>45</td><td>Allowed as it is a mandatory cost for MIAL</td></tr>
<tr><td>Time Delay Overhead for T2 Sep 2014 Apr 2015</td><td>39</td><td>Not Allowed, AAI to justify the delay</td></tr>
<tr><td>Due to inability to avail EPCG benefit</td><td>17</td><td rowspan="2">Allowed as it is a mandatory cost for MIAL</td></tr>
<tr><td>Increase in cost of imported equipment</td><td>103</td></tr>
<tr><td>Interior works</td><td>55</td><td rowspan="4">Not Allowed, cost is of the nature of Escalations & Contingencies which was capped by the Authority at Rs. 630 crores under which MIAL has already claimed increase in project cost.</td></tr>
<tr><td>Additional check in area</td><td>28</td></tr>
<tr><td>Arrival plaza</td><td>21</td></tr>
<tr><td>Electrical Works</td><td>16</td></tr>
</table>

Increase in project cost	Cost submitted by MIAL, Rs. crores	Remarks
Signage work	8	
Bus Gate Canopy & Loading Dock	9	
Head House stand road	8	
Contribution to MMRDA for Sahar Elevated Access Road	20	Allowed as it is a mandatory cost for MIAL
Sahar Elevated Road (Deck Slab) (12) + at grade roads (11)	23	Not Allowed, cost is of the nature of Escalations & Contingencies which was capped by the Authority at Rs. 630 crores under which MIAL has already claimed increase in project cost.
Staff Canteen	5	
Change in Roof	4	
Landscape work	5	
Cost of settlement for land	32	Allowed as it is a mandatory cost for MIAL
MCR Finishing works	2	Not Allowed, cost is of the nature of Escalations & Contingencies which was capped by the Authority at Rs. 630 crores under which MIAL has already claimed increase in project cost.
Increase in project cost	**440**	
ATC Tower	-60	Allowed, Savings on ATC Tower project
Net Increase in project cost	**380**	
Net Increase proposed to be allowed by the Authority	**157**	

5.28. Further, the Authority has noted MIAL's submission that the project cost has increased by Rs. 55 crores due to increased IDC on account of delayed capitalisation of new terminal on 1st January, 2014 instead of 31st August, 2013 envisaged earlier due to reasons beyond control of MIAL (para 5.1 above). The Authority proposes to not allow this IDC cost as the delay could have been avoided by MIAL.

5.29. The Authority has also noted the increase in project cost on account of IDC of Rs. 140 crores on the additional loan raised by MIAL to bridge the financing gap left by the Authority during determination of aeronautical tariffs for the 1st Control Period. The Authority had, vide Order No. 29/2012-13 dated 21.12.2012, noted that even after considering DF of Rs. 3,400 crores, there would be a gap of Rs. 819.05 crores in the means of finance with respect to the allowable project cost for the 1st control period for CSI Airport, Mumbai. The Authority had proposed not to address this gap with a view that MIAL would arrange for additional means of finance including additional equity, additional debt, higher quantum of refundable security deposits (over and above Rs. 1000 crores already included in the means of finance), etc. Further, the Authority had decided that if MIAL raises additional debt to meet this gap, the Authority would determine its treatment and its impact on the project cost due to capitalized interest on such additional debt as and when such additional debt is raised by MIAL and the evidential details thereof are produced to the Authority. The Authority has noted from MIAL's revised submission that that additional fund of Rs. 1,450 crores was raised only in the last part of FY 2013-14. The Authority had sought auditor's certificates and confirmation and the basis of estimation of IDC of Rs. 140 crores on account of additional loan raised to fund the finance gap only.

5.30. The Authority is in receipt of auditor's certificate regarding the additional interest capitalisation of Rs. 140 crores to meet the funding gap on allowable project cost. Further, the Authority has noted that this IDC is not of the nature of any increase in hard cost of the project. Thus, the Authority proposes to consider this amount as part of the project cost.

5.31. Thus, in sum, the Authority has considered as allowable increase of only Rs. 297 crores in the project cost against Rs. 575 crores submitted by MIAL, which includes additional IDC of Rs. 140 crores.

Additional Increase in Project Cost by Rs. 130 crores (MIAL submission dated 08.09.2015)

5.32. The Authority has noted the increase in the project cost on account of withdrawal of the service tax for airport projects (of Rs. 50 crores) as submitted by MIAL in its submissions. The Authority has sought clarification on the computation of the service tax on respective projects. The Authority is in receipt of the following explanation from MIAL in this regard,

Table 19: Increase in project cost on account of withdrawal of service tax submitted by MIAL

Existing Projects	Estimated value of Works subject to service tax	Cumulative value certified as of 31st Mar 2015	Balance to be certified as on 31st Mar 2015	Eligible amount of service tax	Service Tax @14%
Airside Projects	634	472	163	40%	9
T1 Projects	179	168	12	40%	1
T2 Projects	3,743	3,276	467	40%/70%	26
Landside Projects	1		1	40%	0
Miscellaneous Projects	127	59	68	40%	4
Technical Services	590	556	34	40%	2
Additional Projects	139	4	135	40%	8

Existing Projects	Estimated value of Works subject to service tax	Cumulative value certified as of 31st Mar 2015	Balance to be certified as on 31st Mar 2015	Eligible amount of service tax	Service Tax @14%
Expenditure during construction and Interest during construction					
Grand Total	**5414**	**4534**	**880**		**50**

5.33. The Authority has further noted from para 5.7 above that the remaining increment of Rs. 80 crores comprises of:

5.33.1. Increase in cost of settlement of land by Rs. 18 crores due to higher demand by encroachers for critical pockets of land

5.33.2. Interest during construction (IDC) of Rs. 14 crores on account of the additional loan raised (Rs. 650 crores) for completion of South East Pier Phase III from May, 2015 to September, 2015.

5.33.3. Interest during construction of Rs. 48 crores on account of delay in completion of fuel line work and subsequent pavement in the related apron area caused by delay in demolition of Up-ramp.

5.34. The Authority has noted the above increases and proposes to allow the increment on account of the service tax withdrawal as it is mandatory cost for MIAL and the increment in the IDC. Thus, the entire increase in project cost of Rs. 130 crores is proposed to be allowed.

Drop in project cost by Rs. 380 crores

5.35. Further, the Authority has also received MIAL's submission regarding the projects dropped by MIAL from the earlier approved project cost in order to mitigate impact of increase in project cost by Rs. 380 crores. The Authority is also in receipt of the explanation regarding the decision by the Board to drop these projects.

Table 20: Details of projects dropped by MIAL as per MIAL's submission

Particulars	Estimated cost in Rs. Cr.
North West Pier (Part of New T2)	60
Apron for North West Pier (Part of Airside Projects)	20
Relocation of Air India GSD Facility (Part of Misc. Projects)	60

Airport Management Building (Part of Misc. Projects)	40
ATC Technical Block (Part of Additional Projects)	200
Total	380

5.36. The Authority has noted that the projects dropped by MIAL include projects that were part of the allowed project cost as well as projects that were disallowed (Rs. 310.20 crores) and deferred (Rs. 422.34 crores) as per the Order No. 29/2012-13 dated 21.12.2012. These are as below,

Table 21: Categories from which projects worth Rs. 380 crores were dropped by MIAL

Particulars	**Estimated cost in Rs. Cr.**	**Project Cost Category as per Order No.29/2012-13**
North West Pier (Part of New T2)	60	Allowed Project Cost
Apron for North West Pier (Part of Airside Projects)	20	Allowed Project Cost
Relocation of Air India GSD Facility (Part of Misc. Projects)	60	Allowed Project Cost
Airport Management Building (Part of Misc. Projects)	40	Allowed Project Cost
ATC Technical Block (Part of Additional Projects)	200	Deferred Project Cost
Total	**380**	

5.37. The Authority has considered the nature and requirement for the projects proposed to be dropped by MIAL and accordingly proposes to allow and account for MIAL to drop these projects from the project cost.

5.38. The Authority has noted from para 5.1 above that MIAL has terminated Slum Rehabilitation Agreement dated 15.10.2007, with HDIL, and that it has encashed Performance Security of Rs. 25 Crs. of HDIL, appropriated towards receivables from HDIL. This cost is a part of the deferred project cost and has resulted in the project cost sanctioned by the Authority to be reduced by Rs. 25 crores. The Authority has also noted that Rs. 50 crores of the project cost were dropped on account of the cargo terminal development at Sahar, discussed in detail in the Para 2.31.5 of the Authority's Order No. 29/2012-13 dated 21.12.2012. This cost was disallowed by the Authority at the time and dropping this cost has also resulted in the project cost reducing by another Rs. 50 crores. The Authority also noted that the technical block cost of Rs. 200 crores is also not being executed by MIAL now. Therefore the updated disallowed and deferred project costs work out to be Rs. 260.20 crores and Rs. 197.34 crores respectively. The Authority proposes to accept this change in the disallowed and deferred project costs and consider the latter as part of the project cost in the second Control Period. As regards the deferred projects of Rs. 197.34 crores, the Authority proposes to consider capitalisation of the same in equal sums in each year – 2015-16, 2016-17 and 2017-18 respectively.

Proposed Revision in Project Cost

5.39. Thus, in view of the above proposals, the revised project cost computed by the Authority works out to be Rs. 11,894.31 crores. This project cost does not include the disallowed and deferred project costs of Rs. 260.20 crores and Rs. 197.34 crores respectively. These decisions are elaborated against the MIAL submission (Table 15 above) as below,

Table 22: Summary of Authority's proposal on revised project cost

	Authority's Proposal								
Project Cost Items, Rs. crores	**Allowed Project Cost**	**Allowed Escalations**	**Increase/ savings in project cost (05.08.2014)**	**Increase in project cost (08.09.2015)**	**Allowed Projects dropped from Allowed Project Cost**	**Revised Disallowed Projects**	**Revised Deferred Projects**	**Total Project Cost**	**Total Project Cost excl. Disallowed & Deferred**
	(D repeated)	(N)	(O)	(P)	(Q)	(R = B-K)	(S = C-L)	(T = D+N+O+P-Q+R+S)	(U=T-R-S)
T1 projects	399.00	12	0	1	0	54.00	0.00	466.00	412.00
T2 projects	5082.40	459	157	26	60	0.60	0.00	5665.00	5664.40
Runway, Taxiway & Apron (Airside Projects)	1512.66	123	0	9	20	0.00	32.34	1657.00	1624.66
Landside projects	40.00	0	0	0	0	1.00	0.00	41.00	40.00
Misc. projects	485.00	1	0	4	100	2.00	0.00	392.00	390.00
5.4 of OMDA (AAI works taken over)	24.00	0	0	0	0	0.00	0.00	24.00	24.00
Technical services & consultancy	786.00	30	0	2	0	48.00	0.00	866.00	818.00
Capitalized interest (IDC)	1410.00	0	140	62	0	0.00	0.00	1612.00	1612.00
Additional / Mandated projects*	476.25	5	0	26	0	0.75	165.00	673.00	507.25
Expenditure during construction**	802.00	0	0	0	0	153.85	0.00	955.85	802.00
Escalations & Claims	0.00	0	0	0	0	0.00	0.00	0.00	0.00
Contingency	0.00	0	0	0	0	0.00	0.00	0.00	0.00
Total	**11017.31**	**630.00**	**297.00**	**130.00**	**180.00**	**260.20**	**197.34**	**12351.85**	**11894.31**
	(D repeated)	(N)	(O)	(P)	(Q)	(R = B-K)	(S = C-L)	(T = D+N+O+P-Q+R+S)	(U=T-R-S)

Additional Capital Expenditure pertaining to new projects in second Control Period

5.40. The Authority is also in receipt of MIAL's submission regarding new capital expenditure of Rs. 1,303.26 crores proposed during the second Control Period, as per the details provided below:

Table 23: List of New Projects and related soft cost as per MIAL submission dated 05.08.2014 for implementation in the second Control Period

In Rs. Crores	FY15	FY16	FY17	FY18	FY19	Total
Metro Stations	15.0	108.0	93.0	92.0	210.0	518.0
Taxiway 'M' (Only Slum Rehab cost)	0.0	34.9	37.7	40.7	43.9	157.2
Air India Code 'C' Hangar	0.0	50.6	0.0	0.0	0.0	50.6
South East Pier (between Grid RE 29 - PE 12)	161.9	232.8	0.0	0.0	0.0	394.7
Meteorological Farm	0.0	12.0	0.0	0.0	0.0	12.0
Sub Total	176.9	438.4	130.7	132.7	253.9	1,132.5
Soft Cost (IDC & Preoperative)	25.1	59.9	24.0	28.5	33.2	170.8
Total Cost of new Projects as above	202.0	498.4	154.7	161.1	287.1	1,303.3

5.41. The Authority has noted explanations provided by MIAL in its submissions regarding the nature of these additional projects. The Authority has sought documentary evidence i.e. board resolution regarding these project expenditures to be incurred in FY2014-15 to FY2018-19, providing further clarification on requirement for these new projects. The Authority is in receipt of the stakeholder consultations conducted by MIAL regarding some of these projects.

Proposed Capital Expenditure towards Metro Stations

5.42. MIAL, as part of their tariff application has also submitted that MIAL would be incurring the cost of Rs 518 crores towards development of 2 metro stations and provision of electro-mechanical system for this connectivity.

5.43. However, in its letter No. 24011/25/2014-AD dated 21st April 2015, MoCA has agreed to allow MIAL to levy and collect DF in respect of the two metro stations. An extract of the letter has been 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."

5.44. Based on the above, the Authority proposes to not consider MIAL's contribution towards the Metro project towards the additional project cost in the second Control Period for the purpose of tariff determination. The Authority, vide Order No. 46/2015-16, has determined the DF for metro connectivity project.

Proposed Capital Expenditure towards Taxiway M

5.45. With respect to the proposed capital expenditure on Taxiway M, the Authority is in receipt of the following explanation,

"In order to achieve targeted capacity of minimum 48 hourly aircraft movements through main Runway 09/27, one of the recommendation from NATS is to create an additional aircraft holding area at the beginning of Runway 27. Construction of this taxiway will allow flexibility to ATC to change the departure sequence at the last moment which will increase the runway capacity. Taxiway M has also been recommended by AAI. In this

MYTP only cost of Slum Rehabilitation has been considered since it is anticipated that actual construction would start only in the third control period, post slum rehabilitation."

5.46. The Authority notes from MIAL's submission that this expense is provisional in nature since the first stage of project involves slum rehabilitation to clear the land required for the proposed Taxiway project. The Authority understands that MIAL a part of terminal T-2 project cost has earmarked some amount for slum rehabilitation. Accordingly, MIAL is required as part of the consultation process to justify the increase in cost on this account. However, the Authority is also cognizant of the fact that MIAL will have to manage the cash flow issue for this expense. Thus, the Authority proposes to accept this expense towards capital expenditure.

Proposed Capital Expenditure towards compensation for Air India Hangar

5.47. The Authority had sought a clarification regarding the requirement and prioritization of the Air India Code 'C' Hangar Project. The Authority had asked MIAL to clarify whether the Board had assessed the requirement of this project and subsequently assessed the prioritization in terms of timing for undertaking this project. Further, the Authority had asked MIAL to also furnish details of assessment/consideration carried by the Board.

5.48. The Authority is in receipt of the following clarification regarding the above,

> *"This matter has been discussed in the Board meeting held on 27th November, 2013 and following details were put before the Board of Directors:*
>
> *'Two Line Maintenance Hangars of Air India need to be demolished for construction of apron before shifting domestic operations to Integrated Terminal. In lieu of one of the hangars, MIAL has already constructed a new hangar at New Engineering Complex (NEC) of Air India. Another hangar which was to be constructed in a land to be acquired east of Mithi River has got delayed because land to be acquired is fully encroached. Even acquisition cost will be prohibitive. Hence, construction of hangar is uncertain. MIAL discussed the matter with Air India and it has been mutually agreed that MIAL shall pay compensation based on valuation which is being finalized.*
>
> *Once valuation is finalized by Air India, which is expected to be based on replacement cost of the hangar less 50% of normal depreciation, compensation will be paid to Air India.'*
>
> *This matter had also been discussed in OIGC meetings from time to time. In an OIOC meeting held on December 19, 2013, Chairman, OIOC has directed Air India for valuation of hangar without considering value of underlying land which belongs to Airports Authority of India (AAI). The matter was discussed again in the OIOC meeting held on 20th November, 2014 wherein Air India was requested to expedite valuation of hangar. It can be seen from the above that the estimated amount of Rs. 51 crs. included in the second Control Period is towards compensation payable to AAI and not for construction of Hangar.*

Since, this is the compensation payable towards hangar of Air India which has already been demolished, this amount is payable immediately on receipt of valuation report from Air India and hence cannot be deferred."

5.49. With respect to the proposed capital expenditure for compensation for Air India Code C Hangar, the Authority has noted MIAL submission that compensation for Air India Code C Hangar is an amount to be paid by MIAL to Air India in lieu of construction of a line maintenance hangar which MIAL had to construct for Air India but has been unable to do so on account of encroachment of the relevant land area. The Authority has further noted the explanation provided by MIAL in this respect mentioned in Para 5.48 above. The Authority has sought minutes of the OIOC meeting held on 19.12.2013 as well as for the basis of arriving at the estimated compensation cost. Pending the receipt of this information and the Board resolution regarding this project, the Authority proposes, for the purposes of this Consultation Paper, to consider this expense towards additional capital expenditure in the second Control Period. As per MIAL, NACIL is need a Hangar, rather than a compensation. But no suitable site has been identified as of date. However, this has been identified as provisional.

Proposed Capital Expenditure towards South-East Pier

5.50. The Authority has also noted MIAL's submission of the explanation regarding construction of the South East Pier as below,

"As per current development plan, 25 contact stands were envisaged at the new T2. However three wide body aircraft contact stands (stands V1 to V3) or equivalent 6 narrow body aircraft contact stands at the North-West (NW) pier of New T2 cannot be constructed at present due to many site encumbrances and relocation issues with Air India. Due to this reason, contact stands for wide body aircraft get reduced to only 22 atT2 against 25 envisaged earlier, which shall affect the percentage of passengers that can be served through the boarding bridges, one of the critical requirements to be met under OMDA.

This reduction in contact stands shall reduce the apron capacity due to increased utilisation of remote stands which have higher turnaround times *leading to apron congestion, delays, etc. To deal with the above difficulties it is proposed to convert, the seven remote stands around New T2 by constructing the extended portion of the SE Pier at New T2, which will increase the total count of contact stands to 29 for wide body aircraft."*

5.51. The Authority had asked MIAL to make a detailed presentation on the need for such additional terminal space. Specifically, in view of the airside constraints at CSI Airport and sufficient terminal space already available to handle the maximum traffic at the airport, the Authority had sought the comprehensive terminal utilization plan at CSI Airport from MIAL. Further, the Authority sought clarification on whether the MAIL Board had considered utilization of the existing domestic building and only after such consideration had identified the requirement for additional space in new T2 (South East Pier).

5.52. The Authority is in receipt of the following clarification from MIAL in this respect:

"The SE Pier is planned over 4 floor levels with utility trench extension on level 0, utility rooms and staff toilets on level 1, arrival corridors for Domestic and International passengers with required facilities on level 2 and boarding gates and hold area on level 3&4.The SE Pier shall help MIAL convert 10 Code C aircraft stands of Terminal 2 apron from remote to contact stands as envisaged in its Master Plan.

(a) Requirement of additional space in new T2 - South East Pier (SEP)

1. Need of South East Pier portion

i. T2 has a floor area of 4,31,672 sq. m (without the NW Pier) consisting of 208 check in counters, 132 immigration counters (both inbound and outbound), 53 security pedestals and 10 baggage reclaim belts. All these facilities are already in place in T2 keeping in mind a demand of 40 MPPA at T2.

Construction of SE Pier was necessitated in this control period as construction of the earlier envisaged NW Pier of T2 in the present control period is unattainable because of many site encumbrances. Non availability of NW Pier *has led to shortfall of 6 boarding gates processors, hold area and 6 Code C (3 Code E) aircraft contact stands.*

In an effort to overcome the shortfall, MIAL has proposed to build the SE Pier portion instead of NW Pier which will allow MIAL to operate 10 boarding gates with required hold room areas per OMDA and also provide 10 Code C (7 Code E) contact stands.

There are two main underlying reasons which compelled MIAL to consider constructing SE Pier with 10 Code C contact stands instead of 6 Code C contact stands:

a) The building area required to accommodate 6 Code C contact stands on SE Pier is relatively same as that required for 10 Code C contact stands on the same Pier as per the T2 apron layout.

b) Constructing only 6 Code C contact stands now and constructing the remaining 4 Code C contact stands at a later date will cause closure of at least 6 Code C operational contact stands during peak period in future.

ii. SE Pier completion is significant for efficient utilization of all the facilities installed in T2 and to ensure that MIAL's performance is in line with the service parameters outlined in the OMDA.

Construction of SE Pier is essential to have commensurate boarding gates, hold areas and passenger boarding bridges (PBBs) in line with the T2 design capacity. Shortfall of these processors located in SE Pier would lead to underutilisation of all other facilities and impede MIAL from achieving a balanced capacity throughout in T2.Thus, lack of this facility will cause shortfall in achieving the planned throughput of 40 mppa from T2.

Hence, a total of 43 PBBs, with related boarding gates and hold area are necessary at T2 so that the desired passenger flow at peak hours is maintained.

iii. At CSIA, each aerobridge handles an average of 11 Code C departures in a day. Accordingly, SE Pier which is proposed to handle domestic operations most of the day has 10 code C stands which will cater to around 110 departures in a 12 hour period or around an average of 9 Code C departures per hour. This could increase to approximately 16 Code C aircraft departures during peak hours.

If SE Pier is not constructed, these 16 Code C aircraft departures will have to be handled from the T2 east bus boarding area. The T2 east bus boarding area is designed to cater to 7 Code C remote stands with required number of seats as per OMDA Objective Service Quality Requirements (OSQ requirements). This bus boarding area does not have the capacity to serve additional 16 Code C aircraft departures during peak hours or accommodate seats required for these departures in line with OMDA Schedule-3 OSQ, which specifies seating at gate should be available for at least 80% of gate lounge population.

2. Impact of not constructing the SE Pier in the current Control period:

MIAL was requested by AERA on 14`h October, 2014 to further study the impact of not constructing the proposed SE Pier in this control period. Based on the assessment, MIAL would like to highlight the following issues that need to be addressed if SE Pier is not built in the current control period:

i. Non Compliance of OMDA Objective Service Quality Requirements (OSQ):

Delay in construction of SE Pier will result in shortfall of boarding gates, hold areas and contact stands. Without constructing the 10 Code C contact stands with the SE pier, MIAL will not be able to meet the following OSQ requirements:

a) Passenger boarding bridges - International - 90 % of annual passengers and Domestic - 90 % of annual passengers travelling on A/C B737/ A320 or larger aircraft unless not required by Airlines.

b) Gate Lounges Seating availability - Seats for 80% of gate lounge population. In absence of SE Pier, passengers of additional 110 Code

C aircraft will have to board through the T-2 east bus boarding gates and at this stage when the construction of T-2 is already completed, it will not be possible to provide 80% seating facility for passengers boarding in these bus boarding areas.

ii. Disruption of the ongoing operations:

Taking up construction of SE Pier in the next control period would disrupt the ongoing operations significantly. In case SE pier is constructed at a later date i.e. after commissioning of ongoing phase of T2, all the 7 Code E / 10 Code C remote aircraft stands will have to be decommissioned and this will reduce the apron capacity at a time when T2 will be operating at its peak capacity.

MIAL is constructing the SE Pier now as the construction site is accessible from landside throughout the construction period and thus provides opportunity for unhindered construction phasing.

iii. Increased Bussing:

If SE Pier construction is delayed there would be increased bussing operations to and from the remote parking stands than envisaged in the Master Plan and this could lead to delays and congestion on the apron.

iv. Higher turnaround time and reduction in apron capacity:

Further, handling of aircraft through bus boarding gates instead of aerobridges leads to higher turnaround time for aircraft which translates to underutilization of aircraft and the apron leading to reduction in apron capacity.

v. Passenger Experience:

MIAL believes that delay in constructing SE Pier would impact passenger experience and operational efficiency.

SE pier is required by the end of 2015 as the construction of the remaining portion of T2 apron will be completed by mid-2015 and accordingly MIAL intends to shift maximum domestic operations to T2 by mid-2015. To ensure *least impact to operations and passengers, MIAL is striving hard to complete construction of SE Pier by end of 2015.*

3. Stakeholder's consultation and need of constructing 10 Code C contact stands instead of 6 Code C contact stands

MIAL presented the need of SE Pier project to its stakeholders on 5thMarch, 2014 in Mumbai. The minutes of the meeting record that stakeholders enquired why this portion of SE Pier was not taken up earlier and stressed the need of completing this project on time without any further delays.

MIAL clarified to its stakeholders that the project requires minimum 18 months of construction period and it would try completing the same during FYI 5-16. MIAL also explained that most of the Domestic airlines would be shifted to Terminal 2 post completion of the ongoing activities and that SE Pier completion will improve passenger experience and increase efficiency of operations once Terminal 2 operates as integrated terminal.

MIAL discussed the need of constructing 10 additional Code C contact stands instead of 6 code C contact stands with its stakeholders on the 23rd June, 2014 as part of the consultation meeting held to discuss development alternatives and detail design of the proposed projects. MIAL highlighted to the stakeholders, the advantages and disadvantages of all alternates and recommended to proceed further as planned with expansion of SE Pier which would provide 10 additional Code C contact stands and 10 boarding gates for departures. MIAL further investigated this alternative and observed that constructing 4 stands at later stage on the SE Pier would disrupt the ongoing operations to large extent and impact the apron capacity at a time when Terminal 2 will be at its peak handling capacity. This is mainly due to the fact that while constructing the remaining 4 contact stands the adjoining 6 stands will have to be closed down for erection of Fixed Link Bridges (FLBs) and Passenger Boarding Bridges (PBBs). MIAL also noted that the cost of *constructing 4 stands at a later stage will be much more than that of today due to additional enabling works required coupled with the cost escalation.*

The minutes of meeting records that Chairman of Operations Committee of Airline Operators asked if the proposed portion of Terminal was under the scope of the commissioned Terminal project and how MIAL planned to execute the project by 2015, when major domestic operations are scheduled to shift to the new Terminal 2. MIAL clarified that the proposed portion of SE Pier was earlier planned to be built in subsequent years along with taxiways envisaged in the Master Plan, but due to unavailability of North West Pier, SE Pier of feasible length within the available site was proposed to be constructed in the current control period.

MIAL had concluded its stakeholder consultation process in June, 2014 by identifying the need for the project, its benefits and its impact. Based on the discussions and agreement with the stakeholders, MIAL has commenced construction and progressing towards completion of this project by end of year 2015 as planned.

In view of the above, MIAL emphasizes the need for constructing the SE Pier, need for which was also stressed upon by all the stakeholders during the consultation process.

4. Terminal Utilization Plan

As part of the 2006 Master Plan study, after improvements to the taxiway system and ATC procedures and due to the constraint of a cross runway system, the hourly Air Traffic Movements (ATM) were considered constrained at 44 ATMs per hour, which limited the forecasted growth at CSIA to 40

Million Passengers Per Annum (MPPA). It was therefore envisaged to upgrade the existing international terminal at Sahar to cater to the growing demand *by adding piers, aircraft stands and an improved taxiway system and, the domestic terminal at Santa Cruz was envisaged to be operational at*

its location with required upgradations to meet the passenger processing and security requirements.

However, subsequent to submission of the 2006 Master Plan, Ministry of Civil Aviation (MoCA) suggested that it may be appropriate for MIAL to examine the possibility to consider developing an Integrated Terminal with both domestic and international terminal under the same roof. MIAL, then planned to construct New Common User Terminal replacing the existing passenger terminal facility, to provide an estimated capacity for about 40 MPPA in line with the airfield capacity.

Since then, as part of the airside development program, MIAL has taken many initiatives to increase airside capacity beyond 40 MPPA. Based on decisions taken in eighth OIOC meeting held on 20th November 2009, MIAL appointed NATS, an independent consultant from UK, to analyse, study and suggest measures to increase the runway handling capacity of CSIA. NATS accordingly made recommendations to ensure CSIA is capable of delivering High Intensity Runway Operations (HIRO) with at least 48 aircraft movements per hour on the main runway 09/27. Currently MIAL has been successful in achieving 46 aircraft movements an hour on a consistent basis and will soon be in a position to handle more than 48 aircraft movements on the main runway after completion of all the taxiways envisaged in the Master Plan. With such airfield enhancements coupled with ongoing airline

Strategies of aircraft up-gauge and improvements in load factors, CSIA will be able to handle the demand of up to 45-50 MPPA. As the capacity of T-2 is designed for peak passenger figures of 40 MPPA, the remaining 5 - 10 MPPA will have to be handled from Terminal 1.

(b) Assessment of Projects by Board

New projects proposed for the second control period have been specifically discussed by Board of Directors in the meeting held on 276' November, 2013. Minutes of meeting along with presentation shown to the Board is enclosed as Annexure 1. Board has approved both the projects i.e. construction of South East Pier and Tunnel under Runway 14/32 (considered under Operational Capital Expenditure aggregating Rs.975 crores).

(c) Requirement of tunnel to support the efficient passenger handling especially during the peak hours and Refurbishment of T1

Stand Utilization Plan

In the next 3 years by FY 18, CSIA will be handling about 41.25 MPPPA out of which 12.14 MPPA will be international and remaining 29.11 MPPA will be domestic passengers.

International Activity

Current Stand Utilization during International peak (FY 14) (Data extracted from MIAL Airport Operations Database (AODB)

Annual international passengers (MPPA): 10.34

Required no. of Code E stands during peak hours: 18

Required no. of Code C stands during peak hours: 11

Total stands required during peak hours: 29

Future Stand Utilization during International peak (FY 18)

Estimated Annual international passengers (MPPA): 12.14

Required no. of Code E stands during peak hours: 21 (extrapolated)

Required no. of Code C stands during peak hours: 13 (extrapolated)

Total stands required during peak hours: 34

Future Stand Utilization during International peak (FY 19)

Estimated Annual international passengers (MPPA): 12.64

Required no. of Code E stands during peak hours: 22 (extrapolated)

Required no. of Code C stands during peak hours: 14 (extrapolated)

Total stands required during peak hours: 36

Based on the current demand for 29 total stands (i.e. 18 Code E and 11 Code C), the demand for international stands would increase to 36 stands (i.e. 22 Code E and 14 Code C) in the year 2019. So keeping 22 Code E and 14 Code C stands aside for international aircraft operations, we will be left with only 22 Code C aircraft stands for domestic operations which will be used for night parking (RON).MIAL currently has approved RON slots for 42 domestic aircraft at CS IA.

As mentioned earlier, peak stand demand at the T-2 apron occurs at night because large number of domestic flights that arrive late in the evening, park at CSIA overnight and then depart from CSIA the next day morning. At the same time, night hours are also the peak hours for international flights at CSIA and therefore the demand for parking stands at T-2 apron for international operations is highest during night hours.

Estimated Annual domestic passengers in FY 19 shall be around 31.27 MP, considering capacity of 40 MPPA for T-2, it will be able to handle only 27.36 MPPA of domestic passengers and the remaining passengers will have to be handled from T-1.

As of today, CSIA handles 21.86 MPPA of domestic passengers from T1 for which 42 night parking (RONs) have been allowed at T-1 Apron. So in order to handle 27.36 MPPA domestic passengers from T-2 in FY 19, 53 RONs will be required. As mentioned above, only 22 RONs will be available at T-2 in FY 19 and therefore the remaining 31 Code C aircraft operating from T-2 will have to be parked at T-1 apron. "

5.53. Based on the presentation made by MIAL and justification provided by it, the Authority proposes to consider cost pertaining to South-East Pier. The Authority notes that this expenditure is towards additional project cost in the second Control Period.

Proposed Capital Expenditure towards Meteorological Farm

5.54. With respect to the proposed capital expenditure on Meteorological Farm, the Authority is receipt of the clarification from MIAL that,

> *"The underlying land where existing IMD facilities i.e. office building, observatory building and staff quarters are situated are to be relocated to AAI NAD colony. These facilities are hindrance to airport connectivity and overall development of the airport."*

5.55. The Authority had subsequently sought a clarification regarding the nature of capital expenses for the Meteorological Farm project. The Authority had sought clarification on whether the meteorological farm and the relocation costs of existing IMD facilities refer to the same expense. These are terminologies used by MIAL in its written submission and financial model submission. Further, the Authority had sought clarification from MIAL whether this project involves deposit work or whether MIAL would undertake the work and in whose books the assets would be reflected.

5.56. With respect to the above, the Authority is in receipt of the clarification from MIAL that,

> *"Relocation of IMD facilities to NAD colony and Meteorological Farm are one and the same, and these words have been used interchangeably for each other. Location of IMD office building, observatory building and staff quarters on the airport land are posing hindrance to the airport connectivity and development and therefore are being relocated to NAD colony. Since the works involve construction of new facilities, these will have to be capitalized in MIAL books. Cost does not include any deposit work. Cost of IMD facilities was revised from Rs. 10 crs. to Rs. 12 crs. based on the cost estimates given by an independent consultant i.e. STUP Consultants Pvt. Ltd (enclosed as Annexure 4)."*

5.57. The Authority notes that the IMD service is a reserved service at the airport. Thus its relocation requires appropriate justification and clearance from IMD. Both costs and revenues in this respect are to be treated same, as aeronautical. Based on the nature of work, the Authority proposes to allow the proposed capital expenditure in the second Control Period for the time being.

Further Increase in the New Projects Cost due to withdrawal of service tax exemption

5.58. The Authority has also noted MIAL's revised submission on 08.09.2015 regarding the increase in project cost for projects to be undertaken in the second Control Period, by Rs. 17 crores on account of withdrawal of Service tax exemption to airport project construction. The Authority has sought from MIAL a worksheet explaining how the increase in project costs on account of service tax has been computed for individual projects.

5.59. The Authority is in receipt of the workings of the service tax along with the following explanation,

"Basis of the working for the additional service tax liability due to withdrawal of exemption of service tax on Original Works to Airports

1. This note includes PC/Orders which were earlier totally exempted from Service Tax under Original Works, and which are now liable to Service Tax w.e.f 1st April 2015 as exemption has been withdrawn on Original works for Airports.

2. Service tax rate applicable on works contracts from 1st April 2015 at 12.36% of 40%/70% of works contract (as in the table below) & from 1st June 2015 at 14% of 40%/ 70% of works contract (as in table below). The applicability of service tax rate will be dependent on Invoicing Date, certification date & Payment Date.

Where the works contract is for	*Value of the service portion will be*
(i)- Execution of Original Works	*40 % of the total amount charged for the works contract*
(ii)- works contracts other than contracts for execution of original works, including contracts for completion and finishing services such as glazing, plastering, floor and wall tiling, installation of electrical fittings.	*70 % of the total amount charged for the works contract*

3. As the timing of the crystallization of the liability (i.e. before June 2015 or after June 2015) could not be known as on 31st March 2015, we have *computed service tax liability @ 14% which is the applicable rate as on 1st June 2015.*

4. It may be noted that w.e.f. 15th November, 2015, another new levy i.e. Swachh Bharat Cess @ 0.5% of value subject to service tax will be applicable which has not been yet considered in our submission to AERA."

5.60. MIAL presented the calculations in this regard as below,

"

New projects	*MIAL submission dated 05.08.2014*	*MIAL submission dated 08.09.2015*	*Estimated value of Works subject to service tax*	*Cumulative value certified as of 31 Mar 2015*	*Balance to be certified as on 31 Mar 2015*	*Eligible amt of service tax*	*Service Tax @14%*
Metro Station - 2 nos.	*518*	*518*					
Taxiway 'M' (Only Slum Rehab cost)	*157*	*157*					
Air India Code 'C Hangar	*51*	*53*	*44*	*-*	*44*	*40%*	*2*
South East Pier	*395*	*409*	*329*	*88*	*241*	*40%*	*14*
Meteorological Farm	*12*	*13*	*12*	*-*	*12*	*40%*	*1*
Expenditure during construction and Interest during construction	*170*	*170*					
Net Increase	*1,303*	*1,320*	*385*	*88*	*297*		*17*

"

5.61. Based on the above, the Authority proposes the following to be considered as the capital expenditure towards additional projects for the second Control Period.

Table 24: List of New Projects considered by the Authority for the second Control Period

In Rs. Crores	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**Total**
Metro Station - 2 nos.	-	-	-	-	-	0.00
Taxiway 'M' (Only Slum Rehab cost)	-	34.93	37.69	40.66	43.88	157.15
Air India Code 'C' Hangar	-	53.10	-	-	-	53.10
South East Pier (between Grid RE 29 - PE 12)	90.00	318.50	-	-	-	408.50
Meteorological Farm	-	12.67	-	-	-	12.67
Sub Total	90.00	419.20	37.69	40.66	43.88	631.43
Soft Cost (IDC & Preoperative)	-	80.05	10.00	13.98	18.25	122.29
Total Cost of new Projects as above	**90.00**	**499.25**	**47.69**	**54.65**	**62.12**	**753.72**

** Allowed through separate DF*

Additional Operational Capital Expenditure in second Control Period

5.62. The Authority also noted MIAL's submission dated 05.08.2014 regarding the proposed operational capital expenditure of Rs. 1,081.0 crores in the second Control Period. The details submitted by MIAL are presented below:

Table 25: Details of operational capital expenditure submitted by MIAL as part of its Tariff Model in submission dated 05.08.2014 for the second Control Period

S. No.	Projects	Total, Rs. Crores
1	Tunnel under Runway 14/32	365.0
2	Construction of new RET (including cost of boundary wall and enabling cost) – 14/32 – E6	69.0
3	Re-carpeting of RWY 09-27	62.2
4	Rescue & Fire Fighting Facilities	61.0
5	Reconstruction of RET N8 & provision of standby RET	35.0
6	Construction of compound wall - 15 Km.	31.0
7	Development of Airside perimeter roads	30.0
8	Passenger boarding bridges - T2 - Code F	25.0
9	Reconstruction of Apron "C"	15.8
10	Mithi River retaining wall	20.0
11	Additional baggage reclaim carousals at T2	20.0
12	Crash fire tenders	25.0
13	Central Store Utility Building	15.0
14	Airport Sweeper/Scrubber (additional)	9.0
15	Rescue Stairs vehicle	5.0
16	Grooving on Runway 32 rigid surface.	8.0
17	Structure of Approach Radar	3.0
18	Steel Gate for Mithi river opening	8.0
19	Provision of 5 MVA Sub-Stn. At Gaondevi area	5.0
20	Construction of TWY S7 & R Junction	11.0
21	Replacement of 04 marking machine	5.0
22	New T2-Trolleys/Trolley Scooter	7.0
23	New T2-Tensa Barrier/Tensa Top/Standies etc.	5.0
24	T1 (Queue Manager/Standalone AC/View Cuter Screen)	3.0
25	Medical Equipment/Wheel Chairs	3.0
26	PIDS Protection/ACS Systems	6.0
27	IT (not by Wipro)	8.0
28	CISF Family Accommodation at Chakala	9.0
29	CISF Barrack Accommodation at Kalina	5.0
30	Shifting of Terminal 1B Power House	5.0
31	Provision of VDGS for C D, L Aprons	5.0

S. No.	Projects	Total, Rs. Crores
32	Terminal 1A/ 1B Refurbishment	85.0
33	Miscellaneous expenses	112.0
	Total proposed capital expenditure	**1,081.0**

5.63. The Authority asked MIAL to make a presentation on the proposed elements of operation capital expenditure in the table above and sought further details regarding the scope, nature and need for each of these operational capital expenditures along with cost basis.

5.64. Following the presentation by MIAL, the Authority had made tentative proposals regarding consideration of the operational capital expenditure below. However, the Authority has further noted MIAL's revised submission dated 08.09.2015 regarding an increase in operational capital expenditure in the second Control Period to Rs. 1,440 crores from Rs. 1,081 crores submitted earlier. The Authority sought more details regarding the same as well as auditor's certificate for the Rs. 321 crores reported as incurred towards operational capital expenditure in FY 2014-15.

5.65. The Authority is in receipt of the auditor's certificate detailing the break-up of the increase in the operational capital expenditure for FY 2014-15, which includes Rs. 215.2 crores on account of "additional expenditure incurred which was not part of the list submitted to AERA" which includes items in addition to those submitted by MIAL in its previous submission.

5.66. The Authority also received the MIAL's submission pertaining to the revised operational capital expenditure during the second Control Period. However, pending the receipt of any reasons for such increase in the operational capital expenditure by MIAL, the Authority sought relevant explanations for the same.

5.67. The Authority has noted MIAL's explanation as part of its submission dated 15.01.2016 regarding the operational capital expenditure during the second control period,

"….. MIAL had revised the Operational capex vide its submission dated 8th September, 2015 with revised amounts aggregating Rs. 1,440 crs.

The increase was mainly due to the following two reasons:

a. *Revision of cost for certain items primarily due to inclusion of Service Tax, which*
was not applicable earlier

b. *Addition of some new projects*

MIAL would like to submit to the Authority that Rs 834 crs indicated by the authority against MIAL's submission is grossly inadequate and therefore would request the authority to kindly consider the following:

a. *Increase the amount of Operational Capital Expenditure to the extent of increased cost submitted by MIAL against the items already considered by the authority - Increase in cost of Rs 110 crores.*

b. *Projects which are already under construction and significant amounts have been spent but currently not considered by the Authority, such as Central Stores Utility building of Rs.19 crs. and Construction of 2 parallel Code C taxiway - T2 Apron of Rs. 23 crs. Further, various Operational Capital expenditure which are already incurred in FY 15 as per the list enclosed as Annexure 3 should also be considered - Estimated cost Rs. 50 crores.*

c. *To provide for at least 50% of the estimated cost for the following items, so that*
depending upon operational need and requirement, MIAL can judiciously spend the amount during the course of this Control Period :

1. *Terminal IB refurbishment - Estimated cost of Rs 85 crs*
2. *5 MVA substation at Gaondevi area - Estimated cost of Rs. 5 crs*
3. *Miscellaneous items - Estimated cost of Rs. 116 crores, details of which have earlier been submitted to the Authority.*

*Further, based on advice of the Authority, MIAL has relooked into list of operatio*nal capital expenditure of Rs. 1*,440 crs. and reduced the same to Rs.* 1*,174 crs., revised list is enclosed as Annexure 4."*

5.68. The Authority has noted the above submission and the relevant excerpt from the Annexure 4 submitted along with this submission is presented below,

Table 26: Revised Details of operational capital expenditure for the second Control Period submitted by MIAL in submission dated 15.01.2015

Operational capex by during control period FY 15 to FY 19 (revised projections)								
S. No.	**PROJECTS - Aeronautical**	**FY15**	**FY 16 (Balance of FY 15)**	**FY 16**	**FY 17**	**FY 18**	**FY 19**	**Total**
1	Tunnel under Runway 14/32	2	-	38	96	191	55	**383**
2	Construction of new RET (including cost of boundary wall and enabling cost) — 14/32 — E6	4	17	44	-	-	-	**66**
3	Re-carpeting of RWY 09-27	-	-	11	-	-	54	**65**
4	Rescue & Fire Fighting Facilities	-	6	25	34		-	**64**
5	Reconstruction of RET N8 & provision of standby RET	26						**26**
6	Construction of compound wall -15 Km.	-	5	5	7	7	7	**33**
7	Development of Airside perimeter roads	-	-	11	11	11		**32**
8	Passenger boarding bridges - T2 - Code F	0	7	26		-	-	**33**
9	Reconstruction of Apron "C"	-	-		.	21	21	**42**
10	Mithi River retaining wall	56	-	21	-	-	-	**77**
11	Additional baggage reclaim carousals at T2	-	10	26	5			**41**
12	Crash fire tenders	-	5	5	-	6	-	**15**
13	Central Store Utility Building	2	17	-	-			**19**
14	Airport Sweeper/Scrubber (additional)	-	6	-	3	-	-	
15	Rescue Stairs vehicle	-	5		-	-	-	**5**
16	Grooving on Runway 32 rigid surface.	-	-	-	-	-	-	**-**
17	Structure of Approach Radar	-	3			-		**3**
18	Steel Gate for Mithi river opening	-	9			-	.	**9**
19	Provision of 5 MVA Sub-Stn. At Gaondevi area	-	1	4	-		-	**5**
20	Construction of TWY 57 & R Junction	-	-	12	-	-	-	**12**
21	Replacement of 04 marking machine	-	2	-		3	-	**5**
	Terminal Operations							
22	New T2-Trolleys/Trolley Scooter	7	-	-	-	3		**9**

Operational capex by during control period FY 15 to FY 19 (revised projections)								
S. No.	**PROJECTS - Aeronautical**	**FY15**	**FY 16 (Balance of FY 15)**	**FY 16**	**FY 17**	**FY 18**	**FY 19**	**Total**
23	New T2-Tense Barrierfrensa Top/Standies etc.	-	2		-	3	-	**5**
24	T1 (Queue Manager/Standalone AC/View Cuter Screen)	-	0	-		3	-	**3**
25	Medical Equipment/Wheel Chairs	1	..	-	-	3	-	**3**
26	PIDS Protection/ACS Systems	0	2	-	-	3	-	**5**
27	IT (not by Wipro)	-	5	-		3		**8**
28	CISF Family Accommodation at Chakala		9	-	-	-	-	**9**
29	CISF Barrack Accommodation at Kalina	-	6	-	-	-		**6**
30	Shifting of Terminal 1B Power House	2	3	-	-	-	-	**5**
31	Provision of VOGS for C D, L Aprons	-	1	4	-	-	-	**5**
32	Terminal 1A/ 1B Refurbishment	-	30	55		-	-	**85**
33	Construction of 2 parallel Code C taxiway - 12 Apron	0	23	-	-		-	**23**
34	Miscellaneous expenses	4	65	18	13	10	6	**116**
	Sub-total (a)	**106**	**239**	**304**	**169**	**263**	**144**	**1,225**
	Additional expenditure incurred which was not part of list submitted to AERA (As per Auditors certificate) - Only Aeronautical items considered **(b)**	60	-	-	-	-	-	**60**
	Operational Capex Proposed by MIAL - **Total (a+b)**	**166**	**239**	**304**	**169**	**263**	**144**	**1,285**
	Other capital expenditure incurred which are part of Non aero and Non transfer assets, not to be considered by AERA **(c)**	**155**						
	Grand Total **(a+b+c)**	**321**	**239**	**304**	**169**	**263**	**144**	**1,285**

5.69. The Authority also sought a presentation from MIAL of the abovementioned submission on the same day, i.e. 15.01.2016. The Authority found MIAL's explanation on the scope, cost basis, review and reprioritization of work, to be insufficient for these revised projections. In lieu of a satisfying justification for inclusion of this revised block cost, the Authority proposes to follow the earlier submitted schedule of projected operational capital expenditure as per Table 25.

5.70. The Authority also evaluated each of the operational capital expenditure heads separately by seeking explanations pertaining to some of these items, in order to evaluate their necessity with respect to incurrence and capitalization during the second control period. The Authority's evaluation of these individual work projects, based on MIAL's explanations, has been discussed below.

Tunnel under Runway 14/32 and Refurbishment of Terminal 1A/1B

5.71. The Authority has also noted MIAL's submission regarding the construction of the Tunnel and Runway 14/32 and refurbishment of Terminals 1A/1B. The Authority had sought details of assessment/consideration carried by the board of MIAL with the comprehensive study/plan for utilization of the terminal space at MIAL.

5.72. The Authority is in receipt of an explanation from MIAL regarding the board resolution and the need for the tunnel as below,

> *"(b) Requirement of tunnel*
>
> *While the new terminal building is designed to sufficiently support the forecast passenger demand of about 40 MPPA the number of available contract and remote parking stands associated with T2 does not fully accommodate all the Remain Overnight (RON) operations effectively. An important feature of aviation demand in Mumbai is that international operations occur during night and domestic operations occur throughout the day, which results in the need to accommodate a large number of overnight domestic flights that arrive late in the evening/ night at the same time as the peak international period and depart the following morning.*
>
> *Therefore in order to overcome the shortfall in capacity of T2 apron the remote parking available on T1 apron (i.e. Apron C, D and A) will be utilized which will result in a significantly improved airfield performance and airport capacity.*
>
> *Due to parking of all these 31 aircraft at T-l apron, the options available for managing operations are:*

1) Taxying / towing of all the 31 aircraft from T1 apron to T2 apron in the early mornings after the international operations are over, because the passengers will be processed from T-2.

2) Transfer of passengers, baggage and GSE equipment from T-2 to T-l apron across the runway to the aircraft

3) Transfer of passengers, baggage and GSE equipment from T-2 to T-l apron via the airside perimeter road to the aircraft

However, the above options are not feasible due to following reasons:

1) Taxi / tow of the 31 aircraft from T1 apron to T2 apron- This will create conflicts on the ground and reduce capacity of runway and apron

2) Transfer of passengers and GSE equipment from T-2 to T-l apron across the runway - This will create safety issues as the runway will be utilized by taxying aircraft at the same time. Moreover, whenever main runway 09/27 is not available due to maintenance or otherwise, Runway 14/32 will be used for landing and take-offs and therefore cannot be used for crossing.

3) Transfer of passengers and GSE equipment from T-2 to T-l apron via the airside perimeter road - The airside road is not wide enough and widening it will require reclamation of encroached land which will not only be costly but also full of uncertainty in respect of timelines. This will also lead to a considerably increased movement of GSE vehicles oh the airside perimeter road leading to a reduced passenger level of service and unwanted delays.

In view of the above mentioned facts, the only option to sustain smooth operations in FY 19 & beyond, is to connect the two aprons with a tunnel to reduce travel distance for GSE & passengers movement vehicles resulting in operational (i.e. improved aircraft turn-around times) & cost (i.e. fuel) efficiency and provide redundancy in the airfield roadway system. Moreover, considering the large number of GSE vehicles, passengers and their baggage requiring transfer from T-2 to T-l apron every morning wherein 31 aircraft shall *depart from T-l apron within a span of 2 hours, it will be a huge challenge to sustain the operations without the tunnel.*

As part of stakeholder consultation process, the need for tunnel was presented to all concerned stakeholders on 5th March 2014. The need for the project was identified and the benefits presented to the stakeholders. Further on 23rd June 2014, MIAL discussed all possible alternatives for the proposed Tunnel with the stakeholders. The stakeholders present were duly convinced with the proposal and as a matter of fact requested MIAL to execute the project as soon as possible, refer extracts of the Minutes of Stakeholder Consultation meeting held for need identification and discussing alternatives and detail design, reproduced in the Annexure 2."

5.73. The Authority has noted further explanation provided by MIAL regarding the tunnel along with Apron plan, layout, park hour movements etc. The Authority has reviewed the explanations, minutes of the stakeholder consultation and annexures provided by MIAL and based on the justification provided, proposes to consider the capital expenditure on construction of tunnel 14/32 towards the operational capital expenditure for the second Control Period.

5.74. The Authority is also in receipt of an explanation from MIAL regarding the board resolution and the need for the refurbishment of existing T1 as below,

"Existing terminal building T1 was constructed in sixties and has undergone many modifications over the years. Presently few structural portions of the terminal building need to be strengthened in view of realignment of operations on commencement of domestic operations from new T2.

The refurbishment would involve reconstruction / strengthening of structurally weak portions, replacement of old equipment, lifts, escalators, providing new equipment; redevelopment of baggage breakup/ make up area; diversion of sewage and water line; kerb side power system, lighting, and flooring; modification of Air conditioning systems; switch room, LT panels, *lighting, cabling, wiring, etc.; terrace water proofing; cladding work; fire hydrant and sprinkler system; anti termite treatment, creation of new check in counters, enhancement of security hold area; etc.*

The above said works would enhance the quality of operations in the refurbished terminal for long times to come.

Consideration by the Board of Directors

As discussed earlier in b) Assessment of projects by the Board, Operational Capital Expenditure aggregating Rs.975 crores includes apart from other items, Construction of Tunnel and Refurbishment of Terminal 1. List of Operational Capex was presented before the Board in the meeting held on 27th November, 2013 while discussing the proposed submission of MYTP to the Authority. Copy of such presentation is included in Annexure 1."

5.75. The Authority has reviewed the explanations, minutes of the stakeholder consultation and annexures provided by MIAL. The Authority proposes to not consider the refurbishment of Terminal 1A/1B subject to having a comprehensive study conducted by MIAL on utilization of T2 and T1.

Proposed Central Store Utility Building and Crash fire tenders

5.76. The Authority had sought a clarification from MIAL regarding the requirement of building the Central Store Utility Building and Crash fire tenders. The Authority had asked MIAL to clarify whether the requirement of building a separate Store Utility Building and Crash fire tenders was assessed by the Board before approval. MIAL may furnish details of assessment/consideration carried by the Board.

5.77. The Authority is in receipt of the following response from MIAL pertaining to the above,

"MYTP submitted by MIAL to the Authority was discussed and approved by Board in the meeting held on 27th November 2013, wherein the operational capital expenditure to be incurred in second control period was discussed in detail (extract of minutes of meeting is enclosed as Annexure 1). Operational

capital expenditure to be done by MIAL for second Control Period includes Central Stores & Utility Building and Crash Fire Tenders details of which are enclosed as Annexure 2 and Annexure 3 respectively"

5.78. The Authority has noted MIAL's submissions and proposes to consider the capital expense towards crash fire tenders but not consider the Central Store Utility Building as part of the additional project cost in the second Control Period. However, the Authority also proposes to consider the same towards true-up at the time of determining aeronautical tariffs in the 3rd control period.

Nature of boundary wall built under the New RET project

5.79. The Authority has also noted MIAL's submission of the explanation regarding the nature of boundary wall being proposed along with the RET as below,

"Details of new RET project E6 along with boundary wall is enclosed as Annexure 5:

Requirement: As of today, there is a severe mismatch between the capacities of Runway 09/27 and Runway 14/32. Runway 14/32 has significantly lower capacity than Runway 09/27. Whenever, due to maintenance or any other reason, Runway 09/27 is closed and Runway 14/32 is used, there is severe air traffic congestion. On many occasions, there are flight diversions out of CSIA due to shortage of holding fuel with aircraft. In view of this it is essential to enhance the capacity of Runway 14/32 to match it with that of Runway 09/27.

Presently only one Rapid Exit Taxiway (RET) i.e. RET (TWY E8) is available on RWY 32. The location of this RET is suitable for heavy category aircraft. To enhance capacity of Runway 32, it is essential to reduce Runway Occupancy Times (ROT) of aircraft. The fleet mix at CSIA is Heavy aircraft - 15 % and medium category aircraft - 85 %. To reduce ROT of aircraft, another RET which is suitable for medium category aircraft is needed. Therefore, it is essential to construct RET E-6 at an appropriate location suitable for medium category aircraft as this will enhance the capacity of runway 32.

The present boundary wall is in footprint of parallel taxiway/ E6, hence it needs to be demolished and reconstructed at final alignment as per BCAS standards. Layout of existing boundary wall along with the proposed boundary wall is enclosed.

Proposal: Construction of new RET for aircraft vacating RWY 32 (including cost of boundary wall and enabling cost) - 14/32 - E6

"

5.80. The Authority has noted MIAL's submissions and proposes to consider this expense towards the additional operational project cost.

Development of Airside perimeter roads and additional baggage reclaim carousals at T2

5.81. The Authority has noted MIAL's submission of the explanation regarding the development of Airside perimeter roads and additional baggage reclaim carousals at T2 being proposed,

"Details pertaining to development of airside perimeter roads and additional baggage reclaim carousals is enclosed as Annexure 8 and Annexure 9 respectively:

Requirement for Development of Airside Perimeter Roads: Total Area of Airside Roads = 1,14,180 Sqm, The existing Road was constructed in 1980 and design life of Bitumen road is 6-7 years, The useful life of present road is over, Life of the airside roads have further deteriorated at many places due to heavy rain fall in Mumbai.

-Hence reconstruction with CC pavement for area 51,860 sq mtr. is proposed in phases.

Requirement for Additional baggage reclaim carousals at T2: Construction of Domestic Stand VI to V3 in North West pier have not been possible due to various existing structures of Air India. To avoid mixing of international and domestic passengers, it is necessary to segregate the stands between them, accordingly the most feasible location for domestic operation is from South East Pier, However as per present arrangement of Arrival Baggage system, *more than two belts cannot be allocated to domestic flights, hence it is essential to add two more baggage belts to meet the domestic requirement.*

"

5.82. The Authority has noted the above submission by MIAL. The Authority is of the view that an operational road already exists at the airport and it requires maintenance and repairs. Thus this should be considered as an expense, not a capital expenditure in the second Control Period.

Requirement for building Passenger boarding bridges (Code F) in T2

5.83. The Authority had asked MIAL to clarify the requirement for building Passenger boarding bridges (Code F) in T2. The Authority had asked MIAL to furnish details of assessment carried out by MIAL, justifying the requirement of undertaking this project, along with a traffic assessment justifying requirement for facilitating more than 1 Airbus A-380 at the same time.

5.84. The Authority has also noted MIAL's submission as below,

"Details pertaining Passenger boarding bridges (Code F) is enclosed as Annexure 10:

1) Out of 42 airlines operating at CSI Airport, 8 airlines (Emirates, Singapore Airlines, Lufthansa, Air France, Korean Air, Malaysian Airlines, Thai Airways, British Airways) already have A380 fleet aircraft. Out of these, two airlines Emirates and Singapore already deployed A3 80 and MIAL could not accord slot approval to Lufthansa for A380 because of non-availability of code F contact stands as the same slot was requested by Lufthansa and Emirates airlines. Recently Etihad and Qatar Airways also have added A380 aircraft in their fleet. Recent report says that more and more airlines are deploying A3 80 aircraft for long and medium haul flights. As per a report, currently 81% of the A380 fleet are in Middle East and Asia Pacific Region. Since all these airlines more or less operate flights during peak hours in the night at CSIA, there will be demand to deploy more A380 aircraft by these airlines at the same time.

Further B747-800 aircraft, another Code F aircraft may be added by airlines in their fleet in near future and be deployed at CSIA.

2) It is also expected that more and more airlines will start A380 operations in future and therefore to cater to the demand of airlines it was decided to increase the number of contact A380 stands at CSIA to 4 from the earlier planned 2 stands. Stands V-20 and V-21 which were earlier Code E stands are now being constructed as Code F stands accordingly these contact stands have to be augmented with an additional aerobridge in each of them.

3) As stands V-20 and V-21 are converted from Code E to Code F, additional passenger seating area has to be created inside the Terminal building.

IGI Airport, Delhi already has 12 Code F stands (9 contact and 3 remote stands) which also shows increased demand of Code F stands."

5.85. The Authority has noted the above submission and also noted the details of modification works for FLBs V20 and V21 given in the Annexure of above submission. The Authority proposes to consider this capital expense towards additional project cost in the second Control Period.

5.86. ***Requirement for building the compound wall (15 Km)***

5.87. The Authority has also noted MIAL's submission regarding the requirement for building the compound wall (15 Km) being proposed as below,

"Details pertaining to building the compound wall are enclosed as Annexure 11:

Requirement: Existing compound wall of around 15 Km is made of Stone Masonary without any RCC frame work & is more than 20 years old. This wall is continuously being damaged by the miscreants from the landside. In addition to this due to ageing, there are many cracks developed in the wall and bonding between stones has become weak. In this monsoon, the wall collapsed at three locations. This wall needs to be re-constructed to avoid any *security hazard/ damage to the property and casualties. Pictures of existing compound wall and associated risk with it, is enclosed."*

5.88. The Authority has noted the above submission and seen the pictures in the submission being referred to above. The Authority proposes to consider this expense towards additional operational project cost in view of security concerns.

Nature of Miscellaneous expenses as part of Operational Capital expenditure

5.89. The Authority has also noted MIAL's submission of the explanation regarding the Miscellaneous expenses as part of Operational Capital expenditure being proposed as below,

"Details of miscellaneous expenses as part of operational capital expenditure is enclosed as Annexure 6"

5.90. The Authority has noted the Annexure being referred to MIAL's submission above has 66 heads and examined the same. The Authority proposes to not consider these expenses towards operational project cost as no proper justification has been provided by MIAL. However, if any operational nature of work is undertaken with proper approval from the management, such expenditure can be considered under true-up at the time of tariff determination for the 3rd Control Period.

5.91. The Authority has further noted that all these costs currently considered for ARR and likely to be considered if applicable through true-up process are the block costs of rough order of magnitude. The Authority expects that a due process of estimation based on a publicly available schedule (e.g. CPWD) shall be done for scheduled work and for non-scheduled items, which are market items, the estimation shall be as per the methodology of CPWD working. Thus, the Authority expects proper justification of these costs. Also, the Authority expects that due consultation process, cost estimation basis, need, and competitive authority's approval or Board approval are followed by MIAL, with details submitted to the Authority. Such details shall be used by the Authority for the true up process.

Summary of Authority's Evaluation

5.92. Based on its detailed evaluation presented above, the Authority proposes to consider the following operational capital expenditure for the second control period.

Table 27: Treatment of individual elements of operational capital expenditure as allowed by the Authority for the second Control Period

S. No.	Projects	Authority Proposed Position	Rs. Crores
1	Tunnel under Runway 14/32	Allowed	365
2	Construction of new RET (including cost of boundary wall and enabling cost) – 14/32 – E6	Allowed.	69
3	Re-carpeting of RWY 09-27	Allowed	62
4	Rescue & Fire Fighting Facilities	Allowed	61
5	Reconstruction of RET N8 & provision of standby RET	Allowed	35
6	Construction of compound wall - 15 Km.	Allowed	31
7	Development of Airside perimeter roads	Disallowed. Operational road already exists at the airport. MIAL should reprioritize the expenditure.	0
8	Passenger boarding bridges - T2 - Code F	Allowed	25
9	Reconstruction of Apron "C"	Allowed	16
10	Mithi River retaining wall	Allowed	20
11	Additional baggage reclaim carousals at T2	Allowed	20
12	Crash fire tenders	Allowed; subject to proper justification by MIAL	25
13	Central Store Utility Building	Partially allowed only for the actual expenses incurred during FY15 and FY16. Cost pertaining to future years to be reviewed as part of true up for the 3rd Control Period.	19
14	Airport Sweeper/Scrubber (additional)	Allowed for the time being	9
15	Rescue Stairs vehicle	Allowed	5
16	Grooving on Runway 32 rigid surface.	Allowed	8
17	Structure of Approach Radar	Allowed	3
18	Steel Gate for Mithi river opening	Allowed	8
19	Provision of 5 MVA Sub-Stn. At Gaondevi area	Disallowed. Airport exists and is operational; therefore requirement is not established	0
20	Construction of TWY S7 & R Junction	Allowed	11
21	Replacement of 04 marking machine	Allowed	5

S. No.	Projects	Authority Proposed Position	Rs. Crores
22	New T2-Trolleys/Trolley Scooter	Allowed	7
23	New T2-Tensa Barrier/Tensa Top/Standies etc.	Allowed	5
24	T1 (Queue Manager/Standalone AC/View Cuter Screen)	Allowed	3
25	Medical Equipment/Wheel Chairs	Allowed	3
26	PIDS Protection/ACS Systems	Allowed	6
27	IT (not by Wipro)	Allowed	8
28	CISF Family Accommodation at Chakala	Allowed	9
29	CISF Barrack Accommodation at Kalina	Allowed	5
30	Shifting of Terminal 1B Power House	Allowed	5
31	Provision of VDGS for C D, L Aprons	Allowed	5
32	Terminal 1A/ 1B Refurbishment	Disallowed. Subject to submission of a comprehensive plan by MIAL on utilization of T2 and T1	0
33	Miscellaneous expenses	Broadly Disallowed as no proper justification provided by MIAL. If such expenses include any operational nature of work with proper approval, the same may be considered as part of true up in the next Control Period. Only the actual expenses incurred during FY15 and FY16 allowed.	4
	Total Operational Capital Expenditure allowed		**857**

5.93. Further, "disallowed" and the disallowed portion of "partially allowed" expenses in the above table means the Authority has not considered estimated cost, which is a block cost, of the project for inclusion under the ARR determination for the second Control Period. In case a proper justification is made available and if the works cannot be reprioritized or scheduled in a different phased manner but are required to be executed because of operational requirement, then the costs for these project works, the Authority proposes, may be permitted under the true-up process. The Authority could revisit the same provided the relevant justifications are received before the release of order. The "allowed" expenses in the above table means that the Authority has considered work as a core operationally justified need. The estimated cost, which is a block cost indicated by

MIAL, is proposed to be considered as it is for the time being for the purpose of determination of ARR. However, since these are block estimates, the Authority recognise that they may undergo a change at the time of actual execution or before the final order for the second Control Period. The Authority shall review the works allowed based on the stakeholder consultations and board resolution pertaining to the same at the time of final order for the second Control Period or as part of true-up for the 3rd Control Period, based on the information available during such times.

Treatment of security related capital expenditure

5.94. The Authority has noted MIAL's submission regarding treatment of security related capital expenditure and operating expenditure in para 5.9 above. The Authority has also noted the 31.05.2015 letter submitted by MIAL in this regard as below,

> *"So far MIAL was incurring security related expenses out of PSF (SC) which was in line with directions of MOCA from time to time. However vide order Mo AV.13024/03/2011-AS (Pt.l) dated 18th February. 2014 (enclosed as Annexure 1}, MoCA has restricted use of funds available in PSF (SC) to only revenue expenditure on deployment of C1SF and other security forces at the airport. It also directs to reverse/ reimburse back to the PSF (SC) escrow account, the total amount, spent on account of capital costs / expenditure towards procurement and maintenance of security system equipment and on creation of fixed assets out of the PSF (SC) account together with interest that would have accrued in the normal course had the amount not been debited against PSF (SC). Thus, inter-alia, use of fund for capital expenditure has been prohibited. Even salary of in-line screeners, where MIAL was stopped by MoCA to charge for such services from airlines, has been objected by C&AG. There is no dispute that capex and other revenue expenditure which are being denied now, are for the purpose of security. But restricted use of funds from PSF (SC) will lead to Airport Operators approaching AERA for determination of tariff for opex and capex. In case of DIAL, the authority has already considered expenses on baggage screening as part of expenses for determination of aeronautical*

tariffs, MIAL has also included salaries of inline screeners as operating cost however tariff on this account needs to be determined separately along with tariff for other security related expenses, both capex and opex.

Similarly the Authority has also considered security related capex in second control period for the purpose of determination of tariff for DIAL Authority has further clarified that expenditure already incurred shall be given treatment by the authority as per court order if the same is promulgated before finalization of tariff, otherwise same will be considered while determining tariff for third control period."

5.95. The Authority has noted the above MIAL submission and also noted that in the Tariff Model, MIAL has also considered a carrying cost of PSF (SC) considered by MIAL at the annual cost of debt allowed by the Authority in each year from FY2007-08 to FY2014-15. As per MIAL, the carrying cost is in lieu of the interest to be reimbursed by MIAL to MoCA as per MoCA's Order dated 18.02.2014 related to Expense out of PSF(SC) Escrow Accounts stating as below,

"2. The aforesaid Issue has been examined in this Ministry at length and it has now been decided that since PSF(SC) funds are meant only for meeting revenue expenditure on deployment of CISF and other security forces at the airports, the total capital expenditure incurred by the airport operators out of the PSF(SC) Escrow account opened ' and maintained by the respective airport operators In fiduciary capacity, together with the interest, has to be reimbursed back to the respective Escrow accounts. Accordingly, all the airport operators are hereby directed that they shall reverse/reimburse back to the respective PSF(SC) Escrow account, within a period of one month, the total amount spent (on account of capital costs/expenditure) so for towards procurement and maintenance of security systems/equipment and on creation of fixed assets out of the PSF{SC) Escrow Account, together with the Interest that would have accrued In normal course had the said amount not been debited against the PSF{SC) Escrow account."

5.96. The Authority has further noted the calculation of the amount to be recovered through a separate tariff component with respect to security related expenses and capital expenditure submitted by MIAL, via its 31.07.2015 letter as below,

"

Particulars	***FY 08***	***FY 09***	***FY 10***	***FY 11***	***FY 12***	***FY 13***	***FY 14***	***Total (FY 08-FY 14)***
Capital expenditure pertaining to Security	***Disallowed by MoCA/ C&AG***							
Assets Incurrence	*18.30*	*31.09*	*18.19*	*28.63*	*91.00*	*33.58*	*103.95*	*324.74*
Assets capitalized	*11.80*	*27.15*	*11.41*	*8.10*	*28.44*	*19.40*	*179.69*	*286.00*
CWIP as at 31st March 2015								*-*
Paid and Accounted in MIAL books	*-*	*-*	*-*	*-*	*-*	*1.01*	*-*	*1.01*
Total capital expenditure to be recovered through separate tariff component	*18.30*	*31.09*	*18.19*	*28.63*	*91.00*	*33.58*	*103.95*	*324.74*
Total capital expenditure to be recovered through separate tariff component with carrying cost	*38.07*	*60.78*	*32.58*	*45.67*	*133.86*	*45.63*	*128.12*	

Particulars	***FY 15***	***FY 16***	***FY 17***	***FY 18***	***FY 19***
Capital expenditure pertaining to Security	***Actual***	***Projections***			
Assets Incurrence	*2.42*	*99.70*	*50.20*	*27.00*	*15.00*
Assets capitalized	*23.97*	*99.70*	*50.20*	*27.00*	*15.00*
CWIP as at 31st March 2015	*17.19*				
Paid and Accounted in MIAL books	*-*	*-*	*-*	*-*	*-*
Total capital expenditure to be recovered through separate tariff component	*2.42*	*99.70*	*50.20*	*27.00*	*15.00*
Total capital expenditure to be recovered through separate tariff component with carrying cost	*2.70*	*99.70*	*44.76*	*21.41*	*10.55*

"

5.97. The Authority notes that MIAL has projected to include capital expenditure on account of PSF security. The Authority proposes to account this expenditure as part of the RAB for the purpose of calculation of ARR. However, the Authority is of the view that the nature of capital expenditure should be cleared by BCAS/AAI/MoCA. The Authority further proposes to keep MoCA informed about the inclusion of this capital expenditure. As per MIAL's submission, the capital expenditure pertaining to PSF security is split into two categories – a) Gross Capital Expenditure from 2007-08 to FY 2014-15 amounting to Rs. 327.16 crores. The gross capitalized amount is Rs. 309.97 till FY 2014-15 and while the corresponding net block cost of Rs. 219.50 crores, and b) Projected expenditure for FY 2015-16 to FY 2018-19 amounting to Rs. 191.90 crores. With regards to the first category of expenditure of Rs. 327.16 crores, this amount has already been accounted as part of the PSF (SC) escrow account, but as per the MoCA direction this amount has to be reimbursed into the escrow account. The Authority further notes that this matter is sub-judice. The Authority proposes to consider both these category of capital expenditure as a part of the RAB for the time being, subject to production of adequate documentary evidence by MIAL and clarification from AAI and MoCA before taking a final decision in the order. In case the suitable documentary evidence is not provided for the reimbursement, then providing this amount through tariff determination shall amount to double accounting.

5.98. Accordingly, the capitalized figure of Rs. 309.97 crores as of 31st March 2015 as per the audited PSF (SC) account and the sum of Rs. 191.90 crores proposed to be capitalized during the second control period is to be included in the RAB.

5.99. The Authority has noted that an amount of Rs. 1.10 crore is already booked in MIAL's accounts in FY 2012-13. Accordingly the RAB allowable under PSF (SC) till financial year FY 2014-15 will get reduced. The Authority will review this capital expenditure based on evidence of reimbursement as well as other documents, subject to reconciliation.

RAB adjustment on account of Actual date of commissioning/disposal of assets

5.100. The Authority had decided as per its Decision No. 5 of the MIAL Tariff Order 32/2012-13 to calculate RAB for each year as the average of the opening and the closing RAB and calculate return for each year on the average RAB.

5.101. In respect of Depreciation, the Authority had decided that difference between the amount of depreciation calculated based on actual date of commissioning/disposal of assets and the amount of depreciation calculated considering such asset has been commissioned/ disposed half way through the respective Tariff Year will be adjusted at the end of the Control Period considering Future Value of the differences for each year in the (1st) Control Period.

5.102. Based on the actual audited values of depreciation available to the Authority for the 1st Control Period, the Authority has proposed, as part of Chapter 3 on true-up for the 1st Control Period, to consider the depreciation values recorded in the books of MIAL for these years for the purpose of truing-up the depreciation, based on actual date of capitalization.

5.103. Furthermore, the Authority had decided that the difference between the value of RAB - calculated based on actual date of commissioning/ disposal of assets and that calculated considering such asset has been commissioned/ disposed half way through the respective Tariff Year, will also be adjusted at the end of the (1st) Control Period considering Future Value of the differences for each year in the Control Period.

5.104. As highlighted earlier, the Authority noted that MIAL has also calculated RAB for each year for the 1st control period, based on actual capitalisation dates and disposal dates.

5.105. As mentioned in Chapter 3 on true-up for the 1st Control Period, the Authority proposes to calculate RAB based on the actual date of capitalisation approach mentioned as part of MIAL Tariff Order 32/2012-13.

5.106. The Authority has noted multiple capitalization schedules submitted by MIAL between 26.12.2013 and 15.01.2016, primarily on account of replacement of projected figures in the initial submission with the actual capitalization observed as on 15.01.2016, and the resulting revision in the projections for the remaining years in the second control period. The Authority has discussed below the latest submissions made by MIAL to this end:

"a) Current Projects (Project Cost)

MIAL vide its letter no. MIAL/VPR/15-16/27 dated 8th September, 2015 has provided the yearwise capital expenditure incurrence and capitalization estimates for projects costing Rs. 12,630 crs. Projects which will be getting completed in FY 17-FY 19 with their current status are enclosed as Annexure 1. Capex incurrence and capitalization numbers for FY 16-FY 19 have been accordingly updated as in the table below.

b) Projects to be undertaken in second control period

Revised yearwise phasing and capitalization details of the New Projects aggregating Rs. 1,320 crores is enclosed as Annexure 2…"

"Further, based on advice of the Authority, MIAL has relooked into list of operational capital expenditure of Rs. 1,440 crs. and reduced the same to Rs. 1,174 crs., revised list is enclosed as Annexure 4…"

"A summary of revised year-wise Capital Expenditure Incurrence and Capitalization, including contribution to MMRDA towards metro rail stations before Development Fee (DF) adjustment for the control period is as follows:

Table: Capital Expenditure Incurrence - Submitted vide letter dated 8th September, 2015

Rs./Cr.

	Upton FY14*	***FY15***	***FY16***	***FY17***	***FY18***	***FY19***	***Total FY 15-FY19***	***FY 20***	***Total up to FY 20***
		Actual			***Actual***			***Projected***	
Current Projects	*10,877*	*729*	*861*	*163*	*0*	*0*	*1,753*	*0*	*12,630*
New Projects		*90*	*546*	*170*	*183*	*198*	*1,187*	*133*	*1,320*
Operational Capex		*321*	*557*	*164*	*256*	*142*	*1,440*	*0*	*1,440*
Total		***1,140***	***1,964***	***497***	***439***	***340***	***4,380***	***133***	***15,390***

** Excludes Retirement Compensation to AAI*

Table: Capital Expenditure Incurrence - Revised

Rs./Cr.

	Upton FY14*	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**Total FY 15-FY19**	**FY 20**	**Total up to FY 20**
	Actual			**Actual**			**Projected**		
Current Projects	*10,877*	*729*	*745*	*177*	*66*	*36*	*1,753*	*0*	*12,630*
New Projects		*90*	*445*	*270*	*183*	*198*	*1,187*	*133*	*1,320*
Operational Capex		*321*	*543*	*169*	*263*	*144*	*1,440*	*0*	*1,440*
Total		***1,140***	***1,733***	***616***	***12***	***378***	***4,380***	***133***	***15,390***

** Excludes Retirement Compensation to AAI*

Table: Capitalization - Submitted vide letter dated 8h September 2015

Rs./Cr.

	Upton FY14*	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**Total FY 15-FY19**	**FY 20**	**Total up to FY 20**
	Actual			**Actual**			**Projected**		
Current Projects	*10,272*	*223*	*1,878*	*257*	*-*		*2 358*	*0*	*12,630*
New Projects			*549*	*-*		*209*	*757*	*562*	*1,320*
Operational Capex		*312*	*507*	*104*	*53*	*46*	*1,440*	*0*	*1,440*
Total		***535***	***2,934***	***361***	***53***	***673***	***4,555***	***562***	***15,390***

** Excludes Retirement Compensation to AAI*

Table: Capitalization - Revised

Rs./Cr.

	Upton FY14*	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**Total FY 15-FY19**	**FY 20**	**Total up to FY 20**
	Actual			**Actual**			**Projected**		
Current Projects	*10,272*	*223*	*1,851*	*110*	*64*	*110*	*2,358*	*0*	*12,630*
New Projects			*549*			*209*	*758*	*562*	*1,320*
Operational Capex		*312*	*507*	*104*	*53*	*46*	*1,440*	*0*	*1,440*
Total		***535***	***2,907***	***214***	***117***	***783***	***4,556***	***562***	***15,390***

** Excludes Retirement Compensation to AAI”*

5.107. The Authority has duly considered the above submission on the projected capitalization for the second control period. After due deliberations, the Authority was of the opinion that the capitalization figures for the year FY2015-16 seem too high, even after acknowledging MIAL's plans to capitalize most of its new T2 terminal during this year. Following MIAL's submission dated 08.09.2015, the Authority had sought more explanation on the same from MIAL. MIAL's response dated 13.1.2015 to this query has been excerpted below,

"….the financial year 2015-16 includes the proportionate amount on assumption that Air India and Jet Airways starts domestic operations from New Terminal 2 wef 01st Oct, 2015 and 01st Jan, 2016 respectively and for full year thereafter…"

5.108. After assessing these submissions, the Authority further asked MIAL to furnish the actual capitalization figures for the first 9 months of the year FY2015-16, to justify at least the capitalization corresponding to the start of domestic operations by Jet Airways w.e.f. 01.10.2015. However, MIAL informed the Authority in its meeting dated 15.01.2016 that it would not be able to provide audited figures for two more months. But it has provided the unaudited workings for the same in its submission dated 11.02.2016 as below,

a) Total Project cost of Rs. 12,630 crs.														
Schedule of Total Capex – Incurrence Rs. In crs.														
	FY 07	***FY 08***	***FY 09***	***FY 10***	***FY 11***	***FY 12***	***FY 13***	***FY 14***	***FY 15***	***FY 16***	***FY 17***	***FY 18***	***FY 19***	***Total***
	Actual									***Projected***				
Current Projects	*480*	*607*	*1,016*	*1,241*	*1,632*	*1,990*	*2,223*	*1,689*	*729*	*661*	*166*	*138*	*59*	***12,630***
Schedule of Total Capex - Capitalization Rs. In crs.														
	FY 07	***FY 08***	***FY 09***	***FY 10***	***FY 11***	***FY 12***	***FY 13***	***FY 14***	***FY 15***	***FY 16***	***FY 17***	***FY 18***	***FY 19***	***Total***
	Actual									***Projected***				
Current Projects	*316*	*147*	*692*	*470*	*591*	*514*	*398*	*7,144*	*223*	*1,769*	*48*	*105*	*213*	***12,630***
b) Disallowed Project cost of Rs. 260 crs.														
Project cost disallowed in Order dated 21st December, 2012 – Incurrence, Rs. In crs.														
	FY 07	***FY 08***	***FY 09***	***FY 10***	***FY 11***	***FY 12***	***FY 13***	***FY 14***	***FY 15***	***FY 16***	***FY 17***	***FY 18***	***FY 19***	***Total***
	Actual									***Projected***				
Disallowed in Old Order														
Projects disallowed	*150*	*1*	*12*	*16*	*43*	*28*	*6*	*5*	*(1)*	*1*	*-*	*-*	*-*	*260*
Project cost disallowed in Order dated 21st December, 2012 - Capitalization														
	FY 07	***FY 08***	***FY 09***	***FY 10***	***FY 11***	***FY 12***	***FY 13***	***FY 14***	***FY 15***	***FY 16***	***FY 17***	***FY 18***	***FY 19***	***Total***
	Actual									***Projected***				
Disallowed in Old Order														
Projects disallowed	*150*	*1*	*2*	*19*	*20*	*12*	*-*	*2*	*-*	*55*	*-*	*-*	*-*	*260*
c) Deferred Project cost of Rs. 197 crs.														
Deferred Projects - Incurrence, Rs. In crs.														
	FY 07	***FY 08***	***FY 09***	***FY 10***	***FY 11***	***FY 12***	***FY 13***	***FY 14***	***FY 15***	***FY 16***	***FY 17***	***FY 18***	***FY 19***	***Total***
	Actual									***Projected***				

Projects deferred	*-*	*-*	*-*	*-*	*0*	*2*	*2*	*43*	*7*	*3*	*41*	*59*	*41*	*197*
Deferred Projects - Capitalization, Rs. In crs.														
	FY 07	***FY 08***	***FY 09***	***FY 10***	***FY 11***	***FY 12***	***FY 13***	***FY 14***	***FY 15***	***FY 16***	***FY 17***	***FY 18***	***FY 19***	***Total***
	Actual									***Projected***				
Projects deferred	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*30*	*-*	*25*	*-*	*-*	*142*	*197*
d) Increased IDC of Rs. 195 crs.														
Interest During Construction (as submitted in December 2013) – Incurrence, Rs. In crs.														
	FY 07	***FY 08***	***FY 09***	***FY 10***	***FY 11***	***FY 12***	***FY 13***	***FY 14***	***FY 15***	***FY 16***	***FY 17***	***FY 18***	***FY 19***	***Total***
	Actual									***Projected***				
Interest during construction - Time delay									*43*	*12*				***55***
Interest during construction - Additional loan								*128*	*12*					*140*
Interest during construction - Total	***-***	***-***	***-***	***-***	***-***	***-***	***-***	***128***	***55***	***12***	***-***	***-***	***-***	***195***
Interest During Construction (as submitted in December 2013) - Capitalization Rs. In crs.														
	FY 07	***FY 08***	***FY 09***	***FY 10***	***FY 11***	***FY 12***	***FY 13***	***FY 14***	***FY 15***	***FY 16***	***FY 17***	***FY 18***	***FY 19***	***Total***
Interest during construction - Time delay										*55*				*55*
Interest during construction - Additional loan								*29*	*16*	*95*				*140*

Interest during construction - Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***29***	***16***	***150***	**-**	**-**	**-**	***195***
e) Escalations in Project cost of Rs. 256 crs. and Rs. 124 crs.														
Escalations (as submitted in December 2013) – Incurrence, Rs. In crs.														
	FY 07	***FY 08***	***FY 09***	***FY 10***	***FY 11***	***FY 12***	***FY 13***	***FY 14***	***FY 15***	***FY 16***	***FY 17***	***FY 18***	***FY 19***	***Total***
	Actual									***Projected***				
Statutory Escalations														-
Disallowance of Cenvat		*2*	*2*	*2*	*5*	*10*	*9*	*15*						*45*
EPCG benefit							*8*	*9*						*17*
Variation in forex rates						*19*	*23*	*35*	*21*	*5*				*103*
MMRDA - Elevated road								*18*		*2*				*20*
Cost of settlement of Land								*23*	*9*	-				*32*
Site Overheads cost									*30*	*9*				***39***
Statutory Escalations - Total	**-**	***2***	***2***	***2***	***5***	***29***	***40***	***100***	***60***	***16***	**-**	**-**	**-**	***256***
Other Escalations - Escalations, Claims and Contingencies														
Other increase in Escalations, Claims and Contingencies (net of Savings in ATC tower)										*124*				*124*
Other Escalations - Escalations, Claims and Contingencies- Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***124***	**-**	**-**	**-**	***124***

Escalations (as submitted in December 2013) - Capitalization Rs. In crs.														
	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	Total
	Actual	Projected												
Statutory Escalations														-
Disallowance of Cenvat								45						45
EPCG benefit								17						17
Variation in forex rates								78		25				103
MMRDA - Elevated road								18		2				20
Cost of settlement of Land										32				32
Site Overheads cost									4	35				39
Statutory Escalations - Total	-	-	-	-	-	-	-	**158**	**4**	**94**	-	-	-	**256**
Other Escalations - Escalations, Claims and Contingencies														
Other increase in Escalations, Claims and Contingencies (net of Savings in ATC tower)										124				124
Other Escalations - Escalations, Claims and Contingencies- Total	-	-	-	-	-	-	-	-	-	**124**	-	-	-	**124**

“

5.109. The Authority proposes to accept the capitalization projection submitted by MIAL above in this submission for the purpose of this Consultation Paper, subject to revision as and when these actual figures become available and certified by the auditor at a later stage, before the release of the Order.

5.110. Accordingly, the Authority proposes to consider the capital expenditure and capitalization for the second Control Period for project related capital expenditure and operational capital expenditure as below,

Table 28: Summarized Capital Expenditure and Capitalization schedule considered by the Authority for second Control Period

Capex and Capitalization - In Rs. Crores	**FY2014-15**	**FY2015-16**	**FY2016-17**	**FY2017-18**	**FY2018-19**	**Total**
Capital Expenditure (Project Cost) [A]	729.00	661.00	166.00	138.00	59.00	1753.00
New Projects (incl. soft cost) [B]	90.00	499.25	47.69	54.65	62.12	753.72
Operational Capital Expenditure [C]	215.00	313.00	214.00	53.80	61.20	857.00
Total Capital Expenditure [D=A+B+C]	**1034.00**	**1473.25**	**427.69**	**246.45**	**182.32**	**3363.72**
Project Cost Capitalization [A']	223.00	1769.00	48.00	105.00	213.00	2358.00
New Projects Capitalization (incl. soft cost) [B']	0.00	589.25	0.00	0.00	164.47	753.72
Operational Capitalization [C']	124.80	301.74	61.89	31.54	337.03	857.00
Capitalization [D=A'+B'+C']	**347.80**	**2659.99**	**109.89**	**136.54**	**714.50**	**3968.72**

5.111. The Authority has noted the MIAL submission dated 11.02.2016. The Authority has examined the various additional project costs claimed by MIAL. The proposed allowable summary of the allowable cost is Table 22. Accordingly, as against the revised project claim of Rs. 12,630 crores the allowable cost that is works out to Rs. 12,351.85. This amount is inclusive of initial but updated disallowed project cost of Rs. 260.20 crores. The balance project cost of total aeronautical and non-aeronautical assets works out to Rs. 12,091.65 crores. As of 31.03.2014 the project cost capitalised is of Rs. 10,062.69. Hence, the balance project cost that needs to be accounted for in the second Control Period is Rs. 2,028.96 crores. As per the normal trend, some of the capitalization shall flow into the next control period. Accordingly, the aeronautical cost of this element is proposed to be accounted under the RAB during the second Control Period. Same is reflected in the table below.

5.112. As regards the capitalization pertaining to south-east pier, the Authority is of the view that by nature it is a terminal building, and therefore an aeronautical allocation ratio equal to that applicable on the project cost shall be applied to it also. Accordingly, the Authority has computed the aeronautical capital addition on account of South-East pier and used the same in the table below to calculate the total aeronautical capital addition due to new projects.

Table 29: Aeronautical Capitalization considered by the Authority for RAB in second Control Period

Aeronautical Capitalization - In Rs. Crores	**FY2014-15**	**FY2015-16**	**FY2016-17**	**FY2017-18**	**FY2018-19**	**Total**
Project Cost Capitalization (Aeronautical + Non-Aeronautical) [X]	219.00	1440.00	48.00	105.00	213.00	2025.00
Aeronautical Project Cost Capitalization [X’]	185.10	1217.09	40.57	88.75	180.03	1711.53
Aeronautical New Projects Capitalization [Y]	0.00	514.75	0.00	0.00	164.47	679.22
Aeronautical Operational Capitalization [Z]	124.80	301.74	61.89	31.54	337.03	857.00
Aeronautical Capitalization [W=X’+Y+Z]	**309.90**	**2033.57**	**102.46**	**120.29**	**681.52**	**3247.75**

Adjustment to RAB on account of DF

5.113. The Authority had noted in the MIAL Tariff Order No. 32/ 2012/13 that in the last year of project completion any remaining balance of DF sanctioned by the Authority would be adjusted in the RAB in that year. As detailed in Chapter 3 on true-up for the 1st Control Period, the Authority notes that while project completion has got delayed, a substantial portion of the investment has been capitalized in the 1st Control Period itself. Considering the fact that DF is supposed to be the last resort for financing, in addition to the fact that the Authority has allowed MIAL to securitize (DF granted on NPV basis), as discussed paragraph 2.9 and

5.114. Table 1. Hence, no further DF adjustment is required in the second Control Period. Further, the Authority proposes to adopt the Companies Act 2013 (discussed in detail in the Chapter 11 on Depreciation) for the purpose of estimating depreciation of RAB in the second Control Period. It also proposes to continue to depreciate HRAB at average rate of depreciation each year during the second Control Period as discussed in Para 6.14.

5.115. The Authority noted that MIAL had separately included an amount of Rs. 164.27 crores to the capital addition during the year FY 2014-15, stating that the amount is the cumulative depreciation on the assets discarded. However, the Authority has noted that the RAB table has been computed on net fixed assets as in the balance sheet and therefore this cumulative depreciation has already been factored. Considering the fact of claimed depreciation for these assets till date, the net disposed assets work out to Rs. 355.17 crores that is to be accounted for return. Hence, the Authority has considered the aeronautical portion of the amount as Rs. 300.19 crores and the same has been considered as deleted from the RAB.

5.116. Authority notes from the financials of FY2014-15 that the closing gross block asset is of Rs. 11452.77 Cr which includes real estate related capitalization of Rs 186.91 Cr. After excluding this real estate capitalized asset value, the remaining gross asset is to be apportioned between aeronautical and non-aeronautical. As indicated in para Table 22 this gross asset also includes certain disallowed assets. After taking these aspects into consideration, the Authority has worked out the allowable gross block aeronautical asset as on 31.03.2015.

5.117. It is also noted that during FY 2014-15, MIAL has written-off old T-2 assets and those assets that was transferred to MAFFFL, amounting to gross value of Rs 519.44 Cr. Till the year 2014-15, the corresponding depreciation charged is Rs 164.27 Cr. As per MIAL submission, the net block in the book of accounts is Rs 298.00 Cr for old T-2 and Fuel infrastructure transferred is Rs 57.10 Cr. In this regard, MIAL has received back from MAFFFL a total amount of Rs 98.34 Cr (including surplus of Rs 41.24 Cr). MIAL has also made a financial entry in FY2014-15 under O&M expenses, termed as loss on disposal of assets Rs 245.48 Cr. The Authority has allowed this loss on disposal and the aero portion is considered as part of tariff determination. Thus, the Authority is of the view that MIAL has fully accounted the written-off gross block amount and also realized the net block amount from MAFFFL as well as through tariff determination.

5.118. In view of above, the RAB addition for FY 2014-15 works out to negative. Further, the Authority needs to remove the actual aeronautical net block of old T-2 and Fuel infrastructure (100%). For the time being, the Authority has adopted the overall ratio of 84.52% on total deleted assets to calculate the net addition for the year 2014-15. Accordingly the net aeronautical reduction during the year 2014-15 comes out to Rs. 148.41 Cr. This has been suitably reflected in Table 30.

5.119. Accordingly, the Authority has recomputed the RAB to be as the following,

Table 30: RAB and Return on RAB considered by the Authority for second Control Period

Regulatory Asset Base (In Rs. Crore)		**FY2014-15**	**FY2015-16**	**FY2016-17**	**FY2017-18**	**FY2018-19**
Computation of HRAB						
a	Opening HRAB	763.99	690.71	642.62	589.42	537.41
b	Depreciation for the year	73.28	48.09	53.20	52.01	48.54
c=a-b	Closing HRAB	690.71	642.62	589.42	537.41	488.88
d=Avg(a,c)	Average HRAB	727.35	666.67	616.02	563.42	513.14
Computation of RAB						
A1	Opening RAB	5282.80	4704.39	6752.98	6459.84	6163.01
A2	Opening RAB (One Time Carry Forward from PSF SC Account)	0.00	309.97	0.00	0.00	0.00
B1	Less: Depreciation on RAB (ex. DF, Upfront fee)	430.00	376.74	421.86	418.64	421.01
B2	Less: Depreciation on RAB due to Security Related Capital Expenditure	0.00	17.91	23.94	25.49	24.84
C1	Add: Pro-rata Addition to aero assets allowed during the year (excl. DF funded assets)	(148.41)	2033.57	102.46	120.29	681.52
C1'	Less: Assets discarded/ disposed off during the year	0.00*	0.00	0.00	0.00	0.00
X	Balance: Addition to aero assets carried forward to next year (excl. DF funded assets)	0.00	0.00	0.00	0.00	0.00
C2	Add: Addition to aero assets due to Security Related Capital Expenditure	0.00	99.70	50.20	27.00	15.00
D=(A1+A2)-(B1+B2)+(C1-C1'+C2)+X	Closing Regulatory Asset Base	4704.39	6752.98	6459.84	6163.01	6413.69
Calculation of Return on Aggregate RAB (RAB + HRAB)						
E= Avg[A1+A2,D]	Average RAB	4993.60	5883.67	6606.41	6311.43	6288.35
F=d	Average HRAB	727.35	666.67	616.02	563.42	513.14
G=E+F	Average RAB (including HRAB)	5720.95	6550.34	7222.44	6874.84	6801.49

Regulatory Asset Base (In Rs. Crore)		FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
H	WACC	11.75%	11.75%	11.75%	11.75%	11.75%
I=G*H	**Return on RAB (WACC x Average RAB)**	**672.07**	**769.50**	**848.45**	**807.62**	**799.00**
Aggregate Aeronautical Depreciation on RAB						
J=b	Depreciation on HRAB	73.28	48.09	53.20	52.01	48.54
K=B	Depreciation on RAB (excluding DF)	430.00	376.74	421.86	418.64	421.01
L=B1	Depreciation on RAB due to PSF (SC) Capex	0.00	17.91	23.94	25.49	24.84
M=J+K+L	**Net Aero Depreciation for the year**	**503.28**	**442.74**	**499.00**	**496.14**	**494.39**

** Arrived based on detailed assessment given in para 5.118*

5.120. The Authority has considered the aeronautical addition during the year for RAB return on average basis as indicated in

5.121. Table 30. The Authority notes from the financials of first Control Period that the actual capitalisation has taken place at the end of the financial year. Further, in the financial year 2015-16, based on MIAL's information, the likely capitalization worked out to Rs. 2033.57 crores which is quite substantial. Even though this figure has been taken for annual return, the actual capitalization is likely to be less and accordingly return shall be re-computed. The Authority expects MIAL to give actual capitalization figure along with the date of capitalization for FY2015-16.

Proposal No. 5. Regarding calculation of RAB for the purposes of calculating Return on RAB based on the material before it and its analysis, the Authority proposes

5.a. To calculate RAB for each year based on the actual date of capitalisation for the purpose of calculating return on RAB.

5.b. To consider an opening RAB of Rs. 5,282.80 crores and opening HRAB of Rs. 763.99 crores as of 01.04.2014.

5.c. To consider the Regulatory Asset Base and Return on RAB as per Table 30 for the purpose of determination of aeronautical tariff for second Control Period.

5.d. To consider the estimated cost of capital expenditure for addition towards RAB and for consideration towards determination of aeronautical tariff for second Control Period as per Table 28 and Table 29, and para 5.111.

5.e. To consider the capitalized figure of Rs. 309.97 crores as of 31st March 2015 as per the audited PSF (SC) account and the sum of Rs. 191.90 crores to be capitalized during the remaining part of the second control period in the RAB. MIAL to provide

evidence for reimbursement of capitalized amount of Rs. 309.97 crores into the PSF (SC) escrow account, otherwise the same is proposed to be disallowed (refer para 5.97 above)

TruingUp No. 2. Regarding true-up of RAB

2.a. To true-up the cost of capital expenditure based on actual audited values of these additions over the second Control Period towards determination of aeronautical tariff for the 3rd Control Period.

2.b. To review the Regulatory Asset Base and Return on RAB for second Control Period at the time of determination of aeronautical tariff for 3rd Control Period based on actual additions to RAB (capitalization) and actual depreciation based on date of capitalization during the second Control Period.

6. Hypothetical Regulatory Asset Base

a MIAL Submission on Hypothetical Regulatory Asset Base

6.1. Hypothetical Asset Base is a part of Regulatory Asset Base, which is considered as a regulatory building block for the purpose of determination of aeronautical tariff. The Hypothetical Regulatory Asset Base (HRAB) was set as Rs. 966.03 crore vide Decision No. 10 of the MIAL Tariff Order 32/2012-13.

6.2. MIAL has made following submission as part of its tariff application dated 26.12.2013 of second Control Period regarding Hypothetical Regulatory Asset Base (HRAB),

"While submitting MYTP for first control period, MIAL had arrived at the amount of HRB of Rs. 1817 Crs. based on its understanding of SSA. Details of such calculations are as below:

Computation of Hypothetical Regulatory Base *Rs./ Crs.*

	FY 09
Aeronautical Revenue (A)	*375*
Non-Aeronautical Revenue(B)	*563*
Operation and Maintenance Expenditure pertaining to Aeronautical Services(C)	*335*
Tax pertaining to Aeronautical Services (D)	*1.6*
Weighted Average Cost of Capital - WACC (E)	*11.45%*
*Hypothetical Regulatory Base((A+30%*B-(C+D))/E)*	*1,817*

Accordingly depreciated HRB of Rs. 1420 Crs. has been considered as on 1st April, 2014 for inclusion in RB of Second Control Period.

Hypothetical Regulatory Base is being depreciated at the average rate of depreciation applicable to aeronautical assets."

6.3. MIAL has considered the following values of HRAB for the second Control Period,

"

Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Average HRB	*1,359*	*1,246*	*1,136*	*1,024*	*914*

"

b Authority's Examination of MIAL Submission on Hypothetical Regulatory Asset Base

6.4. The Authority has examined MIAL's submissions on HRAB to be considered towards determination of aeronautical tariff for the second Control Period. The Authority's examination of the same is presented below.

6.5. During the first Control Period, as per Decision No. 6 of MIAL Tariff Order 32/2012-13, the Authority had decided to compute HRAB in accordance with the principle of Schedule 1 of SSA and not include non-aeronautical revenue. Other decisions in this regard included:

6.5.1. To include Rs. 23.14 crores (out of Rs. 54 crores provisioned by MIAL as extraordinary expenses in relation to AAI Operation support cost), as certified by the Auditor that pertain to FY2008-09, in the operating expenses in calculation of Hypothetical RAB.

6.5.2. To review the apportionment of the provision of Rs. 54 crores, after obtaining further documents; if any, from AAI and if necessary, make appropriate onetime adjustment to this component of Hypothetical RAB in the second Control Period.

6.5.3. To make appropriate adjustment, if required, to the Target Revenue during 1st Control Period for taking into consideration while determining aeronautical tariffs for the next Control Period.

6.5.4. To consider revenue from fuel throughput charges as part of aeronautical revenue and revenue from CUTE Counter Charges as non-aeronautical revenue for calculation of Hypothetical RAB.

6.5.5. To consider WACC, as may be calculated by the Authority, to be used for calculation of Hypothetical RAB (for the purposes of capitalization factor)

6.5.6. To calculate corporate tax pertaining to earnings from aeronautical services as calculated using revenue share (Annual Fee) on these earnings as element of cost for the year 2008-09 and use this figure in the calculation of Hypothetical RAB.

6.6. Accordingly, the Authority had decided that opening Hypothetical RAB in FY2009-10 should be taken as Rs. 966.03 Crores.

6.7. The Authority had also decided to allow depreciation of the Hypothetical RAB at the tariff year wise average depreciation rate for aeronautical assets.

6.8. The Authority's calculation of the Hypothetical RAB as per Para 9.69 of the MIAL Tariff Order 32/2012-13 is as below:

Table 31: Computation of Hypothetical RAB as per Order No. 32 for 1st Control Period

Components of Hypothetical RAB	**Value (in Rs Crore)**
Aeronautical Revenue [A]	445.1
Non-aeronautical Revenue [B]	0
Operation and Maintenance Expenditure pertaining to Aeronautical Services [C]	334.52
Tax pertaining to Aeronautical services [D]	0
WACC [E]	11.45%
Hypothetical Regulatory Base (A+30%*B – (C+D))/E	966.03

6.9. The depreciation on HRAB considered by the Authority at the time of the 1st Control Period vide Table 19 of the MIAL Tariff Order 32/2012-13 is as below where the opening Hypothetical RAB considered in FY2009-10 is as per the Order No. 32 was as below,

Table 32: Depreciation on HRAB as per Order No. 32 for 1st Control Period

In Rs. Crores	2009-10	2010-11	2011-12	2012-13	2013-14
Opening HRAB [A]	966.03	923.41	876.1	828.13	788.01
Depreciation [B]	42.62	47.32	47.97	40.12	32.26
Closing HRAB [A-B]	923.41	876.1	828.13	788.01	755.75

6.10. The Authority noted that AAI or MIAL has not advanced further evidence on apportionment of the amount ascribable to 2008-09 towards operational support cost. Hence the Authority has decided to retain the figures of Rs. 23.14 crores for 2008 as initially accounted towards HRAB calculation.

6.11. As presented in Chapter 3 on true-up for the 1st Control period, the average depreciation rate in the 1st Control Period will be at variance with the depreciation values considered by the Authority as well as the values considered by MIAL on account of changes in the underlying value of actual aeronautical assets and the earlier mentioned Authority's approach for DF adjustment. Accordingly, the depreciation on HRAB considered by the Authority based on its revised computation as presented in para 0 above.

6.12. The Authority has noted MIAL's submission for the second Control Period on opening HRAB. MIAL has computed HRAB on the basis of opening HRAB of Rs. 1,817 crores in FY2009-10 instead of Rs. 966.03 crores as per MIAL Tariff Order 32/2012-13. The Authority has further noted that MIAL's computation of HRAB and submission in Para 6.1 above is similar to its submission at the time of determination of the aeronautical tariff for the 1st Control Period dated 23.11.2011 mentioned in Para 9.5 of Authority's MIAL Tariff Order 32/2012-13.

6.13. The Authority had examined the issue of HRAB at length as part of its MIAL Tariff Order 32/2012-13. The Authority has reviewed the submission made by MIAL and does not find any new argument on this issue in its current submission for determination of aeronautical tariffs for the second Control Period, to change the approach or computation of HRAB as adopted by the Authority. Thus, the Authority is not persuaded to reconsider its decision in the MIAL Tariff Order 32/2012-13. The Authority maintains that the opening HRAB in FY2009-10 will be Rs. 966.03 crores as calculated in MIAL Tariff Order 32/2012-13. Accordingly, the true-up has been done as per Table 7 for HRAB and the HRAB for the second Control Period will be calculated on the basis of depreciated value. The second Control Period opening HRAB is Rs. 763.99 crores in FY2014-15. The Authority has noted that MIAL has adopted the new depreciation rates as per the Companies Act 2013 (mentioned in Para 11.2 below in detail). The Authority has noted that the sharp jump in depreciation on HRAB in FY2014-15 from FY2013-14 is on account of new rates of depreciation adopted by MIAL from FY2014-15 onwards.

6.14. In line with its Decision No. 6 of its MIAL Tariff Order 32/2012-13 the Authority proposes to consider the depreciation on HRAB based on the average depreciation rate for aeronautical assets during the second Control Period, accordingly the estimated depreciation of HRAB is as provided below.

Table 33: Depreciation of Hypothetical RAB considered by the Authority for second Control Period

INR Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Opening HRAB [A]	763.99	690.71	642.62	589.42	537.41
Depreciation for the year [B]	73.28	48.09	53.20	52.01	48.54
Closing HRAB [C=A-B]	690.71	642.62	589.42	537.41	488.88
Average HRAB [D=Avg(A,C)]	727.35	666.67	616.02	563.42	513.14

Proposal No. 6. Regarding Hypothetical RAB for second Control Period for MIAL based on the material before it and its analysis, the Authority proposes

6.a. To consider an opening Hypothetical RAB of Rs. 763.99 crores as on 01.04.2014.

6.b. To estimate the year-wise average depreciation rate for aeronautical assets for the second Control Period at the rate of depreciation for HRAB in the second Control Period, as per Table 33.

7. Cost of Debt

a MIAL Submission on Cost of Debt

7.1. MIAL made following submission as part of its second Control Period MYTP regarding Cost of Debt,

"The weighted average Cost of Debt (Rd) for the control period is estimated to be 11.93%, computed from the outstanding debt and yearly average cost of debt as given below.

Cost of Debt *Rs./Crs.*

Particulars	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Outstanding debt	*5,682*	*5,831*	*5,633*	*5,260*	*4,839*
Cost of Debt (%)*	*11.49*	*11.80*	*12.07*	*12.16*	*12.18*

**Weighted average cost of debt is 11.93%."*

b Authority's Examination of MIAL Submissions on Cost of Debt

7.2. The Authority has examined the MIAL submissions on the cost of debt to be considered towards determination of aeronautical tariff for the second Control Period. The Authority's examination of the same is presented below.

7.3. The Authority had decided to consider the actual cost of rupee term loan, paid by MIAL for the years 2009-10, 2010-11 and 2011-12 vide its Decision No. 8 of MIAL Tariff Order 32/2012-13. For the period 2012-13 to 2013-14, the Authority decided to consider the actual cost incurred (weighted average rate of interest for the term loan, which was certified by auditors of MIAL at 10.09%) by MIAL for the years 2009-10, 2010-11 and 2011-12 as the cost of debt for the years 2012-13 and 2013-14.

7.4. Additionally, the Authority had decided to true-up the cost of debt for the 1st Control Period with actual values (determined as weighted average rate of interest for the individual tranches of loan drawn within the control period) subject to a ceiling of 11.5% for individual tranches of loan. The Authority had decided that it may review this ceiling upon reasonable evidence that MIAL may present to the Authority in this behalf.

7.5. Whereas, the Authority had considered the following outstanding debt and interest rate for MIAL's debt as per Para 11.27 of the MIAL Tariff Order 32/2012-13:

Table 34: Outstanding Debt and Interest Rate for the 1st Control Period as per MIAL Tariff Order 32/2012-13

Particulars	FY10	FY11	FY12	FY13	FY14
Outstanding debt – in Rs. Cr.	2,021	2,947	4,548	4,231	4,231
Cost of Debt	10.20%	9.79%	10.13%	10.09%	10.09%

7.6. The Authority has noted from the Tariff Model as part of MIAL's tariff application dated 26.12.2013 that MIAL's outstanding debt at the end of FY2013-14 was Rs. 4,231.0 crore (excluding the new term loan). The actual outstanding debt as per the Tariff Model submitted by MIAL for each year during the 1^{st} Control Period is given in the Table 35 below. The Authority has noted that repayment of Rs. 789.28 crores was made in FY2013-14. The Authority has also noted that in the same year an additional term loan of Rs. 1,450 crores was taken. The Authority has further noted from MIAL submission that this additional debt is to be used primarily for the purpose of financing new capital expenditure projects and is yet to be tied up.

7.7. Furthermore, the Authority has also noted that the interest of Rs. 162.81 crores in FY2013-14 is the sum of interest paid towards both average debt of Rs. 4265.64 crores (full year) and additional term loan of Rs. 1450 (for 3 months). The Authority has noted that interest rate of 12.5% has been applied on this loan and considered towards the interest expense. Interest paid in by MIAL in the 1st Control Period towards outstanding debt as per its Tariff Model is presented below,

Table 35: Outstanding Debt as per MIAL Tariff Model in the tariff application dated 26.12.2013 for the 1st Control Period

In Rs. crores*	FY10	FY11	FY12	FY13	FY14
Opening Debt balance as on 1st April	1470.13	2020.68	2946.81	4547.58	5020.28
Add: Drawdown (New Debt Infusion)	641.68	926.13	1600.77	472.70	0.00
Less: Repayment	91.13	0.00	0.00	0.00	789.28
Closing Debt balance as on 31st March	2020.68	2946.81	4547.58	5020.28	4231.00
Additional Term Loan	0	0	0	0	1450.00
Total Interest Paid during the year (interest expense)	36.19	47.37	58.11	59.48	173.30
Average Interest Rate during the year	10.20%	9.79%	10.13%	10.71%	11.88%

** The values in Tariff Model are in Rs. million terms*

7.8. The Authority had sought Auditor's Certificates for facility-wise opening debt, debt drawn, debt repaid and outstanding debt during the 1st Control Period along with applicable rate of interest, and future draw-down and repayment schedule. Further, the Authority had sought Auditor's Certificate regarding the additional term loan of Rs. 1,450 crores and the interest on this debt considered in FY2013-14.

7.9. The Authority has noted MIAL's tariff application dated 05.08.2014 on outstanding debt of Rs. 4,700.98 crores at the end of FY2012-13 and Rs. 5,450.98 crores at the end of FY2013-14. The Authority has noted that the additional loan raised in FY2013-14 was to the tune of Rs. 700 crores. Further, the Authority has noted that MIAL prepaid the loan to the extent of Rs. 345 crores in FY2012-13 and Rs. 800 crores in FY2013-14. The Authority has also noted the change in interest rate in FY2012-13 and FY2013-14 from the previous submission.

Table 36: Outstanding Debt as per MIAL Tariff Model in the tariff application dated 05.08.2014 for the 1st Control Period

In Rs. crores*	FY10	FY11	FY12	FY13	FY14
Opening Debt balance as on 1st April	1,470.13	2,020.68	2,946.81	4,547.58	4,700.98
Add: Drawdown (New Debt Infusion)	641.68	926.13	1,600.77	498.40	1,550.00
Less: Repayment	91.13	-	-	345.00	800.00
Closing Debt balance as on 31st March	2,020.68	2,946.81	4,547.58	4,700.98	5,450.98
Total Interest Paid during the year (interest expense)	36.19	47.37	58.11	59.48	173.27
Average Interest Rate during the year	10.20%	9.79%	10.13%	10.76%	11.02%
Weighted Average Interest Rate during the control period**	10.48%				

** The values in Tariff Model are in Rs. million terms*

*** The debt calculation submitted by MIAL is on actual date basis*

7.10. The Authority is in receipt of the Auditor's Certificates on facility-wise opening debt, debt drawn, debt repaid and outstanding debt during the 1st Control Period and applicable rate of interest.

7.11. Further, the Authority is in receipt of the loan agreement pertaining to the new term loan of Rs. 1,800 crores being raised by MIAL in FY2013-14 (this amount is different from the amount of Rs. 1,450 crores that was proposed by MIAL as part of its tariff application dated 26.12.2013). The Authority is also in receipt of the loan sanction letter for Rs. 700

crores (which is a part of the Rs. 1,800 crores loan being raised) for financing of capital expenditure and repayment of short term loans during FY2013-14.

7.12. Further, the Authority has noted from the loan agreements and sanction letter that the interest rates applicable on the debt for these sanctioned loans is within 11.50% for the 1st Control Period. Accordingly, the Authority proposes to accept MIAL's submission on outstanding debt and interest rate based on audited values, as per Table 36 above with a closing debt of Rs. 5,450.98 crores. Considering the above, the weighted average cost of debt for the 1st Control Period works out to be 10.48% which has also been considered for the purpose of true-up, as discussed in para 3.12 above.

7.13. The Authority has noted from MIAL submissions that it is needs to raise additional debt in the second Control Period for funding the balance project cost to be incurred in FY2014-15, as well as new capital expenditure to be undertaken during the second Control Period.

7.14. The Authority has also noted MIAL's tariff application dated 05.08.2014 on outstanding debt and interest in the second Control Period as below.

Table 37: Outstanding Debt as per MIAL Tariff Model in the tariff application dated 05.08.2014 for the second Control Period

In Rs. crores*	FY15	FY16	FY17	FY18	FY19
Opening Debt balance as on 1st April	5,450.98	6,200.94	6,629.72	6,462.52	6,090.89
Add: Drawdown (New Debt Infusion)	1,299.97	428.78	147.32	36.60	39.49
Less: Repayment	550.00	-	314.52	408.20	507.20
Closing Debt balance as on 31st March	6,200.94	6,629.72	6,462.52	6,090.89	5,623.16
Total Interest Paid during the year (interest expense)	665.70	758.21	790.17	762.76	711.71
Average Interest Rate during the year**	11.43%	11.82%	12.07%	12.15%	12.15%

** The values in Tariff Model are in Rs. million terms*

*** The debt calculation submitted by MIAL is on actual date basis*

7.15. The Authority has sought the debt repayment schedule and applicable interest rates for each of the years in the second Control Period.

7.16. As noted in Para 7.11 above, the Authority is in receipt of the loan agreement on new term loan of Rs. 1,800 crores as well as the sanction letter for Rs. 700 crores that was drawn down in FY2013-14. The Authority has noted that the lead arranger bank has approved a loan of Rs. 1800 crores but of this Rs. 400 crores are yet to be tied up for the project. The Authority has further noted that MIAL has considered Rs. 1,400 crores towards debt to finance the project cost. This amount includes the balance Rs. 1,100 crores from the new debt of Rs. 1,800 crores and drawdown of Rs. 300 crores from the debt approved in the 1st Control Period. The Authority has also noted MIAL's submission on the repayment schedule (in percent of total debt terms) and interest rates as per this loan agreement in the second Control Period.

7.17. Apart from the debt required to fund the project cost approved by the Authority, MIAL has also considered additional debt on account of new capital expenditure and operational capital expenditure to be undertaken during the second Control Period. MIAL has proposed to fund 90% of the operational capital expenditure towards Tunnel under Runway 14/32 and the entire capital expenditure towards new projects to be undertaken during the second Control Period, through debt.

7.18. The Authority has also noted the revised means of finance submitted by MIAL in para 10.7 below. The Authority has noted that MIAL has projected that it will raise Rs. 6,604 crores of debt, i.e. Rs. 923 crores more than that projected in its previous submission, in order to fund the ongoing projects. To finance new projects in the second Control Period and operational capital expenditure it will raise a debt of Rs. 829 crores. As explained in the para 5.7 above, MIAL has raised a loan of Rs. 300 crores from Axis Bank and of Rs. 350 crs. From Yes Bank, aggregating Rs. 650 crs. Further, it plans to meet the remaining Rs. 273 crores funding gap generated due to escalation in project cost and balance shortfall of RSD also through debt. It envisages to raise a loan of Rs. 923 crores for a period of two/ three years with bullet repayments.

7.19. Further, MIAL has submitted the following schedule for debt and cost of debt in the second Control Period as part of its tariff model dated 08.09.2015

Table 38: Outstanding Debt submitted by MIAL has part of its Tariff Model dated 08.09.2015, for the second Control Period

In Rs. crores*	FY15	FY16	FY17	FY18	FY19
Opening Debt balance as on 1st April	5450.98	5900.98	7365.46	7135.91	6896.21
Add: Drawdown (New Debt Infusion)	1000.00	1734.48	120.32	208.50	88.99
Less: Repayment	550.00	270.00	264.51	362.82	512.59
Closing Debt balance as on 31st March	5900.98	7365.46	7221.28	6981.58	6472.62

In Rs. crores*	FY15	FY16	FY17	FY18	FY19
Total Interest Paid during the year (interest expense)	562.93	736.03	867.99	852.39	810.96
Average Interest Rate during the year	11.64%	11.94%	12.15%	12.30%	12.44%
Weighted Average Interest Rate during the control period**	12.10%				

** The values in Tariff Model are in Rs. million terms*

*** The debt calculation submitted by MIAL is on actual date basis*

7.20. The Authority has sought bank sanction letters from Axis and Yes banks for the new term loans along with the mechanism for determination of interest rates (in the case of floating rate loan) and the current/last applicable rates of interest (in case of floating as well as fixed rate loan).

7.21. The Authority is in receipt of the loan agreements for the various loans and has noted the interest rates. Accordingly, the Authority has computed the outstanding debt and cost of debt in the second Control Period as below considering the opening balance as carried forward from the closing balance in FY2013-14 of Rs. 5,450.98 crores. As regards the interest rates, the Authority has proposed to calculate the rate of interest on projected long term loans for the years FY2015-16, 2016-17, 2017-18, and 2018-19 as weighted average of rate of interest on old long term loans (11% on Rs. 6,031 crores) and existing short term loans (11.25% on Rs. 350 crore and 12.05% on Rs. 300 crore). This works out to be 11.64% for FY2014-15 and 11.06% for the remaining years in the Control Period. The computation of the outstanding debt is presented as below,

Table 39: Outstanding Debt and Cost of Debt computed by the Authority to be considered for the second Control Period

In Rs. crores*	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Opening Debt balance as on 1st April	5450.98	5900.98	7365.46	7135.91	6896.21
Add: Drawdown (New Debt Infusion)	1000.00	1734.48	120.32	208.50	88.99
Less: Repayment	550.00	270.00	349.87	448.19	597.95
Closing Debt balance as on 31st March	5900.98	7365.46	7135.91	6896.21	6387.25
Total Interest Paid during the year (interest expense)	562.93	736.34	868.69	853.59	812.71
Average Interest Rate during the year	11.64%	11.06%	11.06%	11.06%	11.06%

Proposal No. 7. Regarding Cost of Debt for second Control Period for MIAL based on the material before it and its analysis, the Authority proposes

7.a. To consider weighted average cost of debt at 11.64% for FY2014-15 and 11.06% for remaining years of the second Control Period. as per Table 39

7.b. To consider the outstanding debt levels as per Table 39 above.

TruingUp No. 3. Correction / Truing up for Cost of Debt

3.a. The Authority proposes to true up the cost of debt for the second control period subject to a cap of an additional 50 bps on the existing rates i.e., from current level of 11.06% to a ceiling of 11.56% over the second Control Period (FY2015-16 to FY2018-19).

8. Land monetization and Treatment of Refundable Security Deposits (RSD) and Revenue

a MIAL Submission on treatment of Interest Free Refundable Security Deposits (RSD)

8.1. MIAL has considered Rs. 1,000 crores as a means of finance as part of its tariff application dated 26.12.2013 as well as its tariff application dated 05.08.2014.

8.2. MIAL has also submitted that such Real Estate Deposits carry interest at weighted average cost of debt of MIAL to be charged by Real Estate division to airport division.

> *"As the Authority is kindly aware that one of the means of finance is Refundable Security Deposit (RSD) from leasing of land for real estate development to the extent of Rs. 1,000 Crs.*
>
> *MIAL has a separate Real Estate division and all expenses to run such department including various developmental costs are accounted separately in this division. Because of various encumbrances monetization of land got delayed. Now some of the land has been freed of encumbrances / occupations and process of monetization has been initiated.*
>
> *As the Authority may be aware that SSA explicitly keeps any revenue generated from Real Estate development out of the purview of cross subsidisation of aeronautical charges. There is no doubt that subsidization from real estate revenues in any form is not envisaged in SSA which was the clear understanding of all the bidders before submitting bids.*
>
> *RSD may be deployed in various investments opportunities which include Real Estate Development by MIAL itself or deployment of funds to earn interest.*
>
> *Any utilisation of such deposits for the purpose of funding cost of project without charging interest by one independent division of the Company (Real Estate Division) to another division of the Company (Airport Division) will tantamount to subsidising airport division resulting in subsidisation of aeronautical charges from assets which are not Revenue Share Assets, which is against the provisions of SSA.*

This issue was deliberated in the 40th Board meeting of MIAL and the Board decided, inter alia, as below:

1) *Accounts of Airport Division and Real Estate Division should be maintained separately, and*
2) *Any utilisation of RSD towards Project Cost should bear interest equivalent to weighted average cost of the debt of the Company.*

Accordingly, while preparing this MYTP effect of above decisions has been incorporated."

8.3. In its application dated 08.09.2015, MIAL has considered only Rs. 207 crores as a means of finance obtained from RSD. The details in this regard as mentioned in para 8.4 below.

b Authority's Examination of MIAL Submissions on treatment of Interest Free Refundable Security Deposits (RSD)

8.4. The Authority has also noted the MIAL submission regarding RSD in its letter dated 31.07.2015 the relevant extract of which has been reproduced below,

"While determining tariff for the 1st control period the authority, based on estimated receipt of refundable interest free security deposit to the tune of Rs. 1,000 crores, had considered such deposit as one of the means of finance,

However, due to delay in availability of land and also due to Real Estate market turning unfavourable/specially hospitality segment, response to tender floated by MIAL for leasing of 8.75 acres of land consisting of four Plots was not very encouraging. In fact in one case involving two plots even after allowing extra time to fulfil obligations by the bidder, the bidder expressed inability to proceed with the offer. So far deposit of Rs. 100 crores has been received and there is firm commitment for another Rs. 107 crores. Out of four plots only two plots have been finalised.

Though all efforts will continue to monetize the Real Estate and collect deposits in near future, but due to uncertainty it is essential that arrangement is made for funds to complete the project. As already informed, there is no *possibility for getting long term loan / project loan for funding project cost. All shareholders including AAI had expressed inability to bring further equity. As a last resort, MIAL had to approach lenders; for mid-term loan in order to complete the project. In the view of this development, other than Security deposit already collected / committed aggregating Rs. 207 crs., an amount of Rs. 793 crs. has to be arranged through short /Mid-term loans, with a commitment to repay such loan in future out of Real Estate Deposits. Loan of Rs. 300 crs, has been sanctioned by Axis Bank and Rs. 350 crs. by Yes Bank aggregating Rs. 650 crs. Further, Rs. 273 crs. funding gap generated due to escalation in project cost and balance shortfall of RSD has also to be met through debt. It is envisaged that loan of Rs. 923 crs. shall be taken for the period of two/ three years with bullet repayments.*

Increase in IDC is due to necessity for obtaining loan in absence of RSD and delay in completion of South East Pier Phase III from May, 2015 to September, 2015.

Interest on additional loan of Rs. 650 crores till completion of the project is Rs. 14 crores."

8.5. The Authority has noted MIAL's submission regarding debt raised by MIAL to fund the RSD of Rs. 793 crores. Vide its Decision No. 9 of the MIAL Tariff Order 32/2012-13 the Authority had decided to consider RSD at zero cost. Further it had decided that in case of reasonable interest payment on RSD by MIAL, it will be considered towards calculation of WACC as RSD is being considered as a means of finance, and would also enter into the balance sheet. Further the Authority had decided as part of its MIAL Tariff Order No. 32/ 2012-13 not to accept the request of MIAL that "in case there is shortfall in collection of RSD for funding the project and such shortfall is met out of other means of finance, cost of such means of finance has to be considered"; unless MIAL presents compelling evidence to the Authority for its review.

8.6. The Authority has noted that MIAL has considered the cost of RSD at 12.11%, as mentioned in para 10.7 below. The Authority had sought loan agreements in respect of the loans raised to fund the gap on account of delay in raising RSD, and it is in receipt of the same.

8.7. The Authority notes that MIAL has taken short term loan in lieu of RSD at a higher interest rate with a plan of its bullet repayment in 2-3 years. Further, the Authority would also like to point out that during the determination of project DF, MIAL has committed an amount of Rs. 1000 crores accounted as a means of finance. DF being a last measure of means of finance, MIAL was expected to generate RSD. However, MIAL could not monetize the land during the first control period and has partly generated RSD to the tune of Rs. 207 crores. In view of the above, in addition to the submission regarding bullet repayment of the loan being taken in lieu of RSD, the Authority expects MIAL to raise the remaining amount of Rs. 793 crores in the second control period. At this stage, it is not very clear from MIALs submissions whether the future RSD proposed to be raised will bear interest on deposit, or otherwise. In view of uncertainty on the rate payable on the proposed RSD, the Authority for the time being proposes not to take the gap of Rs. 793 crore for WACC determination, but the same would be accounted as per actuals at the time of true up of WACC for the second control period.

8.8. The Authority has dealt with land monetization and treatment of its revenue extensively in Consultation Paper No. 16/2014-15 for DIAL and para 14.6 to 14.20 of Order No. 40/2015-16 of DIAL. The OMDA and project agreements of the two airports operators are similar. MIAL has undertaken some land monetization in the second Control Period. Thus the Authority proposes to treat the RSD and its revenue as well as land revenue from monetization based on the mechanism which will be prescribed by AAI and MoCA.

8.9. With regard to treatment of land monetization revenue, refer para no. 3.60.

Proposal No. 8. Regarding Treatment of the Interest free Refundable Security Deposits (RSD) based on the material before it and its analysis, the Authority proposes

- **8.a. To consider RSD already raised by MIAL (at Rs. 207 crore) as a means of finance at zero cost**
- **8.b. To consider balance RSD of Rs. 793 crores as and when land is monetized, and applicable cost thereof, if any.**

8.c. To treat the revenue from monetization and RSD based on mechanism for land monetization, prepared by AAI / MOCA (refer para no. 3.60).

9. Cost of Equity

a MIAL Submission on Cost of Equity

9.1. MIAL made following submission as part of its tariff application dated 26.12.2013 of second Control period regarding Cost of Equity,

"The Cost of Equity has been taken on the basis of Report prepared by KPMG (attached as Annexure 7(b)) wherein Cost of Equity has been computed based on CAPM as per following formula:

*Re = Rf + ß * (Rm – Rf)*

Where: Rf = the current return on risk-free rate

Rm = the expected average return of the market

(Rm – Rf) = the average risk premium above the risk-free rate that a "market" portfolio of assets is earning

ß = the beta factor, being the measure of the systematic risk of a particular asset relative to the risk of a portfolio of all risky assets

MIAL submits that it is relying on the analysis done by KPMG for Cost of Equity. KPMG has arrived at Cost of Equity of 23.12% and accordingly MIAL has considered cost of equity as 23% for WACC calculation. For details, enclosed report of KPMG may kindly be referred. The cost of Equity has been worked out as follows:

Cost of Equity (Re)

Parameter	***Value***
Risk free rate (Rf) - 10 year benchmark government bond yield	*8.62%*
Beta for Infrastructure companies	*1.57*
Market risk premium	*9.24%*
Cost of Equity (Re)	*23.12%*

"

b Authority's Examination of MIAL Submissions on Cost of Equity

9.2. The Authority has examined the MIAL submissions on the cost of equity to be considered towards determination of aeronautical tariff for the second Control Period. The Authority's examination of the same is presented below.

9.3. The Authority has noted that from the Tariff Model that MIAL has applied 16% rate of return on equity for the purpose of WACC estimation in the 1st Control Period. The Authority has also noted MIAL's submission regarding cost of equity at 23% for the second Control Period based on the analysis by KPMG and reviewed the KPMG report. At the time of the determination of aeronautical tariffs for the 1st Control Period, the Authority had examined this issue in detail in its Consultation Paper No.22/2011-12 dated 11th October 2012. The Authority had received comments on these from various stakeholders. Vide letter No.AV.24032/037/2011-AD dated 12th March 2012, MoCA also had forwarded a report of M/s. SBI Capital Markets Ltd. (SBI CAPS) on the fair return on equity for the Indian Airport sector which had opined that a return on equity in the range of 18.5% to 20.5% would be reasonable for airport sector in India. This report was discussed extensively in Authority's Order No. 3/2012-13 dated 24.04.2012 for tariff determination of IGI Airport, Delhi and the Authority had provided reasons for not considering the return on equity in the range of 18.5% to 20.5%. Further, the Authority had appointed the National Institute of Public Finance and Policy (NIPFP) as its financial advisor and commissioned a study to estimate the fair rate of return for private airports at Mumbai, Delhi, Bangalore, Hyderabad and Cochin. Vide its study submitted on 17th September 2012 the cost of equity was determined to be between 11.64% and 13.84% in respect of the CSI Airport, Mumbai, using the CAPM methodology. NIPFP has commented on all the elements of the CAPM model, namely the risk free rate, equity risk premium as well as equity beta.

9.4. After considering detailed analysis and discussions of various steps involved in calculation of fair rate of return on equity consistent with the risk profile of an airport for both DIAL and MIAL, the Authority had decided to allow a 16% return on equity vide Decision No. 10 of Authority's MIAL Tariff Order 32/2012-13.

9.5. Thus at the time of the determination of aeronautical tariffs for the 1st Control Period, the Authority after considering all aspects of MIAL submission had decided to consider the Return on Equity (post tax Cost of Equity) at 16% vide its Decision No. 10 of MIAL Tariff Order 32/2012-13 dated 15th January 2013 for the WACC calculation, taking into account its judgment on allowances made over the upper bound (13.84%) of the range of return on equity estimated by NIPFP. The Authority also clarified that the rate of return on Reserve & Surpluses / Accumulated Profits (Retained Earnings) will also be 16%. These decisions by the Authority were based on its following considerations regarding components of cost of equity:

9.5.1. The Authority had decided to calculate asset beta for MIAL based on the comparable airports as per the report by NIPFP.

9.5.2. The Authority had decided to consider the de-levering of the equity beta of the comparators in accordance with the market capitalisation figures in order to arrive at the asset betas (as is advised by NIPFP) and thus determine asset beta for CSI Airport, Mumbai at 0.54 after taking into account the risk mitigating factors.

9.5.3. The Authority had also decided to re-lever the asset beta of MIAL at the notional debt-equity ratio of 1.5:1 (as indicated by SBI Caps).

9.5.4. The Authority further decided to accept the risk-free rate as 7.25%, as advised by NIPFP.

9.5.5. The Authority had decided to accept the equity risk premium at 6.1%, as advised by NIPFP.

9.6. The Authority has noted that in its application dated 08.09.2015, MIAL has considered the cost of equity has 23% in order to compute the WACC. The Authority has noted MIAL's submission on this aspect for the second Control Period and has not found any new grounds to alter its approach or decision taken at the time of Order No. 32/ 2012-13. Accordingly, the Authority does not feel that any change in its approach for determination of Cost of Equity is warranted.

9.7. Thus, the Authority proposes to consider the Return on Equity (post tax Cost of Equity) as 16% for the WACC calculation. The Authority also proposes to consider the same rate of return as of equity, i.e., 16%, for Reserve & Surpluses / Accumulated Profits (Retained Earnings).

Treatment of the Upfront Fee paid by MIAL to AAI

9.8. The Authority had in the MIAL Tariff Order No.32/2012-13, decided not to consider Upfront Fee paid by MIAL to AAI towards equity share capital of MIAL. The Authority has noted that while MIAL has not made any reference to the treatment of Upfront Fee paid by MIAL to AAI as equity as part of its tariff application for the second Control Period, the same has been considered as part of the Tariff Model submitted along with the tariff application. Since MIAL has not submitted any new ground to the Authority to alter its approach or decision taken at the time of Order No. 32/ 2012-13, the Authority proposes to not consider the Upfront Equity paid by MIAL to AAI as part of its equity in the second Control Period.

Proposal No. 9. Regarding Cost of Equity for the second Control Period, based on the material before it and its analysis, the Authority proposes,

9.a. To adopt return on equity (post tax cost of equity) as 16% for the purpose of calculation of WACC.

9.b. Not to consider Upfront Fee paid by MIAL to AAI as part of equity share capital of MIAL.

10. Weighted Average Cost of Capital (WACC)

a MIAL Submission on Weighted Average Cost of Capital (WACC)

10.1. MIAL has made following submission on means of finance as part of its tariff application dated 26.12.2013:

"The Means of Finance for the Current Projects Cost of Rs. 12,500 Crs. and for New Projects cost of Rs 1,448 Crs. is considered as follows:

Means of Finance *Rs./Crs.*

	Current Projects - Rs 12,500 Crs.	*New Projects - Rs. 1,448 Crs.*
Equity		
a. Paid Up Capital	*1,200*	*-*
b. Internal Accruals (Reserves)	*1154*	*342*
c. Internal Resource Generation	*65*	
*Real Estate deposits (refundable)**	*1,000*	*-*
DF	*3,400*	*-*
Debt – tied up	*4,231*	*-*
Debt – yet to be tied up	*1,450*	*1,106*
Total	*12,500*	*1,448*

**Carrying interest at weighted average cost of debt of MIAL to be charged by Real Estate division to airport division.*

The Operational Capital Expenditure of Rs. 975 Crs. is expected to be funded through Internal Accruals and any shortfall shall be met through additional debt."

10.2. MIAL's submission as part of tariff application dated 05.08.2014 regarding means of finance is as below:

“The Means of Finance for the Current Projects cost of Rs. 12,500 Crs. and for New Projects cost of Rs 1303 Crs. along with Operational capital expenditure of Rs. 1081 Crs. is considered as follows:

Table: Means of Finance - Revised *Rs./Crs.*

	Current Projects - Rs 12,500 Crs.	*New Projects and Operational Capex - Rs. 2,384 Crs.*
Equity		
d. Paid Up Capital	*1,200*	*-*
e. Internal Accruals (Reserves)	*1,166*	*1,044*
f. Internal Resource Generation	*53*	
*Real Estate deposits (refundable)**	*1,000*	*-*
DF	*3,400*	*518*
Debt – tied up	*5,681*	*-*
Debt – yet to be tied up	*-*	*822*
Total	*12,500*	*2,384*

**Carrying interest at weighted average cost of debt of MIAL to be charged by Real Estate division to airport division.*

Metro rail stations costing Rs.518 crores are proposed to be funded through Development Fees (DF). “

10.3. MIAL made the following revised submission on means of finance as part of its tariff application dated 08.09.2015:

Means of Finance

The Means of Finance for the Current Projects cost of Rs. 12,630 Crs. and for New Projects cost of Rs 1320 Crs. along with Operational capital expenditure of Rs. 1,440 Crs. is considered as follows:

Table: Means of Finance – Revised Rs./Cr

	Current Projects - Rs 12,630 Crs.	*New Projects and Operational Capex - Rs. 2,760 Crs.*
Equity		
a. Paid Up Capital	*1,200*	*-*
b. Internal Accruals (Reserves)	*1,166*	*1,413*
c. Internal Resource Generation	*53*	
*Real Estate deposits (refundable)**	*207*	*-*
DF	*3,400*	*518#*
Debt	*6,604*	*829*
Total	*12,630*	*2,760*

**Carrying interest at weighted average cost of debt of MIAL to be charged by Real Estate division to airport division.*

#Metro rail stations contribution of Rs.518 crores included in the New projects aggregating Rs 1320 crs. are proposed to be funded through Development Fees (DF). "

10.4. MIAL, in their tariff application dated 26.12.2013, made the following submission on the WACC:

"A fair rate of return would be allowed on the Regulatory Base defined under SSA. This would be a combination of Cost of Equity (Paid up Capital + Reserves) and Cost of Debt.

$WACC = g*R_d + (1-g)*R_e$

Where: g = Weighted Average Gearing for the control period

R_d *= Weighted Average Pre-Tax Cost of Debt for the control period*

R_e *= Post-Tax Cost of Equity."*

10.5. MIAL's tariff application dated 26.12.2013 regarding computation of WACC further states,

"The weighted average Cost of Capital has been computed based on the following formula:

$WACC = \%D*R_d+\%E*R_e+\%RE*R_{RE}$

WACC Computation *Rs./Crs.*

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total Capital Employed(Net of DF) (a+b+c)	***9,036***	***9,214***	***9,151***	***9,054***	***9,071***
Outstanding Debt (a)	*5,682*	*5,831*	*5,633*	*5,260*	*4,839*
Real Estate Security Deposit (refundable) (b)	*1,000*	*1,000*	*1,000*	*1,000*	*1,000*
Equity (c)					
Paid up Capital	*1200*	*1200*	*1200*	*1200*	*1200*
Internal Accruals (Reserves)	*1154*	*1182*	*1318*	*1594*	*2032*
Debt (%)	*62.88*	*63.29*	*61.55*	*58.10*	*53.35*
Real Estate (%)	*11.07*	*10.85*	*10.93*	*11.04*	*11.02*
Equity (%)	*26.05*	*25.86*	*27.52*	*30.86*	*35.63*
Weighted Average Gearing (%)	*59.85*				
Weighted Average Security Deposit (%)	*10.98*				
Weighted Average Equity (%)	*29.17*				
Cost of Debt (%)	*11.49*	*11.80*	*12.07*	*12.16*	*12.18*
Weighted Average Cost of Debt (%)	*11.93*				
Cost of RE Security Deposit (%)	*11.93*				
Cost of Equity (%)	*23.00*				
Weighted Average Cost of Capital (%)	*15.16*				

"

10.6. MIAL's tariff application dated 05.08.2014 on WACC as below,

"Weighted average Cost of Capital has been recomputed due to change in cost of debt for FY14 and revised weights of debt and equity:

WACC = $\%D*R_d+\%E*R_e+\%RE*R_{RE}$

Revised computation of WACC in view of actual financials and projected loans for the second control period is given below:

WACC Computation – Revised *Rs./Crs.*

	FY 15	FY 16	FY 17	FY 18	FY 19
Total Capital Employed(Net of DF) (a+b+c)	9,567	9,996	9,829	9,681	9,657
Outstanding Debt (a)	6,201	6,630	6,463	6,091	5,623
Real Estate Security Deposit (refundable) (b)	1,000	1,000	1,000	1,000	1,000
Equity (c)					
Paid up Capital	1200	1200	1200	1200	1200
Internal Accruals (Reserves)	1166	1166	1166	1390	1834
Debt (%)	64.81	66.32	65.75	62.92	58.23
Real Estate (%)	10.45	10.00	10.17	10.33	10.36
Equity (%)	24.73	23.67	24.07	26.76	31.41
Weighted Average Gearing (%)	63.63				
Weighted Average Security Deposit (%)	10.26				
Weighted Average Equity (%)	26.11				
Cost of Debt (%)	11.43	11.82	12.07	12.15	12.15
Weighted Average Cost of Debt (%)	11.92				
Cost of RE Security Deposit (%)	11.92				
Cost of Equity (%)	23.00				
Weighted Average Cost of Capital (%)	14.81				

10.7. MIAL's tariff application dated 08.09.2015 on WACC as below,

"WACC Computation – Revised

	FY 15	FY 16	FY 17	FY 18	FY 19
Total Capital Employed(Net of DF) (a+b+c)	8,367	10,508	10,259	9,976	9,783
Outstanding Debt (a)	5,901	7,935	7,686	7,403	6,836
Real Estate Security Deposit (refundable) (b)	100	207	207	207	207
Equity (c)					

	FY 15	FY 16	FY 17	FY 18	FY 19
Paid up Capital	*1200*	*1200*	*1200*	*1200*	*1200*
Internal Accruals (Reserves)	*1166*	*1166*	*1166*	*1166*	*1540*
Debt (%)	*70.52*	*75.51*	*74.92*	*74.21*	*69.88*
Real Estate (%)	*1.20*	*1.97*	*2.02*	*2.07*	*2.12*
Equity (%)	*28.28*	*22.52*	*23.07*	*23.72*	*28.00*
Weighted Average Gearing (%)	*73.14*				
Weighted Average Security Deposit (%)	*1.90*				
Weighted Average Equity (%)	*24.96*				
Cost of Debt (%)	*11.64*	*11.94*	*12.15*	*12.30*	*12.44*
Weighted Average Cost of Debt (%)	*12.11*				
Cost of RE Security Deposit (%)	*12.11*				
Cost of Equity (%)	*23.00*				
Weighted Average Cost of Capital (%)	*14.82*				

"

b Authority's Examination of MIAL Submissions on Weighted Average Cost of Capital (WACC)

10.8. The Authority has examined the MIAL submission regarding WACC to be considered towards determination of aeronautical tariff for the second Control Period.

10.9. The Authority proposes that WACC for the purposes of calculating Target Revenue will be calculated based on estimated proportion of different components of the means of finance and items in the audited Balance Sheet, such as Debt, Equity, Reserve & Surplus as well any other means of finance like RSD, etc.

10.10. The Authority has submitted its proposed position on the cost of each component of WACC namely debt (refer para 7.21), equity (Refer para 9.7 and 9.8) and RSD (Refer para 8.7 above).

10.11. The Authority has computed the WACC for the second Control Period considering equity, debt and RSD on average basis. Further, the Authority has considered reserves and surplus as zero when the accumulative reserves and surplus were negative for the any particular year. The Authority has decided to protect the paid-up equity rather than the Net Worth when positive reserves and surpluses were available with the airport operator. This is because the reserves and surplus are a fluctuating component. Thus, to ensure consistency, the Authority has capped the equity level to the level of paid-up equity in case of negative reserves and surplus. Therefore, the Authority has computed WACC at 11.41% and proposes to consider the same for estimation of return on RAB for the second Control Period,

Table 40: WACC computed by the Authority to be considered for the second Control Period

Rs. Crores	**FY2014-15**	**FY2015-16**	**FY2016-17**	**FY2017-18**	**FY2018-19**
Opening Cumulative Debt (D_0)	5450.98	5900.98	7365.46	7135.91	6896.21
Closing Cumulative Debt (D_n)	5900.98	7365.46	7135.91	6896.21	6387.25
Average Cumulative Debt, D= Avg(D_0 ,D_n)	**5675.98**	**6633.22**	**7250.68**	**7016.06**	**6641.73**
Opening Equity (E_0)	1046.15	1046.15	1046.15	1046.15	1046.15
Closing Equity (E_n)	1046.15	1046.15	1046.15	1046.15	1046.15
Opening Reserves (R_0)	1030.15	723.52	398.43	0.00	0.00
Closing Reserves (R_n)	723.52	398.43	0.00	0.00	0.00
Average Equity, E=Avg(E_0 ,E_n) + Avg(R_0 ,R_n)	**1922.99**	**1607.13**	**1245.37**	**1046.15**	**1046.15**
Opening RSD (RSD_0)	0.00	100.00	207.00	207.00	207.00
Closing RSD (RSD_n)	100.00	207.00	207.00	207.00	207.00
Average RSD, R=Avg(RSD_0, RSD_n)	50.00	153.50	207.00	207.00	207.00
Average Capital Employed, C=D+E+R	**7648.97**	**8393.85**	**8703.05**	**8269.21**	**7894.88**
Average Debt (%), D% = D/C	74.21%	79.02%	83.31%	84.85%	84.13%
Average Net Worth (%), NW% = E/C	25.14%	19.15%	14.31%	12.65%	13.25%
Average RSD (%), R% = R/C	0.65%	1.83%	2.38%	2.50%	2.62%
Cost of Capital (%)					
Weighted Average Gearing %	81.20%				
Weighted Average Equity %	16.79%				
Weighted Average RSD %	2.02%				
Cost of Debt %	11.64%	11.06%	11.06%	11.06%	11.06%
Weighted Average Cost of Debt %	11.16%				
Cost of Equity %	16.00%				
Cost of RSD %	0.00%				
WACC %	11.75%				

10.12. The Authority also proposes to true-up the WACC on account of actual cost of debt, subject to the ceiling proposed in, and the actual quantum of debt.

10.13. Additionally, the Authority also proposes to true up WACC, upon review by the Authority, on account of:

10.13.1. Changes in Equity and Reserves & Surpluses (accumulated profits or retained earnings)

10.13.2. Adjustments to cost of debt, if any, subject to its proposal in para 7.21 above, and

10.13.3. Additional means of finance: for example, Cost of RSD, if any.

Proposal No. 10. Regarding Weighted Average Cost of Capital for the second Control Period based on the material before it and its analysis, the Authority proposes

10.a. To calculate WACC for the purposes of calculating Target Revenue based on the audited balance sheet items like debt, equity, reserve & surplus as well any other means of finance like RSD, etc.

10.b. To consider WACC at 11.75% (based on 16% cost of equity) for the purpose of determination of aeronautical tariffs during the second Control Period.

TruingUp No. 4. Correction / Truing up for Weighted Average Cost of Capital (WACC)

4.a. The Authority further proposes to true up WACC on account of:

i. Changes in equity and Reserves & Surpluses (accumulated profits or retained earnings)

ii. Adjustments to cost of debt, if any, subject to the ceiling proposed and

iii. Additional means of finance: for example, Cost of RSD, if any, and upon review by the Authority

11. Depreciation

a MIAL Submission on Depreciation

11.1. MIAL's submission as part of its tariff application dated 26.12.2013 for the second Control period on depreciation of aeronautical assets is as below,

"As per SSA, rates applicable under Schedule XIV of the Companies Act, 1956 are to be applied on the value of the assets. This Act has been replaced by the Companies Act, 2013. Depreciation is calculated as per Schedule II of the Companies Act, 2013.

Depreciation on Aeronautical Assets Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Depreciation	*632*	*625*	*671*	*685*	*706*

"

11.2. MIAL's tariff application dated 05.08.2014 on depreciation of aeronautical assets is as below,

"As per SSA, rates applicable under Schedule XIV of the Companies Act, 1956 are to be applied on the value of the assets. This Act has been replaced by the Companies Act, 2013. Accordingly Depreciation for second control period is calculated as per Schedule II of the Companies Act, 2013. A comparison of depreciation rates considered as per Companies Act, 1956 vis-à-vis Companies Act, 2013 is enclosed as Annexure 3. Wherever specific assets are not included in Schedule II to the Companies Act, 2013, historic rates of depreciation have been continued which are subject to change to be implemented post notification of the rates for the airport assets by the Authority and acceptance by MIAL. Accordingly revised depreciation on assets is shown below.

Table: Depreciation on Aeronautical Assets - submitted vide letter dated 26th December, 2013 Rs./Crs.

Depreciation	*FY 14*	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
- On Aero assets	*168*	*513*	*516*	*560*	*573*	*600*
- On Hypothetical Assets	*23*	*118*	*109*	*111*	*113*	*106*

Total	*191*	*632*	*625*	*671*	*685*	*706*

Table: Depreciation on Aeronautical Assets - Revised *Rs./Crs.*

Depreciation	*FY 14 (Actual)*	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
- On Aero assets	*165*	*480*	*493*	*539*	*544*	*538*
- On Hypothetical Assets	*24*	*117*	*99*	*102*	*102*	*98*
Total	*189*	*597*	*592*	*641*	*646*	*636*

"

11.3. MIAL's tariff application dated 08.09.2015 on depreciation of aeronautical assets is as below,

"As per SSA, rates applicable under Schedule XIV of the Companies Act, 1956 are to be applied on the value of the assets. This Act has been replaced by the Companies Act, 2013. Accordingly Depreciation for second control period is calculated as per Schedule II of the Companies Act, 2013. Revised depreciation on assets is shown below.

Depreciation	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
- On Aero assets	*434*	*430*	*498*	*496*	*495*
- On Hypothetical Assets	*124*	*88*	*99*	*98*	*92*
Total	*559*	*518*	*597*	*594*	*586*

"

b Authority's Examination of MIAL Submissions on Depreciation

11.4. The Authority has examined MIAL's submission regarding Depreciation to be considered towards determination of ARR for the second Control Period. The Authority's examination of the same is presented below.

11.5. The Authority had decided to follow the Companies Act 1956 for the purpose of depreciating MIAL's assets every year during the 1st Control Period in its MIAL Tariff Order 32/2012-13, as stated in the SSA. For the second Control Period, the Authority has noted that MIAL has applied depreciation as per the useful life of assets stated in the Companies Act 2013.

11.6. MIAL has submitted the following comparison between the depreciation rates applicable to it, which has been noted by the Authority.

Table 41: Comparison of Depreciation Rate provided by MIAL

S. No.		Descriptions	Rate (%)	
			FY 2013-14	**Revised as per Companies Act, 2013**
1	a)	Buildings RCC Structure	3.34%	3.34%
	b)	Buildings (other than factory buildings) other than RCC Frame Structure	3.34%	3.34%
	c)	Buildings (other than factory buildings) other than RCC Frame Structure (for Insta cabin, carpet tiles, column cladding, toilets)	10.00%	10.00%
	d)	Roads - Carpeted other than RCC	3.34%	20.00%
	e)	Roads - Carpeted RCC	3.34%	10.00%
	f)	Others (including temporary structure, etc.)	100.00%	100.00%
2		**Runways & Taxiways**		
	a)	Runways	5.00%	5.00%
	b)	Taxiways	3.34% / 5.00%	3.34% / 5.00%
	c)	Apron	3.34% / 5.00%	3.34% / 5.00%
3		**Plant & Machinery**		
	a)	Plant & Machinery	10.34%	13.33%
	b)	Plant & Machinery (X Ray)	7.07%	13.33%
	c)	Plant & Machinery (cost below Rs.5000)	100.00%	100.00%
4		**Office Equipment**		
	a)	Office Equipment	10.34%	20.00%
	b)	Office Equipment (cell phones)	50.00%	50.00%
	c)	Office Equipment (Cost below Rs.5000)	100.00%	100.00%
5		**Electrical Installations and Equipment**		
	a)	Electrical Installations and Equipment	10.34%	10.00%
	b)	Electrical Installations and Equipment (Cost below Rs.5000)	100.00%	100.00%
6		**Computers**		
	a)	Servers and Networks	16.21%	16.67%
	b)	End user devices, such as desktops, laptops, etc.	16.21%	33.33%
	c)	End user devices, such as desktops, laptops, etc. (Cost below Rs.5000)	100.00%	100.00%
7		**Vehicles**		
	a)	Motor cycles, scooters and other mopeds	11.31%	10.00%
	b)	Motor buses, motor lorries and motor cars other than those used in a business of running them on hire	11.31%	12.50%
8		**Fixtures and Fittings**		
	a)	General Furniture and fittings	9.50%	10.00%
	b)	General Furniture and fittings (cost below Rs.5000)	100.00%	100.00%

11.7. The Authority notes that the formula for determination of tariffs in the SSA requires the Authority to consider depreciation calculated in the manner as prescribed in Schedule XIV of the Indian Companies Act, 1956. SSA also mentions that:

"In the event, the depreciation rates for certain assets are not available in the aforesaid Act, then the depreciation rates as provided in the Income Tax Act for such asset as converted to straight line method from the written down value method will be considered. In the event, such rates are not available in either of the Acts then depreciation rates as per generally accepted Indian accounting standards may be considered."

11.8. The Indian Companies Act, 1956 has been replaced with Indian Companies Act 2013. The Authority believes that while the SSA refers to Schedule XIV of the Indian Companies Act, 1956, the spirit of the guidelines in SSA is to adopt applicable depreciation rates at any point of time. Therefore it would be prudent for the Authority to apply depreciation rates as per the Indian Companies Act, 2013. This act provides the useful life of various assets, on the basis of which the depreciation rates are determined.

11.9. The Authority has noted that the MIAL has applied depreciation rate of 3.34% for runways, taxis and aprons, same as it had in the 1st Control Period, considering that these assets have a useful life of 30 years.

11.10. The Authority, in its Order No. 08/2014-15 dated 10.06.2014 in the matter of Determination of Aeronautical Tariffs in respect of Kempegowda International Airport (earlier Bengaluru International Airport), Bengaluru, for the 1st Control Period (01.04.2011 to 31.03.2016), has deliberated on the issue of rates of depreciation to be considered by the for the purpose of tariff determination. The Authority had noted that the category of "runway, taxiway, and apron" is not mentioned specifically in the Companies Act 2013. It was also not so in the previous Companies Act i.e. Companies Act 1956. The Authority has been of the considered view that it would be preferable to have, as far as practicable, a broad year to year consistency in the depreciation rate charged by the companies as certified by the relevant statutory auditors and what the Authority would take into account in its process of tariff determination. The Authority has separately initiated the process of determining appropriate rates of depreciation to be adopted for the regulatory purpose in line with the provision of the Companies Act 2013. The Authority expects that such an exercise would take some time. However, for the time being, the Authority has proposed to continue to adopt depreciation rate of 3.33% (based on useful life of 30 years for runway, taxiway and apron) as per MIAL submission. It may be useful to note that the Authority has proposed to adopt the same depreciation rate for runway, taxiway and apron in respect of aeronautical tariff determination for DIAL for IGI Airport, Delhi in the Order No. 40/2015-16 dated 08.12.2015.

11.11. Thus, the Authority, for the time being, proposes to accept depreciation rates adopted by MIAL, as per the Companies Act 2013, for the purpose of calculation of depreciation on aeronautical assets in the second Control Period. The Authority requires MIAL to submit a Board resolution or any other valid proof indicating that the Board of MIAL has adopted the new depreciation rates as in submission for second Control Period as part of the consultation process, for record.

11.12. Further, the Authority needs to consider ratio for allocation of depreciation on the assets into aeronautical and non-aeronautical components. The Authority proposes to consider the asset allocation as per its Proposal No. 4 above for the purpose of allocation of depreciation into aeronautical and non-aeronautical components.

11.13. The Authority has re-computed depreciation based on the Authority's estimates of RAB as per Table 30 for the second Control Period (except FY2014-15 for which actual depreciation is available from the auditor's certificates). Furthermore, the Authority proposes to continue to consider depreciation on HRAB based on average depreciation on aeronautical assets every year in the second Control Period as per Table 33.

11.14. Table 30Based on above, the Authority's computation of depreciation is as below,

Table 42: Depreciation considered by the Authority for the second Control Period

Depreciation, INR Crores	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Average Depreciation Rate	7.59%	4.98%	5.51%	5.38%	5.02%
Depreciation on HRAB	73.28	48.09	53.20	52.01	48.54
Depreciation on RAB	430.00	376.74	421.86	418.64	421.01
Depreciation on RAB due to PSF (SC) Capex	0.00	17.91	23.94	25.49	24.84

Depreciation, INR Crores	2014-15	2015-16	2016-17	2017-18	2018-19
Net Aero Depreciation for the year	503.28	442.74	499.00	496.14	494.39

11.15. The Authority has noted that the estimated depreciation may undergo a change from above computation once the depreciation on the basis of actual capitalization of the assets is available for each year in the second Control Period. Estimation of depreciation will be impacted by computation of opening, additions to/disposal of and closing RAB for respective years on actual capitalization date basis. Thus, the Authority proposes to true up depreciation at the time of determining aeronautical tariffs in the 3rd Control Period.

Proposal No. 11. Regarding depreciation for the second Control Period based on the material before it and its analysis, the Authority proposes

11.a. To consider depreciation rates as per the useful life of assets specified in the Companies Act 2013 for the second Control Period except for assets pertaining to runway, taxiway and apron, which are to be considered at useful life of 30 years.

11.b. To consider the allocation of depreciation into aeronautical and non-aeronautical components as per Proposal 4.a above.

11.c. To consider the depreciation for second Control Period as presented in Table 42.

TruingUp No. 5. Regarding depreciation on aeronautical assets, the Authority proposes

5.a. To true up depreciation at the time of determining aeronautical tariffs in the 3rd Control Period based on actual date of capitalization of assets.

12. Operating Expenses

a MIAL Submission on Operating & Maintenance (O&M) Expenses

12.1. MIAL's submission regarding the cost allocation mechanism and cost allocation for the second Control Period as per its tariff application dated 26.12.2013 is as below,

"Segregation and allocation of O&M cost between Aeronautical and Non Aeronautical services is based on the study carried out by KPMG for FY 12 and FY 13 (Report of KPMG enclosed as Annexure 7(a)).

KPMG's study is based on the cost incurrence. This implies that the costs will be segregated based on whether they are attributable to Aeronautical or Non-Aeronautical Services. However there are a few costs which cannot be directly attributable to Aeronautical or Non-Aeronautical Services and hence considered as common cost, for which the allocation is done based on the methodology as described in the subsequent paragraphs under each sub-head.

Segregation and allocation of cost is done in 3 stages:

- *Identification of directly attributable cost to Aeronautical services, Non-Aeronautical Services and common cost;*
- *Segregation of directly attributable cost based on its incurrence; and*
- *Allocation of common cost based on the methodology discussed in the subsequent paragraphs under each sub-head;*

Table: Percentage of Aeronautical O&M cost to Total O&M cost

Rs./Crs.

Cost Head	*FY 15 - FY 19*
Employees Cost	*93.74%*
Electricity, Water and Fuel Costs (net of recoveries)	*100.00%*
Repair & Maintenance Cost	*97.93%*
Rents, Rates & Taxes (net of recoveries)	*99.62%*
Advertising Cost	*93.09%*
Administrative Cost	*94.63%*

Cost Head	*FY 15 - FY 19*
Insurance Cost	*90.76%*
Consumables	*100.00%*
Other Operating Cost	*92.12%*
Working Capital Loan Interest	*94.63%*
Financial Charges	*94.63%*
AAI retirement compensation	*100.00%*
CSR cost	*100.00%*

Based on above overall percentage of Aeronautical O&M cost to the total O&M cost is 94.63%. "

12.2. MIAL's submission in its tariff application dated 26.12.2013 regarding Operating and Maintenance expenses is as below,

"The assumptions and rationale for each cost head projection are described in detail below:

Employees Cost

The key drivers for employees cost are the number of employees employed for the Aeronautical and Non-Aeronautical Services and compensation payable. The junior and middle level management employees can be clearly identified for providing the Aeronautical and Non-Aeronautical Services. However, the senior management cost cannot be directly attributed to either Aeronautical or Non-Aeronautical Services; therefore it has been allocated based on the proportion of identified Aeronautical and Non-Aeronautical costs.

The cost incurred towards employees in a year is determined by the head-count and the applicable compensation. Projected head-count is based on incremental requirements for New T2 and increase due to new activities. In addition, the employee's compensation is expected to increase by 10% YoY, inclusive of CPI of 7.9% i.e. real increase of meagre 2.1% per annum basis. The cost incurred towards employee in a year is determined by the head-count and the applicable compensation.

Average employees cost for all new employees has been calculated based upon grades in which these employees are likely to be recruited and estimated average salary in that grade, which is then multiplied by number of new employees in each year to arrive at employee cost of new employees.

Total employee cost for these years is then calculated by adding the cost of existing and new employees.

Table: Employees Cost

Head Count (Nos.)

	FY 15	FY 16	FY 17	FY 18	FY 19
- Operations including corporate (excluding cargo)	1,054	1,089	1,113	1,141	1,146
- Cargo	15	15	15	15	15
- Retainers	23	23	23	23	23
- Outsourced	78	85	90	95	101
Total Payroll cost – Rs./Crs.	188	206	229	255	282

Electricity, Water and Fuel

Electricity Cost

Electricity consumption is based upon existing operations and additional load factor due to New T2 and other facilities getting commissioned less facilities to be decommissioned. The electricity cost per unit is based on order of MERC for FY 15-FY 16 and thereafter is increased YoY by CPI. The Authority is requested to true up the unit rate based upon actual applicable unit rate for the Control Period. Recoveries from concessionaires (towards Non-Aeronautical costs) have been deducted from total electricity cost to arrive at net electricity cost for Aeronautical Services.

Also, the impact of previous year's regulatory asset recovery ordered by the Maharashtra Electricity Regulatory Commission ("MERC") and levy of cross-subsidy surcharge (CSS) of Re. 0.26/unit on electricity consumed via Reliance Infrastructure's (Distribution) network on changeover consumers like MIAL are *pending in various appeals and therefore cannot be quantified at this stage. MIAL requests the Authority to consider allowing true-up of these costs and electricity rates as and when the same are finalised by the competent the Authority.*

Water Cost

The projections for consumption for the Control Period are based on actual consumption in FY 13 along with extra consumption due to commissioning of New T2 where increase is considered based on expected level of usage. The water rate per unit is increased YoY by CPI for the Control Period. Hence the total cost in a year is estimated by multiplying the projected cost per unit with the projected consumption in that year. Estimated recoveries from concessionaires (towards Non-Aeronautical costs) have been deducted from total water cost to arrive at net water cost for Aeronautical services. The Authority is requested to true up the unit rate based upon actual applicable unit rate for the Control Period.

Fuel Cost

MIAL has projected consumption of Petrol, Diesel and CNG for FY 15 considering estimated requirements which is expected to increase by 5%, 2% and 8% YoY respectively. Further, price per litre of Petrol and CNG is estimated to increase by 10% YoY while Diesel is estimated to increase by 15% YoY. The Authority is requested to true up the unit rates based upon actual applicable unit rate for the Control Period.

Table: Electricity, Water & Fuel Costs

Rs./Crs.

	FY 15	FY 16	FY 17	FY 18	FY 19
Electricity	140	142	154	168	182
Water	10	12	13	16	18
Fuel	3	3	4	4	5
Total Electricity, Water and Fuel cost	153	156	171	188	205

Repair and Maintenance cost

Repairs and Maintenance Cost is estimated to be 0.75% of the Gross Fixed Assets (GFA) without reducing by DF amount, and YoY escalated by CPI. Average R&M costs as percentage of GFA for FY 2012-13 and FY 2013-14 is 1.3% and 0.85% respectively. A lower percentage at 0.75% has been considered because major assets are newly created.

Table: R&M Costs *Rs./Cr*

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
R&M projected @ 0.75% of Gross Fixed Assets	*103*	*122*	*137*	*149*	*172*

Information Technology (IT) related cost

Estimated IT related cost during second Control Period is as under:

Table: IT related cost					*Rs./Crs.*
	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
IT related cost	*-*	*-*	*8*	*11*	*12*

Rents, Rates and Taxes

Rents

Rents have been considered at actuals for FY 2013-14 and assumed to grow YoY in line with agreements/ CPI for second Control Period.

Property Tax

Property tax has been estimated based upon demand received from Municipal Corporation of Greater Mumbai (MCGM) for FY 14 and estimated additional tax for New T2 has been added. No annual increases have been considered in the property tax forecast. Being a statutory cost, MIAL requests the Authority for truing up of property tax on actual basis and if so required on interim basis.

Non Agricultural Tax

Non-agricultural tax for second Control Period has been considered based upon demand received from revenue authority of Government of Maharashtra for FY 14. Standard rate of land for the purpose of NA tax is revised periodically which cannot be estimated currently. Hence, interim true-up is requested.

Table: Rents, Rates and Taxes *Rs./Crs.*

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Rents, Rates & Taxes	*57*	*58*	*59*	*61*	*62*

Advertising Cost

The estimated advertising cost for FY 15 is assumed to increase YoY in line with the CPI. Also specific one time expenditure of Rs. 2 Crs. on launch of domestic wing of New T2 is included in FY 15.

Table: Advertising Cost *Rs./Crs.*

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Advertising Expenses	*7*	*8*	*8*	*9*	*9*
Domestic section of T2 Launch	*2*	*0*	*0*	*0*	*0*
Advertising cost - Total	*9*	*8*	*8*	*9*	*9*

Administrative Cost

The administrative costs such as travelling and conveyance, legal and professional charge, communication etc. have been assumed to increase in line with the CPI. Real increase of 10% in FY 15, FY 16 and 5% real increase from FY 17 to FY 19 has been assumed considering incidence of various additional expenses which are likely to occur but difficult to predict in advance. Further, following specific expenditure to be incurred has been provided separately:-

Consultancy cost for Business Development and Airport Operations Readiness (AOR) are expected at Rs.2 Crs. and Rs. 12 Crs. respectively for FY 15.

Consultants cost for specific studies.

Table :Administrative Cost *Rs./Crs.*

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Administrative Expenses	*65*	*77*	*87*	*99*	*112*
AOR	*12*	*0*	*0*	*0*	*0*
Consultancy for Business Development	*2*	*0*	*0*	*0*	*0*
Consultants' cost for specific studies	*9*	*0*	*0*	*0*	*0*
Administrative cost - Total	*88*	*77*	*87*	*99*	*112*

Airport Operator Fee

The fee payable to the airport operator is projected to increase annually at the rate equal to US CPI Inflation (which is assumed at 1.7% p.a.) as per Airport Operator Agreement dated 28.04.2006 between MIAL and ACSA Global Limited. This expenditure is projected to continue till FY 19 on the same basis.

Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Airport Operator Fees	*7*	*7*	*7*	*8*	*8*

Insurance Cost

The insurance cost is based on value of insurance under various policies. MIAL has two major insurance policies. One is Industrial All Risk Policy covering all fixed assets of MIAL where insured amount will be based on value of fixed assets. Another policy is Airport Operator's Liability Policy for third party claims, premium of which is expected to increase in line with CPI.

Table: Insurance Cost *Rs./Crs.*

	FY 15	FY 16	FY 17	FY 18	FY 19
Insurance Cost - Total	8	8	9	9	10

Interest on Working Capital and Financial Charges

The interest on working capital has been calculated assuming utilisation of Rs.75 Crs. limits during the Control Period at interest rate of 12.5%. Financial charges have been taken at projected levels based on increased requirements for subsequent years.

Rs. Cr.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Interest on Working capital	*9*	*9*	*9*	*9*	*9*
Financial charges	*3*	*3*	*4*	*4*	*4*
Total - Interest and Financial charges	*12*	*12*	*13*	*13*	*13*

Other Operating Costs

Other operating costs have been estimated as follows:

***Cleaning, Security and other operating Contracts** – These contracts are labour intensive. For the increase in the wages, 5 years CAGR of National Floor Level of minimum wages has been considered. Also, increase in cost is based on contracts wherever specifically applicable.*

Trolley Contract –Increase is based on passenger growth and 5 years CAGR of National Floor Level of minimum wages.

Inter-Terminal coaches Contract – Per Bus per annum expenditure is expected to increase YoY by CPI. Number of buses would reduce due to part shifting of domestic operations from T1B to New T2.

Table: Other Operating Cost

Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Cleaning Contract	*42*	*43*	*46*	*51*	*57*

Security Contract	*15*	*16*	*17*	*19*	*21*
Other Operating Contracts	*20*	*22*	*24*	*27*	*31*
Trolley Contract	*8*	*9*	*11*	*13*	*15*
Inter-terminal coaches Contract	*10*	*7*	*7*	*8*	*9*
Total – Other Operating cost	*94*	*97*	*106*	*118*	*132*

Corporate Social Responsibility cost

CSR cost is estimated as per the provisions of new Companies Act, 2013.

Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
CSR cost	*10*	*6*	*4*	*3*	*10*

12.3. MIAL's submission regarding Operating and Maintenance expenses in the second Control Period as per its tariff application dated 05.08.2014 is as below,

12.4. The cost allocation as per MIAL's tariff application dated 05.08.2014 dated 05.08.2014 is as below,

"Segregation and allocation of Operating Expenses

Based on the auditors certificate for first Control Period, ratio between Aeronautical Expense and Non Aeronautical expense has been taken for each year of the Control Period, which is summarized as below:

Based on the auditors certificate for first Control Period, ratio between Aeronautical Expense and Non Aeronautical expense has been taken for each year of the Control Period, which is summarized as below:

Table: Aeronautical Expenses as a % of Total Expenses (for first Control Period) - submitted vide letter dated 26th December, 2013

Percentage

Particulars	FY 10	FY 11	FY 12	FY 13	FY 14
Employee Cost	86	82	78	78	82
Utilities Expenses	100	99	95	94	95
Operations Support Cost	100	-	-	-	-
Repair & Maintenance Expense	94	94	94	86	89
Rents, Rates & Taxes	100	100	98	100	100
Advertisement Expense	99	99	88	92	92
AOA Fees	100	100	100	100	100
Insurance Expense	91	91	91	91	91
Consumable stores	100	100	96	100	100
Operating cost	70	66	64	58	64
Payment to AAI - Arrears of Annual Fees	-	-	-	-	-
Payment to AAI - Arrears of AAI compensation	100	100	-	89	-
Bad Debts written off	100	100	100	56	100
Provision for Bad Debts	100	100	85	83	86
Working Capital Interest	90	85	85	83	86
Financing charges	90	85	85	83	86
Interest over AAI compensation loan	90	85	100	100	100
Collection charges over DF	-	-	-	-	-
Payment to AAI for Retirement compensation plus arrears	90	85	100	100	100
Provision for PSF(SC) exp	-	-	-	100	100
Administrative Expenses	90	85	85	83	86

Table: Aeronautical Expenses as a % of Total Expenses (for first Control Period) – Revised

Percentage

Particulars	FY 10	FY 11	FY 12	FY 13	FY 14
Employee Cost	86	82	78	78	78
Utilities Expenses	100	99	95	97	97
Operations Support Cost	100	-	-	-	-
Repair & Maintenance Expense	94	94	94	82	96
Rents, Rates & Taxes	100	100	98	95	91
Advertisement Expense	99	99	88	92	99
AOA Fees	100	100	100	100	100
Insurance Expense	91	91	92	91	89

Particulars	*FY 10*	*FY 11*	*FY 12*	*FY 13*	*FY 14*
Consumable stores	*100*	*100*	*96*	*97*	*89*
Operating cost	*70*	*66*	*64*	*58*	*70*
Payment to AAI - Arrears of Annual Fees	-	-	-	-	-
Payment to AAI - Arrears of AAI compensation	-	-	-	*100*	-
Bad Debts written off	-	-	*100*	*56*	*18*
Provision for Bad Debts	-	-	-	-	-
Working Capital Interest	*90*	*85*	*84*	*82*	*84*
Financing charges	*90*	*85*	*84*	*82*	*84*
Interest over AAI compensation loan	-	*100*	*100*	*100*	*100*
Collection charges over DF	-	-	-	-	-
Payment to AAI for Retirement compensation plus arrears	*100*	*100*	*100*	*100*	*100*
Provision for PSF(SC) exp	-	-	-	*100*	*100*
Administrative Expenses	*90*	*85*	*84*	*82*	*84*

"

"Operation & Maintenance cost

The Operation and Maintenance (O&M) cost consists of the employees cost, electricity, water and fuel cost, repairs & maintenance costs and other operating expenditure. The projection of the O&M cost for the second Control Period is based on the cost in the base year i.e. FY 2014-15.

The assumptions and rationale for each cost head projection are described in detail below:

1. Employees Cost

The cost incurred towards employees in a year is determined by the head-count and the applicable compensation. Average salary per employee is revised based on actual average salary for FY 14, which is expected to increase by 10% YoY, inclusive of CPI of 7.9%.

No change is considered for the average employees cost for new employees recruited in the second Control Period.

Table: Employees Cost - Revised

Head Count (Nos.)

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
- Operations including corporate (excluding cargo)	*888*	*1,054*	*1,089*	*1,113*	*1,141*	*1,146*
- Cargo	*8*	*15*	*15*	*15*	*15*	*15*
- Retainers	*23*	*23*	*23*	*23*	*23*	*23*
- Outsourced	*140*	*78*	*85*	*90*	*95*	*101*
Total Payroll cost – Rs./Crs.	*155*	*184*	*207*	*231*	*257*	*284*

2. Electricity, Water and Fuel

MIAL has updated the cost for Utilities for the FY 14 and accordingly projected cost for FY 15-FY 19 based on updated cost for FY 14 is as under:

Table: Electricity, Water & Fuel Costs - Revised

Rs./Crs.

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Electricity	*55*	*141*	*142*	*155*	*169*	*183*
Water	*7*	*10*	*12*	*14*	*16*	*19*
Fuel	*2*	*3*	*3*	*4*	*4*	*5*
Total Electricity, Water and Fuel cost	*64*	*154*	*157*	*173*	*189*	*207*

3. Repair and Maintenance (R&M) Costs

Repairs and Maintenance Cost was earlier estimated to be 0.75% of the Gross Fixed Assets (GFA) without reducing DF funded assets, and escalated YoY by CPI. However, average R&M costs as percentage of GFA for FY 2012-13 and FY 2013-14 is 1.4% and 0.99% respectively. Average R&M cost as a % of Gross block in the last 5 years is 1.26%. Therefore, based on historical data it is assumed that R&M costs would be 0.85% of Gross block escalated by CPI.

Table: R&M Costs - Revised *Rs./Crs.*

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
R&M projected @ 0.85% of Gross Fixed Assets	*99*	*114*	*140*	*157*	*171*	*195*

4. Information Technology (IT) related cost

IT related cost has been updated for FY 14 based on actuals. However costs for FY 15-FY 19 are assumed to remain unchanged.

Table: IT related cost - revised

Rs./Crs.

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
IT related cost	*15*	*-*	*-*	*8*	*11*	*12*

5. Rents, Rates and Taxes

Based on actual for FY 2013-14, Rents, Property Tax and Non Agriculture Tax have undergone a slight change and revised numbers are as under:

Table: Rents, Rates and Taxes - Revised

Rs./Crs.

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Rents, Rates & Taxes	*28*	*58*	*59*	*60*	*62*	*64*

6. Advertising Cost

Advertising cost has been updated for FY 14 based on actuals. However costs for FY 15-FY 19 are assumed to remain unchanged.

Table: Advertising Cost - revised *Rs./Crs.*

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Advertising Expenses	*6*	*7*	*8*	*8*	*9*	*9*
T2 – Launch exp	*10*	*2*	*-*	*-*	*-*	*-*
Advertising cost – Total	*16*	*9*	*8*	*8*	*9*	*9*

7. Administrative Cost

MIAL has reduced the specific expenditure towards Consultancy cost for Business Development and Airport Operations Readiness (AOR) earlier estimated at Rs.2 Crores and Rs. 12 Crores respectively for FY 15. Administrative cost after aforesaid reduction is as under:

Table: Administrative Cost - Revised

Rs./Crs.

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Administrative Expenses	*57*	*65*	*77*	*87*	*99*	*112*
AOR	*19*	*-*	*-*	*-*	*-*	*-*
Consultants' cost for specific studies	*-*	*9*	*-*	*-*	*-*	*-*
Administrative cost – Total	*76*	*74*	*77*	*87*	*99*	*112*

8. Airport Operator Fee

The fee payable to the airport operator is updated for FY 14 and accordingly revised expenditure is projected as under:-

Table: Airport Operator Fee – Revised Rs./Crs.

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Airport Operator Fees	*8*	*8*	*8*	*8*	*8*	*9*

9. Insurance Cost

The projected insurance cost is revised based on actual cost of FY 14.

Table: Insurance Cost – Revised *Rs./Crs.*

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Insurance Cost - Total	*4*	*7*	*8*	*8*	*9*	*9*

10. Interest on Working Capital and Financial Charges

Interest on working capital and finance charges has been updated for FY 14 based on actuals. However costs for FY 15-FY 19 are assumed to remain unchanged.

Table: Interest on working capital and Financial charges - revised ***Rs./Crs.***

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Interest on Working capital	*5*	*9*	*9*	*9*	*9*	*9*
Financial charges	*11*	*3*	*3*	*4*	*4*	*4*
Total - Interest and Financial charges	*16*	*12*	*13*	*13*	*13*	*14*

11. Other Operating Costs

Other operating costs for FY 14 have been updated and accordingly projections for FY 15-FY 19 have undergone a change. 5 years CAGR of Minimum Wages under State Government has been updated. Further, due to increase in area on commissioning of new T2, an additional increase of Rs. 2.5 crores in Gardening contract and Rs. 2 crores in Trolley contract in FY 15, have been considered. Revised projections are as under:

Table: Other Operating Costs - Revised

Rs./Crs.

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Cleaning Contract	*25*	*42*	*43*	*46*	*51*	*57*
Security Contract	*13*	*15*	*16*	*17*	*19*	*21*
Gardening Contract	*3*	*7*	*8*	*9*	*10*	*11*
Other Operating Contracts	*12*	*13*	*14*	*16*	*18*	*20*
Trolley Contract	*8*	*10*	*11*	*13*	*16*	*19*
Inter-terminal coaches Contract	*9*	*10*	*7*	*7*	*8*	*9*
Total – Other Operating cost	*86*	*97*	*99*	*109*	*122*	*137*

12. Corporate Social Responsibility Cost

CSR cost is estimated as per the provisions of the Companies Act, 2013.

Table: Corporate Social Responsibility Cost – Revised *Rs./Crs.*

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
CSR cost	-	*10*	*2*	*1*	*0*	*9*

13. Issues pertaining to security expenses (PSF-SC)

In the past certain security expenses like salaries of inline screeners have been paid from PSF (SC) account) which has been disputed by MoCA. Therefore for this Control Period MIAL has estimated the salaries cost of inline screeners and accordingly included the same as part of MYTP. We request the Authority to kindly consider such expense for calculation of Target Revenue for this MYTP.

Rs./Crs.

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Salary to Inline Screeners	*8*	*11*	*12*	*13*	*15*	*16*

14. Treatment of Written Down Value (WDV) of Terminal 2B, 2C and T1A

Integrated terminal has been constructed and commissioned. However, construction of part of integrated terminal and apron can take place only after demolition and disposal of old Terminal 2. As part of the project implementation demolition of old Terminal 2 was essential for completion of the project as envisaged in the Master Plan. Written Down Value (WDV) of old Terminal 2 as on 1st April, 2014 was Rs. 298.41 crores. This amount after considering realisable value from scrap is part of the O & M cost of FY 15 and the same has been treated accordingly. RAB has been reduced by WDV, net of realization, on such disposal.

Similarly part of T1 i.e. T1A will be disposed/ retired once domestic operation shifts to new T2. WDV of Rs. 44.16 crores (net of scrap realisation) has been *considered as part of the O&M cost for FY 16 and accordingly RAB has been reduced by Rs. 44.16 crores. This amount to be charged to O&M expenses may vary by the amount realised through sale of scrap."*

12.5. MIAL's submission regarding Operating and Maintenance expenses in the second Control Period as per its tariff application dated 08.09.2015 is as below,

"Operation & Maintenance cost

The Operation and Maintenance (O&M) cost consists of the employees cost, electricity, water and fuel cost, repairs & maintenance costs and other operating expenditure. The projection of the O&M cost for the second control period is based on the actual costs experienced in the base year i.e. FY 2014-15.

The assumptions and rationale for each cost head projection are described in detail below:

The cost incurred towards employees in a year is determined by the head-count and the applicable compensation. Average salary per employee is revised based on actual average salary for FY 15, which is expected to increase by 10% YoY, inclusive of CPI. Further, average employees cost for new employees recruited in the second control period is also considered based on average salary per employee for FY 15 and increased 10% YoY. MIAL has updated the department headcount for FY 16-FY 19 based on expected manpower requirements.

Table: Employees Cost – Revised *Head Count (Nos.)*

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
- Operations including corporate (excluding cargo)	*967*	*1,186*	*1,205*	*1,233*	*1,238*
- Cargo	*8*	*15*	*15*	*15*	*15*
- Retainers	*29*	*28*	*28*	*28*	*28*
- Outsourced	*59*	*71*	*74*	*78*	*82*

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total Payroll cost - Rs./Crs.	*146*	*192*	*215*	*240*	*266*

Electricity, Water and Fuel

MIAL has updated the cost for Utilities for the FY 15. Further, MERC has recently approved the increased rates of Tata power for electricity to Rs. 13.24 per unit, being rate applicable for MIAL (enclosed as Annexure 2). Accordingly, cost per unit for FY 16 has been updated. Projected cost for FY16-FY 19 based on updated cost for FY 16 is as under:

	FY 15	FY 16	FY 17	FY 18	FY 19
Electricity	*95*	*195*	*207*	*218*	*230*
Water	*8*	*9*	*10*	*11*	*13*
Fuel	*1*	*2*	*2*	*3*	*3*
Total Electricity, Water and Fuel cost	*104*	*205*	*219*	*232*	*246*

Repair and Maintenance (R&M) Costs

Repairs and Maintenance Cost is updated for FY 15 based on actuals. Updated R&M costs based on 0.85% of Gross block escalated by CPI is as under:

Table: R&M Costs – Revised Rs./Cr

	FY15 (Actual)	FY 16	FY 17	FY 18	FY 19
R&M	*110*	*147*	*167*	*179*	*196*

Information Technology (IT) related cost

There is no change in IT related cost.

Rents, Rates and Taxes

Rent, Rates and Taxes has been updated for FY 15 based on actuals and accordingly numbers for FY 16-FY 19 have been updated. Property Tax is updated based on change in rates and area for FY 16 to FY 19. Further, Non

Agriculture Tax has undergone a slight change and revised numbers are as under:

Table: Rents, Rates and Taxes – Revised Rs./Cr

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Rents, Rates & Taxes	*58*	*59*	*60*	*62*	*64*

Advertising Cost

Actual Advertising cost for FY 15 has been updated and costs for FY 16 to FY 19 are updated accordingly.

Table: Advertising Cost – revised Rs./Cr

	FY15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Advertising Expenses	*6*	*6*	*6*	*7*	*7*
T2 - Launch exp	*-*	*2*	*-*	*-*	*-*
Advertising cost - Total	*6*	*8*	*6*	*7*	*7*

Administrative Cost

Administrative cost for FY 15 is updated based on actuals. Consultants cost which did not materialise in FY 15 is now considered in FY 16. FY16-FY19 are updated accordingly.

Table: Administrative Cost – Revised Rs./Cr.

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Administrative Expenses	*59*	*68*	*75*	*82*	*91*
Consultants' cost for specific studies	*-*	*9*	*-*	*-*	*-*
Administrative cost - Total	*59*	*77*	*75*	*82*	*91*

Airport Operator Fee

The fee payable to the airport operator is updated for FY 15 and accordingly revised expenditure is projected as under:

Table: Airport Operator Fee – Revised Rs./Cr

	FY15 (Actual)	FY 16	FY 17	FY 18	FY 19
Airport Operator Fees	8	8	8	9	9

Insurance Cost

The actual insurance cost is updated for FY 15 and cost for FY 16-FY19 are updated accordingly.

Table: Insurance Cost – Revised

	FY15 (Actual)	FY 16	FY 17	FY 18	FY 19
Insurance Cost – Total	5	9	9	9	10

Interest on working capital and finance charges has been updated for FY 15 based on actuals. Finance charges for FY 16 is expected to be Rs. 20 crs. due to processing fees paid on short term loans taken during the year. Finance charges for FY 16-FY19 are expected to increase by CPI YoY.

The interest on working capital has been calculated assuming limit utilisation of Rs.150 Crs. during the balance control period at interest rate of 12.5%.

Table: Interest on working capital and Financial charges – revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Interest on Working capital	6	19	19	19	19
Financial charges	9	20	21	22	23
Total - Interest and Financial charges	16	39	40	41	42

Other Operating Costs

Other operating costs for FY 15 have been updated by actuals. Further, projections for FY 16-FY 19 have undergone a change based on contracts and CAGR of minimum wages, revised projections are as under:

Table: Other Operating Costs – Revised

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Cleaning Contract	37	51	57	65	73
Security Contract	14	17	20	22	25
Gardening Contract	5	6	6	7	8
Other Operating Contracts	13	18	20	22	25
Trolley Contract	10	12	15	18	22
Inter-terminal coaches Contract	10	9	8	8	9
Total - Other Operating cost	89	113	126	143	162

Corporate Social Responsibility Cost

CSR cost is estimated as per the provisions of the Companies Act, 2013. As per the Act, CSR cost for an year is 2% of its average net profit for the immediately preceding three financial years.

Table : Corporate Social Responsibility Cost – Revised Rs./Cr

	FY15 (Actual)	FY 16	FY 17	FY 18	FY 19
CSR cost	-	-	-	-	2

Issues pertaining to security expenses (PSF-SC)

As mentioned in Para 6 security expenses like salaries of inline screeners paid from PSF (SC) account are considered separately and included as part of MYTP. We request the Authority to kindly consider such expense for calculation of separate Target Revenue for this MYTP.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Salary to Inline Screeners	*10*	*11*	*12*	*13*	*14*

Treatment of Written Down Value (WDV) of Old Terminal 2 (2B & 2C)

Construction of part of integrated terminal and apron could take place only after demolition and disposal of old Terminal 2. As part of the project implementation, demolition of old Terminal 2 was essential for completion of the project as envisaged in the Master Plan. Loss on disposal of assets (net of realization from scrap sales) for FY 15 is Rs. 245 crores. This amount after considering realisable value from scrap is part of the O & M cost of FY 15 and the same has been treated accordingly. RAB has been reduced by WDV, net of realization, on such disposal.

Earlier T1A was considered to be retired once domestic operation shifts to new T2. However, T1A is now being retained and will be used by Go Air or any other airline and hence WDV of Rs. 44.16 crores (net of scrap realisation) earlier considered as part of the O&M cost for FY16 is excluded and accordingly no deduction is done from RAB.

Table : Loss on asset discarded – Revised Rs./Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Loss on asset discarded	*245*	-	-	-	-

"

c Authority's Examination of Operating and Maintenance Expenses

12.6. The Authority has examined MIAL's submission on projections of operating and maintenance expenses for the second Control Period. The Authority's examination is given below.

Cost Allocation

12.7. As highlighted in Chapter 3, MIAL had allocated operating and maintenance expenses between aeronautical and non-aeronautical services based on a study carried out by KPMG for CSI Airport, Mumbai, for the first Control Period. The Authority, after examining the independent study by ICWAI on the efficient operating and maintenance expenses, decided to follow cost allocation as per Table 9 above.

12.8. The Authority has noted MIAL's submission regarding cost allocation in the second Control Period. The Authority has noted that while for some cost heads such as the Employees Cost, Utilities, Repair & Maintenance, Rents, Rates and Taxes, Administrative Expenses, Operating Expenses, Working Capital Loan Interest and Financing Charges, the cost allocation towards aeronautical expenses are higher than that considered for FY2013-14, for expenses such as advertisement expenses, the proposed allocation is lower than that considered for FY2013-14.

12.9. Furthermore, the Authority has noted that MIAL has also considered expenses towards provision for doubtful debts, provision for PSF (SC) disallowance, DF loan (Upfront fee/ underwriting and processing fee), CSR cost and miscellaneous expenses as aeronautical operating expenses during the second Control Period.

12.10. The Authority has sought clarifications regarding the variations in cost allocation and overall expense values under all sub-heads of operating and maintenance expenses considered by MIAL for the second Control Period, as compared with FY2013-14, the last tariff year of the 1st Control Period. Additionally, the Authority has sought clarification for increase in operating expenses considered by MIAL in the second Control Period on account of new terminal T2 becoming operational as well as a comparison of operating expenses per unit area for T1 (in the 1st and second Control Periods) and expenses projected for T2.

12.11. The Authority is in receipt of the clarifications from MIAL regarding the basis for allocation of costs dated 27.09.2014 and an extract of these clarifications has been reproduced below, *"Explanation of the basis of apportionment of operating expenses between aeronautical and non- aeronautical for all the heads of operating expenses is enclosed as:*

Operating expenses – Head	***Basis of allocation***
Employee Cost	*Actual amount incurred for Aeronautical, Non Aeronautical and common expenditure is identified. Common expenditure is then allocated based on ratio of Aeronautical and Non Aeronautical expenditure.*
Utilities Expenses (power and water)	*Actual amount incurred for Aeronautical, Non Aeronautical and common expenditure is identified. Common expenditure is then allocated based on ratio of Aeronautical and Non Aeronautical expenditure.*
Repair & Maintenance Expense	*Actual amount incurred for Aeronautical, Non Aeronautical and common expenditure is identified. Common expenditure is then allocated based on ratio of Aeronautical and Non Aeronautical expenditure.*
Rents, Rates & Taxes	*Actual amount incurred for Aeronautical, Non Aeronautical and common expenditure is identified. Common expenditure is then allocated based on ratio of Aeronautical and Non Aeronautical expenditure.*
Advertisement Expense	*Actual amount incurred for Aeronautical, Non Aeronautical and common expenditure is identified. Common expenditure is then allocated based on ratio of Aeronautical and Non Aeronautical expenditure.*
AOA Fees	*The fee payable to the airport operator is paid as per Airport Operator Agreement dated 28.04.2006 between MIAL and ACSA Global Limited. AO undertakes the operation, maintenance and management of the airport to meet the requisite performance standards so as to ensure performance by the JVC of its obligations (in particular, satisfying the Objective and Subjective Service Quality requirements as described under the OMDA).*
Insurance Expense	*This expenditure depends upon the amount invested in Fixed Assets and therefore expenditure is allocated based on ratio of Aeronautical and Non Aeronautical assets for FY 14.*
Consumable stores	*Actual amount incurred for Aeronautical, Non Aeronautical and common expenditure is identified. Common expenditure is then allocated based on ratio of Aeronautical and Non Aeronautical expenditure.*
Operating cost	*Actual amount incurred for Aeronautical, Non Aeronautical and common expenditure is identified. Common expenditure is then allocated based on ratio of Aeronautical and Non Aeronautical expenditure.*
Bad Debts written off	*Actual amount incurred for Aeronautical, Non Aeronautical and common expenditure is identified. Common expenditure is then allocated based on ratio of Aeronautical and Non Aeronautical expenditure.*
Provision for Bad Debts	*Actual amount incurred for Aeronautical, Non Aeronautical and common expenditure is identified. Common expenditure is then*

Operating expenses – Head	*Basis of allocation*
	allocated based on ratio of Aeronautical and Non Aeronautical expenditure.
Working Capital Interest	*Working capital Interest and Finance charges are not specific to any expenditure and hence are allocated in the overall ratio of aeronautical and non-aeronautical of other expenses.*
Financing charges	*Working capital Interest and Finance charges are not specific to any expenditure and hence are allocated in the overall ratio of aeronautical and non-aeronautical of other expenses.*
Interest over AAI Retirement compensation loan	*Amount paid as retirement compensation to AAI is paid as per the terms of OMDA, and is not related to any aeronautical or non-aeronautical activity. Same treatment is given to interest on loan taken for payment of retirement compensation.*
Collection charges over DF	*Authority has not allowed DF collection charges as Operating expense, hence 100% of the amount is considered as Non Aeronautical.*
Payment to AAI for Retirement compensation plus arrears	*Amount paid as retirement compensation to AAI is paid as per the tenns of OMDA, and is not related to any aeronautical or non-aeronautical activity. Same treatment is given to interest on loan taken for payment of retirement compensation.*
Provision for PSF(SC) exp	*MIAL had incurred certain expenses out of PSF (SC) in respect to screener's salary. However, due to lack of clarity from MoCA, MIAL has made provision for the same in its books. Since these expenditure relates to security of the airport, they are considered 100% aeronautical expense.*
Administrative Expenses	*Administrative expenses are allocated in overall ratio of aeronautical and non-aeronautical of other expenses.*

12.12. Further, the Authority is also in receipt of the O&M cost Terminal wise breakup for FY 12, FY 13 and FY 14 and Terminal wise projected cost from MIAL, dated 12.09.2014. MIAL's submissions regarding the same for the second Control Period are as below,

" Terminal wise allocation of expenses for FY15 Rs. crores

Row Labels	*Total Amount*	*Terminal 1*	*New T2*	*Unallocated*
Employee Cost	*184*	*-*	*-*	*184*
Utilities Expenses (Refer note below)	*154*	*-*	*-*	*154*
Repair & Maintenance Expense	*114*	*14*	*46*	*54*
Rents, Rates & Taxes	*58*	*-*	*-*	*58*
Advertisement Expense	*9*	*-*	*-*	*9*
Administrative Expenses	*74*	*-*	*-*	*74*
AOA Fees	*8*	*-*	*-*	*8*
Insurance Expense	*7*	*-*	*-*	*7*
Consumable stores	*5*	*2*	*2*	*2*
Operating cost	*97.*	*14*	*65*	*18*
Working Capital Interest	*9*	*-*	*-*	*9*
Financing charges	*3*	*-*	*-*	*3*
VRS exp	*20*	*-*	*-*	*20*
Loss on scrapping of Asset	*287*	*-*	*-*	*287*

Row Labels	Total Amount	Terminal 1	New T2	Unallocated
Provision for PSF (exp)	11	-	-	11
CSR cost	10	-	-	10
Grand Total	1,050	30	113	908

Note 1:-

Power, Water and Fuel expenses (a+b+c)

Particulars	Tl*	Cargo	New T2	Others**	Total
Consumption in Units - in Mn	42	10	138	11	201
Rate per Unit	9.59	9.59	9.59	9.59	9.59
Total consumption (in Rs. Mn)	403	95	1324	110	1931
Less: Recovery					
Cargo		10			10
MLCP				8	8
Concessionaires					15
Total recovery of units {in Mn)					33
Recovery Rate per unit					12.47
Total recovery (in Rs. Mn)					411
cue***					112
Total recovery including CUC (in Rs. Mn)					523
Net Power Cost (in Mn)					1408

** Includes Tl, existing T2, CCR2, old STP and miscellaneous*

*** Includes new STP, MLCP, Elevated road and CSIA Entrance*

Water (B)	101
Fuel (C)	26
Total (A+B+C)	1535

Terminal wise allocation of expenses for FY16 Rs. crores

Row Labels	Total Amount	Terminal 1	New T2	Unallocated
Employee Cost	207	-	-	207
Utilities Expenses (Refer note below)	156	-	-	156
Repair & Maintenance Expense	140	8	50	83
Rents, Rates & Taxes	59	-	-	59
Advertisement Expense	8	-	-	8
Administrative Expenses	77	-	-	77
AOA Fees	8	-	-	8
Insurance Expense	8	-	-	8
Consumable stores	6	1	2	3
Operating cost	99	8	70	21

Row Labels	Total Amount	Terminal 1	New T2	Unallocated
Working Capital Interest	9	-	-	9
Financing charges	3	-	-	3
VRS exp	20	-	-	20
Loss on scrapping of Asset	44	-	-	44
Provision for PSF (exp)	12	-	-	12
CSR cost	2	-	-	2
Grand Total	861	16	122	723

Note 1:- Power, Water and Fuel expenses (a+b+c)

Particulars	TI*	Cargo	New T2	Others**	Total
Consumption in Units - in Mn	30	10	140	11	192
Rate per Unit	10.50	10.50	10.50	10.50	10.50
Total consumption (in Rs. Mn)	319	104	1469	120	2013
Less: Recovery					
Cargo		10			10
MLCP				8	8
Concessionaires					15
Total recovery of units (in Mn)					33
Recovery Rate per unit					13.65
Total recovery (in Rs. Mn)					450
cue***					147
Total recovery including CUC					597
Net Power Cost (in Mn)					1416
* Includes Tl, existing T2, CCR2, old STP and miscellaneous					
** Includes new STP, MLCP, Elevated road and CSIA Entrance					
Water (B)					101
Fuel (C)					26
Total (A+B+C)					1535

Terminal wise allocation of expenses for FY17 Rs. crores

Row Labels	Total Amount	Terminal 1	New T2	Unallocated
Employee Cost	231	-	-	231
Utilities Expenses (Refer note below)	173	-	-	173
Repair & Maintenance Expense	165	8	54	103
Rents, Rates & Taxes	60	-	-	60
Advertisement Expense	8	-	-	8
Administrative Expenses	87	-	-	87
AOA Fees	8	-	-	8
Insurance Expense	8	-	-	8
Consumable stores	7	1	2	4
Operating cost	109	8	76	25
Working Capital Interest	9	-	-	9
Financing charges	4	-	-	4
VRS exp	19	-	- .	19
Loss on scrapping of Asset	-	-	-	-
Provision for PSF (exp)	13	-	-	13

Row Labels	Total Amount	Terminal 1	New T2	Unallocated
CSR cost	1	'	-	1
Grand Total	904	17	132	755

Note 1:-

Power, Water and Fuel expenses (a+b+c)

Particulars	Tl*	Cargo	New T2	Others**	Total
Consumption in Units - in Mn	30	10	140	11	192
Rate per Unit	11.33	11.33	11.33	11.33	11.33
Total consumption (in Rs. Mn)	345	113	1585	130	2172
Less: Recovery					
Cargo		10			10
MLCP				8	8
Concessionaires					15
Total recovery of units {in Mn)					33
Recovery Rate per unit					14.73
Total recovery (in Rs. Mn)					486
cue***					133
Total recovery including CUC (in Rs. Mn)					619
Net Power Cost (in Mn)					1553

** Includes Tl, existing T2, CCR2, old STP and miscellaneous*

*** Includes new STP, MLCP, Elevated road and CSIA Entrance*

Water (B)	138
Fuel (C)	36
Total (A+B+C)	1728

Terminal wise allocation of expenses for FY18 Rs. crores

Row Labels	Total Amount	Terminal 1	New T2	Unallocated
Employee Cost	257	-	-	257
Utilities Expenses (Refer note below)	189	-	-	189
Repair & Maintenance Expense	182	9	58	115
Rents, Rates & Taxes	62	-	*	62
Advertisement Expense	9	-	-	9
Administrative Expenses	99	-	-	99
AOA Fees	8	-	-	8
Insurance Expense	9	-	-	9
Consumable stores	7	1	2	5
Operating cost	122	9	82	31
Working Capital Interest	9	-	-	9
Financing charges	4	-	-	4
VRS exp	19	-	-	19
Loss on scrapping of Asset	-	-	-	-

Row Labels	Total Amount	Terminal 1	New T2	Unallocated
Provision for PSF (exp)	15	-	-	15
CSR cost	-	-	-	-
Grand Total	991	19	142	831

Note 1:-

Power, Water and Fuel expenses (a+b+c)

Particulars	Tl*	Cargo	New T2	Others**	Total
Consumption in Units - in Mn	30	10	140	11	192
Rate per Unit	12.22	12.22	12.22	12.22	12.22
Total consumption (in Rs. Mn)	372	121	1710	140	2343
Less: Recovery					
Cargo		10			10
MLCP				8	8
Concessionaires					15
Total recovery of units {in Mn)					33
Recovery Rate per unit					15.89
Total recovery (in Rs. Mn)					524
cue***					133
Total recovery including CUC (in Rs. Mn)					657
Net Power Cost (in Mn)					1686

** Includes Tl, existing T2, CCR2, old STP and miscellaneous*

*** Includes new STP, MLCP, Elevated road and CSIA Entrance*

Water (B)	161
Fuel (C)	43
Total (A+B+C)	1891

Terminal wise allocation of expenses for FY19 Rs. crores

Row Labels	Total Amount	Terminal 1	New T2	Unallocated
Employee Cost	284	-	-	284
Utilities Expenses (Refer note below)	207	-	-	207
Repair & Maintenance Expense	207	10	63	134
Rents, Rates & Taxes	64	-	-	64
Advertisement Expense	9	-	-	9
Administrative Expenses	112	-	-	112
AOA Fees	9	-	-	9
Insurance Expense	9	-	-	9
Consumable stores	9	1	2	6
Operating cost	137	10	88	39
Working Capital Interest	9	-	-	9

Row Labels	Total Amount	Terminal 1	New T2	Unallocated
Financing charges	4	-	-	4
VRS exp	18	-	-	18
Loss on scrapping of Asset	-	-	-	-
Provision for PSF (exp)	16	-	-	16
CSR cost	9	-	-	9
Grand Total	1,103	20	153	930

Note 1:-

Power, Water and Fuel expenses (a+b+c)

Particulars	Tl*	Cargo	New T2	Others**	Total
Consumption in Units - in Mn	30	10	140	11	192
Rate per Unit	13.19	13.19	13.19	13.19	13.19
Total consumption (in Rs. Mn)	401	131	1846	151	2529
Less: Recovery					
Cargo		10			10
MLCP				8	8
Concessionaires					15
Total recovery of units {in Mn)					33
Recovery Rate per unit					17.15
Total recovery (in Rs. Mn)					565
cue***					133
Total recovery including CUC (in Rs. Mn)					698
Net Power Cost (in Mn)					1830

** Includes Tl, existing T2, CCR2, old STP and miscellaneous*

*** Includes new STP, MLCP, Elevated road and CSIA Entrance*

Water (B)	188
Fuel (C)	51
Total (A+B+C)	2070

12.13. The Authority has noted MIAL submission regarding cost allocation and terminal wise overall expenditure in each year during the second Control Period. The Authority has also noted earlier that the capitalisation and commissioning of entire T2 is expected only in the second Control Period and on that basis, the cost allocation study would be finalised. The Authority also recognises that cost allocation between aeronautical and non-aeronautical will also have some reference to the asset allocation. Therefore, the Authority proposes, for the time being, to consider the allocation used by MIAL in 2013-

14 as the cost allocation for each of the years in the second Control Period, with the exception of:

12.13.1. As discussed in the Para 3.36 above, the Authority proposes to consider allocation for VRS expense for AAI employees and AAI retirement compensation interest cost as well as operational support cost same as the allocation of employee cost.

12.13.2. The Authority has noted MIAL submission regarding provision of expenses made out of PSF (SC) and is in receipt of the Order dated 18.02.2014 from Ministry of Civil Aviation regarding use of PSF (SC) funds, from MIAL. The Authority had sought further clarification from MIAL on the security related expenses made by MIAL. MIAL responded with the following details via its letter to the Authority dated 31.07.2015,

"

Particulars	***FY 15***	***FY 16***	***FY 17***	***FY 18***	***FY 19***
Operating expenses pertaining to Security	***Actual***	***Projections***			
Private Security	-	-	-	-	-
MIAL Security Salary	-	-	-	-	-
Screeners Salary	*9.74*	*10.71*	*11.79*	*12.96*	*14.26*
Consultancy charges and Professional & Retainers fees	-	-	-	-	-
Salary of Loaders	-	-	-	-	-
Concertina Coil	-	-	-	-	-
Electricity & Water Charges (BCAS office)	-	-	-	-	-
Repairs and Maintenance	-	-	-	-	-
Administrative Cost	-	-	-	-	-
Interest on delay in transfer of funds by MIAL due to PSF(SC)	-	-	-	-	-
O&M Contract-Anchorage (follower staff)	-	-	-	-	-
Insurance charges	-	-	-	-	-
Operating expenses - Total	***9.74***	***10.71***	***11.79***	***12.96***	***14.26***
Provision made in MIAL books	***9.74***	-	-	-	-
Paid and Accounted in MIAL books	-	-	-	-	-
Balance to be provided for operating expenses	-	***11***	***12***	***13***	***14***
Total operating expenses to be recovered through separate tariff component	***9.74***	***10.71***	***11.79***	***12.96***	***14.26***
Total operating expenses to be recovered through separate tariff component with carrying cost	*10.87*	*10.71*			

"

12.13.3. Thus, the Authority proposes to accept the treatment of provision for PSF (SC) as aeronautical expense and accept the projection made by MIAL for this expense category in the second Control Period. However, the Authority proposes to true-up this expense head at the time of aeronautical tariff determination for the next Control Period on the basis of actual expense incurred by MIAL.

Allocation for Airport Operator Fee

12.14. The Authority has noted MIAL's submission wherein the allocation ratio applicable on the Airport Operator Fee has been taken as 100%. The Authority's detailed opinion can be referred in paragraph number 3.36.2 to 3.36.4.

12.15. In view of the above discussions, the Authority has proposed the following allocation for calculating aeronautical operating and maintenance expenditure, for the second Control Period,

Table 43: Cost allocation of O&M Expenses considered by the Authority for second Control Period

Cost Allocation, %	**FY2014-15 to 2018-19**
Employee Cost	77.70%
Operation Support Cost for AAI	0.00%
Utilities Expenses	96.63%
Repair & Maintenance Expense	96.10%
Rents, Rates & Taxes	90.60%
Advertisement Expense	98.85%
Administrative Expenses	84.50%
AOA Fees	77.70%
Insurance Expense	88.68%
Consumption and Store Expense	89.29%
Operating Expenditure	70.07%
Miscellaneous Expenses	0.00%
Provision for doubtful debt	0.00%
Bad debts written off*	100.00%
Interest on Loan for AAI retirement Compensation	77.70%
VRS Payment Amount to AAI	77.70%
Provision for PSF(SC) disallowance	100.00%
Working Capital loan Interest	84.50%
Financing Charges	84.50%
Loss on scrapping of assets	84.52%
Collection charges over DF	0.00%
CSR cost	100.00%
Exchange gain and loss	0.00%

12.16. As regards the methodology for projection of operating expenses for the second Control the Authority has noted the following from MIAL's submissions and proposed treatment of certain items as below.

Employee Cost

12.17. The Authority has noted MIAL's submission that employee cost has been estimated on the basis of the head-count and the applicable compensation and further that the average salary per employee is revised based on actual average salary for FY 2014-15, which is expected to increase by 10% YoY, inclusive of CPI. The Authority had sought further details on the computation of employee cost.

12.18. The Authority is in receipt of the following update on the employee cost from MIAL,

> *"MIAL has earlier considered additional headcount of 226 for FY 16. However, MIAL has now further rationalized the additional headcount requirement and reduced the additional headcount in FY 16 to 175. Accordingly, the revised Payroll cost is as under:-*

Payroll Expenses - Revised	1849	2065	2316	2561
Payroll Expenses - Existing	1922	2145	2404	2657

"

12.19. The Authority has noted that MIAL's projection for employee cost is on the higher side. However, the Authority noted the manpower requirement for managing the new integrated T2 will marginally increase. Accordingly, the Authority proposes to increase 15% for the year 2015-16 and 10% subsequently.

12.20. It is noted that in case of MIAL, the operator was providing cargo services. If the cargo screening costs have been taken as a part of the operation and maintenance expenses in the profit and loss account of MIAL, they should be removed from the O&M expenses for that period.

Utilities Expenses - Electricity

12.21. The Authority noted that MIAL has projected electricity consumption based on existing operations and additional load factor due to New T2 and other facilities getting commissioned and it has excluded consumption of facilities to be decommissioned. The

Authority has noted from the Tariff Model that MIAL has assumed the electricity consumption units to increase to 201 million units in 2014-15 from 118 million units in FY2013-14 but expects it to stabilize at 192 million units from 2015-16 to 2018-19. The Authority has also noted that the electricity cost per unit has been based on the MERC order for FY 15-FY 16 and thereafter is increased year-on-year by CPI. The Authority has further noted that MIAL has considered recoveries of electricity from concessionaires (towards non-aeronautical costs) from total electricity cost to arrive at net electricity cost for aeronautical services.

12.22. The Authority had directed an assessment pertaining to unit cost of power consumption submitted by MIAL, which is expected to remain at Rs. 9.59 per unit and Rs. 10.50 per unit for 2014-15 and 2015-16 respectively, as per the MERC tariff order. Given that the unit rate specified in the MERC tariff order is not a standalone number but is a calculated one based on the load capacity of the airport, the Authority had asked MIAL to clarify the calculation of this unit cost with reference to the rates given in the tariff order.

12.23. The Authority is in receipt of the following submission from MIAL,

> *"For FY 15, estimated rate per unit of electricity was Rs. 9.59 which is close to the actual rate per unit for the month of August 2014. Power cost for FY 16 is based on actual consumption of August 14 and Energy, Wheeling and others charges have been considered as per the Order of MERC for FY 16, estimated final rate per unit of electricity is calculated accordingly. Refer Annexure 7"*

12.24. The Authority has noted MIAL submission and referred to the Annexure 7 being referred in the above submission.

12.25. The Authority has further noted the revised submission made by MIAL with respect to electricity bills on account of actual information for FY 2014-15 and revised MERC rates. The Authority further sought Electricity bills of TPC (Tata Power) for the months of July, August and September 2015 along with number of units consumed as well as the tariff per unit paid by MIAL as part of the bill. The Authority is in receipt of the same.

12.26. Further, the Authority has received the following updated numbers from MIAL, *"Currently, average rate of electricity is Rs. 11.47 per unit. It may be noted that at present Tata Power Limited is charging Rs. 0.19 per Unit as Fuel Adjustment Charges (FAC). However, as per Maharashtra Electricity Regulatory Commission (MERC) Order dated 2nd August, 2012 in*

Case No. 63 of 2012 dated 26.08.2012, Tata Power can charge FAC up to 20% of Energy Charge in case of increase in power purchase cost, fuel cost etc. MIAL has now considered the rate of electricity as Rs. 11 .47 for FY 16, and requests the Authority to true-up the rate of electricity at the end of Control Period. Accordingly, revised cost of electricity is as under:

	FY16	FY17	FY18	FY19
Consumption in Units - in Mn	192	192	192	192
Rate per Unit - Rs.	11.47	12.05	12.67	13.32
Total consumption (in Rs. Mn)	2199	2311	2429	2553
Less: Recovery				
Total recovery of units (in Mn)	25	25	25	25
Recovery Rate per unit - Rs	14.91	15.67	16.47	17.31
Total recovery (in Rs. Mn)	372	391	411	432
CUC (in Rs. Mn)	160	145	145	145
Total recovery including CUC (Rs. Mn)	532	536	556	577
Net Power Cost (in Mn) - Revised	1667	1775	1873	1976
Net Power Cost (in Mn) - Existing	1949	2072	2185	2303

"

12.27. Considering the above clarifications provided by MIAL, the Authority proposes to consider electricity costs as per MIAL's revised projections for the second Control Period.

Utility Expenses - Water

12.28. The Authority has examined MIAL's submission pertaining to Water Cost and noted that the projections for consumption for the second Control Period are based on actual consumption in FY 2012-13 along with extra consumption due to commissioning of New T2 wherein the increase is considered based on expected level of usage. The Authority has also noted that the water rate per unit has been projected to increase year on year by CPI inflation rate for the Control Period. It has noted that the estimated recoveries from concessionaires (towards Non-Aeronautical costs) have been deducted from total water cost to arrive at net water cost for aeronautical services. The Authority has noted MIAL submission that the water per unit rate is assumed to go up at the rate of CPI inflation from FY2012-13 to FY2018-19. It has also noted that the consumption units have been projected on the basis of the FY2012-13 consumption. The Authority has noted from the Tariff Model that the recoveries units are assumed to be same as that in FY2012-13 throughout the second Control Period. The Authority had sought clarification regarding the basis for these assumptions from MIAL.

12.29. The Authority is in receipt of the following clarifications dated 12.09.2014 in this regard,

> *"MIAL has estimated the water consumption for the second control period as per the National Building-Code (NBC) issued by government of India. As per the Table 1 and Table 2 of Part 9 of the code, MIAL has estimated that 45 litres of water is required per passenger, 30 litres of water is required per office staff and 15 litres of water is required for Meeters/Greeters (enclosed as Annexure 8). Quantity consumption for FY 15 is then projected to increase by growth in passengers.*
>
> *MIAL has estimated that rate of water per KL will increase by inflation i.e. 7.9%. Circular (enclosed as Annexure 9) issued by Municipal Corporation of Greater Mumbai states that water charges may increase up to 8% maximum every year. Accordingly, MIAL has considered 7.9% i.e. inflation for increase in water charges."*

12.30. The Authority has further noted the revised submission made by MIAL with respect to water costs. The Authority has also noted that MIAL has considered the revised 5.1% inflation for estimation of these costs. Considering the above clarifications provided by MIAL, the Authority proposes to consider water costs as per MIAL's projections for the second Control Period.

Utilities Expense - Fuel Costs

12.31. The Authority has examined MIAL's submission pertaining to Fuel Cost MIAL has projected the consumption of Petrol, Diesel and CNG to increase by 5%, 2% and 8% per annum respectively. The Authority has also noted that the price per litre of Petrol and CNG has been projected to increase by 10% per annum while price per litre of diesel is estimated to increase by 15% per annum. The Authority had sought basis for these assumptions.

12.32. The Authority is in receipt of the following clarifications from MIAL dated 12.09.2014,

"Consumption of fuel is also estimated to increase due to increase in operational requirements in sync with traffic growth. It is envisaged that there would be shift in consumption from diesel to CNG, and accordingly, it is estimated that consumption of Petrol will increase yearly by 5%, a lower increase in diesel of yearly 2% and a higher increase in CNG of yearly 8%.

Increase in fuel prices i.e. Petrol Diesel and CNG in FY 14 has been as under:-

	Rate on 1st April 2013	*Rate on 31st Mar 2014*	*% increase*
Petrol (Per Litre)	*74.14*	*82.07*	*10.70%*
Diesel (Per Litre)	*54.87*	*63.86*	*16.38%*
CNG (Per Litre)	*33.95*	*38.95*	*14.73%*

Considering the hardening of international fuel prices along with de-regulation by the Central government would lead to further rise in fuel prices. MIAL, has therefore considered only 10% increase in Petrol and CNG yoy prices and 15% increase in diesel yoy prices in the second control period."

12.33. MIAL further explained that,

"The table below gives the 5 year CAGR for petrol and diesel.

Type of fuel	*Apr-09*	*Mar-14*	*5 year CAGR*
Petrol	*44.55*	*82.07*	*13.00%*
Diesel	*34.45*	*63.86*	*13.14%*

In case of petrol prices, 5 year CAGR of increase in prices is 13%. However, we have considered a reduced rate of 10% for projecting growth in rates as they are fully deregulated and recent softening in petrol prices.

However, in case of diesel, Government of India, had allowed the Oil Marketing Companies (OMCs) to raise diesel prices by Rs.0.4-0.5 per litre every month and made it partially regulated. In view of above, we have considered a slightly higher growth rate of 15% for diesel prices, in order to take care of any unprecedented increase in rates."

12.34. The Authority has noted clarifications provided by MIAL. The Authority notes that the prices of petrol and diesel are considerably lower than estimated by MIAL. Thus, the Authority proposes not to increase the amount and keep it at the level of FY 2014-15 and provide a true-up on the basis on the actual expense incurred by MIAL during the second Control Period at the time of determination of aeronautical tariffs for the third Control Period.

Repairs and Maintenance

12.35. The Authority has noted that MIAL has projected values for Repairs and Maintenance Cost in the second Control Period based on 0.85% of Gross Fixed Assets (GFA), and the costs escalate by CPI inflation rate. The Authority had sought clarification regarding inclusion of AAI compensation loan in calculation of gross block for the purpose of calculating repairs and maintenance cost.

12.36. The Authority is in receipt of the following clarification from MIAL, dated 12.09.2014,

"Repairs and Maintenance Cost was earlier estimated to be 0.75% of the Gross Fixed Assets (GFA) without reducing the DF funded assets, and escalated YoY by CPI. However, average R&M costs as percentage of GFA for FY 2012-13 and FY 2013-14 is 1.4% and 0.99% respectively. Average R&M cost as a % of Gross block in the last 5 years is 1.26%. Therefore, based on historical data it is assumed that R&M costs would be 0.85% of Gross block escalated yoy by CPI.

Since, while calculating the historical % of R&M to Gross block, Retirement compensation to AAI is included in Gross Block, the same is also considered for the projections. In case, retirement compensation paid to AAI is excluded from Gross block, there will be corresponding increase in % of R&M cost for past period as well as future."

Table: R&M Costs – submitted vide letter dated 26th December, 2013

Rs./Crs.

	FY 14	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
R&M projected @ 0.75% of Gross Fixed Assets	*99*	*103*	*122*	*137*	*149*	*172*

Table: R&M Costs - Revised

Rs./Crs.

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
R&M projected @ 0.85% of Gross Fixed Assets	*99*	*114*	*140*	*157*	*171*	*195*

"

12.37. The Authority has further noted the revised submission made by MIAL in this respect and sought further clarification on the rationale for the revised expenses. The Authority received the following clarifications:

"MIAL has considered 1.25% of the opening value of Gross Fixed Assets (GFA) for projecting the R&M expenses. This ratio for last 5 years has been as under:

	FY 11	***FY 12***	***FY 13***	***FY 14***	***FY 15***	***Average***
R&M Exp as % of Gross Block	*1.10%*	*1.28%*	*1.39%*	*0.99%*	*0.96%*	*1.14%*

Although R&M cost has been increasing in absolute terms, this ratio has first increased and then have shown a declining trend. R&M cost, other than that on comprehensive operations and maintenance contracts, is mostly contingent upon the unplanned repairs and maintenance activities required for various civil, mechanical and electrical works in a particular year. For example, an old machinery may require huge maintenance cost in a particular year, but may not need it for next few years. Hence, R&M cost cannot be correctly estimated based on past trends. The closest estimate for projecting R&M cost can be computed by linking it to the driving factor for various R&M activities. As R&M activities are directly dependent upon the quantum of *assets required to be maintained, the R&M cost is usually estimated on the basis of value of assets maintained."*

12.38. The Authority has noted clarifications provided by MIAL regarding R&M costs and proposes to consider these costs as per MIAL's projections for the second Control Period.

Rents, Rates and Taxes

12.39. The Authority has noted that MIAL has projected Rents, Rates and Taxes based on a per annum increase in line with agreements or CPI inflation rate for second Control Period. The Authority has also noted that Property Tax has been estimated based upon demand received from Municipal Corporation of Greater Mumbai (MCGM) for FY 2013-14 and estimated additional tax for New T2. The Authority has further noted that MIAL has not considered any annual increase in the property tax forecast and non-agricultural tax for second Control Period has been considered based upon demand received from Revenue Authority of Government of Maharashtra for FY 2013-14. The Authority had sought clarification on the basis for significant increase in total rents including "other rents" in FY2014-15.

12.40. In this regard the Authority is in receipt of the following clarification,

"Till FY 14, rent paid in respect of certain premises, apartments and guest houses taken were bifurcated between Operations and Projects, as the facilities were used jointly by Operations and Projects. Under projects, rent paid was part of Expenditure During Construction. As the major part of T2 is already been capitalised, these rents would be charged to P&L account."

12.41. The Authority has noted MIAL's clarifications and proposes to consider MIAL's assumptions and projections for this cost.

Advertising Cost

12.42. The Authority has noted that MIAL has projected the Advertising Cost to increase annually in line with the CPI inflation rate and that it has considered a specific one time expenditure of Rs. 2.0 crores on launch of domestic wing of New T2, that has been included in FY 2014-

15. However the Authority has noted from the Tariff Model that while the advertising costs for FY2014-15 include the one-time expense of Rs. 2 crores, the increase in "general advertising expenses" is more than the inflation rate of 7.9%. For other years, the latter is assumed to increase at CPI inflation of 7.9% and there is no expense on account of the new terminal. The Authority had sought clarification regarding these assumptions.

12.43. The Authority is in receipt of the following clarifications in this regard dated 12.09.2014,

> *"Advertisement cost for the FY 14 is Rs. 16 crs. including Rs. 10 crs, incurred for launch of T2. On inauguration of domestic wing of T2, a onetime expenditure of Rs. 2 crs. is estimated. Further, normal advertising cost is estimated to increase by around 12% in FY 15 and at inflation thereafter."*

12.44. The Authority has noted clarifications provided by MIAL as well as MIAL's revised submission and proposes to consider MIAL's projections for this expense for the second Control Period.

Airport Operator Fee

12.45. The Authority has examined MIAL's submission pertaining to Airport Operator (AOA) fees and noted it has been projected to increase annually at the rate equal to US CPI inflation rate Inflation (which is assumed at 1.7% p.a.) as per Airport Operator Agreement dated 28.04.2006 between MIAL and ACSA Global Limited. The Authority had sought a clarification regarding the aeronautical allocation of this expense. The Authority had also sought clarification regarding assumption for the rate of inflation.

12.46. In this regard, the Authority is in receipt of clarification from MIAL that it has considered 100% of this cost as aeronautical as it is based entirely on its contract with the airport operator and the services provided by the operator are purely aeronautical in nature. Further, the Authority is in receipt of the following clarification regarding inflation rate, dated 12.09.2014,

> *"As per the Airport Operator agreement entered between MIAL and ACSA Global Limited (ACSA), performance fee payable to ACSA would be escalated by US - CPI. A report of Factual Findings signed by Price Waterhouse & Co*

(enclosed as ***Annexure 10)*** *states that USCPI2012, The United States of America Consumer Price Index, all urban consumers (CPI-U), U.S. City average, all item, in percent for the calendar year 1 Jan 2012 to 31 Dec 2012 as published by the U.S. Department of Labor with Consumer Price Index December 2012 released on January 16, 2013 and retrieved from www.bls.gov/cpi is 1.7%. MIAL has considered the same rate of inflation for forecasts."*

12.47. The Authority has noted MIAL submission on computation of the AOA fee. While the Authority is in agreement with the computation method, the Authority proposes to project the AOA fee using the recent most available inflation rate for 2015 i.e. the United States of America Consumer Price Index, all urban consumers (CPI-U), U.S. City average, all item, in percent for the calendar year 1 Jan 2015 to 31 Dec 2015 as published by the U.S. Department of Labor at 0.7%. The Authority further notes that as per the Airport Operator Agreement between MIAL and ACSA, the performance fees was payable only for a period of 7 years starting 2006. The Authority notes from the agreement that performance fee beyond FY 2012-13 will be zero. However, MIAL has continued to incur as well as project the AOA fees till the year FY 2018-19. The Authority is of the opinion that MIAL should provide clarification for the same during the consultation period, failing which, the Authority proposes to not consider the projections corresponding to this expense.

Insurance Cost

12.48. The Authority has noted MIAL has projected Insurance Cost based on the value of insurance under various policies. The Authority has also noted MIAL's submission that the Industrial All Risk Policy is projected based on the value of fixed assets and the Airport Operator's Liability Policy for third party claims is expected to increase in line with CPI inflation rate. The Authority had sought clarification regarding the rate applied on fixed assets for estimating insurance cost for Industrial All Risk Policy.

12.49. The Authority is in receipt of the following clarification dated 12.09.2014 in this regard,

"Fixed assets of MIAL are insured under Industrial All Risk Policy. As per the policy, (for the period 1st July, 2013 to 30th June 2014) (enclosed as Annexure

11) amount of sum insured is Rs. 3,696.78 crs. and the premium paid for the same is Rs. 1.40 crs. Therefore, for each Re of asset, 0.000379 Rs. of premium is paid, which has been applied on the Gross Block of assets in the second control period for calculating the insurance premium amount."

12.50. The Authority has noted clarification provided by MIAL regarding insurance costs as well as the revised submission, and proposes to consider the same as per MIAL's projections for the second Control Period.

Financing Charges

12.51. The Authority has noted from MIAL's claim in respect of financing charges under O&M expenses as shown in Table 44 below. As already discussed in paragraph number 3.49, MIAL needs to make a specific claim along with the working details along with supporting evidence for the figures pertaining to second control period also. The Authority notes that the financing charge for the year 2014-15 is Rs. 9.34 Crores. The Authority proposes to consider the same amount for the purpose of projection of financing charges for each year of the second control period. However, the Authority may take a considered view on the same subject to the submission of abovementioned details and supporting evidence during the consultation process.

Working Capital Loan Interest

12.52. The Authority has noted that MIAL has considered an interest rate of 12.5% for projecting interest on working capital and that the finance charges have been projected based on increased requirements for subsequent years. The Authority had sought information regarding the working capital loan schedule and interest payable in the second Control Period.

12.53. The Authority is in receipt of the following clarification dated 12.09.2014 from MIAL in this regard,

"The requirement for the working capital loan is projected to be around Rs. 75 crs in FY 15-FY19 due to increase in working capital requirements of the

Company. There is increase in outstanding amount from Air India and other airlines resulting from non-payment of dues by them, consequently increasing the working capital requirement. As on 30.06.2014, Rs. 457 crs (excluding Rs. 164 crs. for interest) has been outstanding from Air India and other airlines. After lot of persuasion bankers have agreed to increase the working capital facilities (fund based) from Rs. 100 Crs. to Rs. 250 Crs. Bankers are not prepared to fund Debtors beyond 365 days for Air India and beyond 90 days for other debtors. Copy of Working capital facility agreement with banks is enclosed as Annexure 12.

Further, due to change in the Service Tax rules, Service Tax has to be paid to the Government on the accrual basis irrespective of whether billed amount and Service Tax has been collected in time from customers or not. MIAL has to pay the same to the Government in advance thereby increasing the working capital requirement though amounts are realized from its customers much later.

MIAL has envisaged that average utilization of working capital facility would be around Rs. 75 crs. Rate of interest payable is "Bank Base Rate + 200 bps/215 bps" payable monthly. Current Base Rate of Axis bank and IDBI bank is 10.25% so the current interest rate paid by MIAL is 10.25%+2% i.e. 12.25%. Also, Current base rate of Bank of India (BoI) is 10.20% so the current interest rate paid by MIAL is 10.20%+2.15% i.e. 12.35%. MIAL has considered a slightly higher rate of 12.5% considering the hardening trend of interest rates by Reserve Bank of India (RBI)."

12.54. The Authority has considered clarifications provided by MIAL on the 12.5% interest rate on working capital loans. The Authority also noted the revised estimations of this expense and sought clarification for increase in working capital requirement leading to an increase in interest expense from Rs. 63 million in FY 15 to Rs. 187.5 million in FY16. The Authority has also sought the loan sanction letter long with interest rate payable by MIAL on the loan.

12.55. The Authority is in receipt of the following clarifications in this regard, *"The requirement for the working capital loan is projected to be around Rs.150 crs in FY 16- FY19, due to increased working capital requirements of the Company. Non-payment of outstanding dues by Air India and other airlines has consequently resulted in increased working capital requirement. Requirement for working capital loan has gone up from FY 16 onwards vis- a-vis FY 15. Outstanding dues from Air India of Rs. 299.59 crs. as at March 2014 was substantially reduced to Rs. 137.41 crs. in March 2015 as Air India was making regular payments for past outstandings as well as current outstanding, resulting in increased cash flows for MIAL. Hence, working capital requirement was lower in FY 15. The outstanding from Air India has again increased to Rs. 190.45 crs. in October 2015 (excluding Rs. 129 crs interest on delayed payments) and has led to increased working capital requirements. Bankers are not prepared to fund Debtors beyond 365 days for Air India and beyond 90 days for other debtors.*

Bankers have granted working capital facilities (fund based) of Rs. 250 Crs. Copy of Sanction letters from IDBI Bank, Bank of India and Axis Bank regarding working capital facilities are enclosed as Annexure I. MIAL has envisaged that average utilization of working capital facility would be around Rs. 150 Crs. Rate of interest payable is "Bank Base Rate + 200 bps" payable monthly for all 3 banks (IDBI Bank, Bank of India and Axis Bank Ltd.). The current weighted average interest rate till Sep 2015 is 12.01% and actual working capital interest paid till Sep 2015 is Rs. 6.2 Crs. MIAL has considered a slightly higher rate of 12.5% as a small upside of 5% is necessary considering long term projections for interest rates.

Further, Service Tax has to be paid by MIAL to the Government, in advance, on the accrual basis irrespective of whether billed amount and Service Tax has been collected or not, thereby increasing the working capital requirement. Such service tax outstandings are realized from its customers much later. Also, *Annual Fee is required to be paid in advance to AAI, due to increased revenues, irrespective of whether the same is collected or not.*

Current aeronautical revenues are based on first control period tariff order. However, due to opening of T2 and increased operations at CSIA, cash flow requirements have increased substantially which cannot be met out from revenues until the revised tariff is approved by the Authority for the second control period.

Further, MIAL has proposed revised tariff applicable from January 2016. Such escalation in tariffs would result in higher revenue and subsequent increase in debtors, thereby increasing working capital requirements. Working capital limits would be required to be maintained at such levels till the end of the second control period i.e. up to FY 18-19."

12.56. The Authority has noted MIAL's submission on the working capital loan as in para 3.42 above in the entire first Control Period at Rs. 6.59 crores. The Authority has also noted the auditor certificate in this respect. The Authority has noted that actual working capital loan interest incurred by MIAL in FY2014-15 is Rs. 6.30 crores, as per the audited certificate. The Authority has noted that MIAL has projected the interest on working capital loan to be Rs. 18.5 crores in each year during FY2015-16 to FY2018-19. The Authority however noted from MIAL submission that in FY2012-13 and FY 2013-14, current assets were significantly higher than the current liabilities suggesting that there was no need for working capital loan in those years. The Authority proposes to allow working capital interest to the extent that it is certified by the auditor. The Authority has sought further details regarding methodology for calculation of the working capital. Pending receipt of these details the Authority proposes to consider Rs. 6.30 crores (as in FY2014-15) for each year in the second Control Period.

Cleaning, Security and Other operating contracts

12.57. The Authority has noted that expenditures under Cleaning, Security and Other operating contracts, have been projected on the basis of 5-year CAGR of National Floor Level of minimum wages as these contracts are labour intensive. Further, the Trolley Contract projections are based on passenger growth and 5-year CAGR of National Floor Level of minimum wages. Further, the projection for Inter-Terminal coaches Contract is based on CPI inflation rate, and also factored in that the number of buses would reduce due to part shifting of domestic operations from T1B to New T2.

12.58. The Authority has noted the revised submission and contract agreements regarding this expense and proposes to accept MIAL projections in this regard.

Corporate Social Responsibility (CSR) Cost

12.59. The Authority has noted MIAL's submissions related to Corporate Social Responsibility (CSR) Cost and that this expense has been calculated as 2% of net profits for the years wherein there is a net profit projected to be booked by MIAL. On account of various decisions taken by the Authority while reviewing MIAL's tariff proposal, MIAL is projected to incur net losses in the years FY 2016-17, FY 2017-18 and FY 2018-19. Therefore the CSR cost for these years is expected to remain zero.

12.60. The Authority has noted the above and revised submission made by MIAL and proposes to accept MIAL projections in this regard.

VRS Expenses

12.61. The Authority has noted MIAL's projections as shown below:

"

Schedule of future payments

(Rs in Millions)

Particulars	*FY 2014-15*	*FY 2015-16*	*FY 2016-17*	*FY 2017-18*	*FY 2018-19*	*FY 2019-20*
Future Payments	*204*	*200*	*193*	*186*	*179*	*15*

Source: Claim from AAI

Since the procedures performed in connection with certification of VRS Payments schedule of both historic and future period to Airport Authority of India (AAI) do not constitute either an audit or a review made in accordance *with the generally accepted auditing standards in India we do not express any opinion."*

12.62. The Authority notes that these figures appear to be derived, and hence with respect to VRS Expenses as well as the schedule of payments, MIAL need to support these figures through supporting documents as well as reconciliation made with the AAI. The Authority for the time being proposes to allow the same for the time being, subject to confirmation by AAI during the stakeholder consultation period.

Loss on sale of scrap assets

12.63. Further, the Authority has noted that MIAL has projected a loss of Rs.287 crores and Rs. 44 crores in FY 2014-15 and FY 2015-16 on account of scrapping of assets. The Authority had sought an explanation regarding the nature of these assets.

12.64. The Authority is in receipt of the following clarification from MIAL on 27.09.2014:

"The Integrated terminal has been constructed and commissioned. However, construction of part of integrated terminal and apron can take place only after demolition and disposal of old Terminal

2. As part of the project implementation demolition of old Terminal 2 was essential for completion of the project as envisaged in the Master Plan. Written Down Value (WDV) of old Terminal 2 as on 1st April, 2014 was Rs. 298 crores. This amount after considering realisable value from scrap is part of the O & M cost of FY 15 and the same has been treated accordingly. RAB has been reduced by WDV, net of realization, on such disposal. MIAL has also passed the necessary entries in its books of accounts in Q1 of FY 15.

Similarly part of T1 i.e. T1A will be disposed/ retired once domestic operation shifts to new T2. WDV of Rs. 44 crores has been considered as part of the O&M cost for FY 16 and accordingly RAB has been reduced by Rs. 44 crores. This amount to be charged to O&M expenses may vary by the amount realised through sale of scrap."

		Rs in Crs.
Gross Block	***FY15***	***FY16***
Buildings / Improvements	*294*	*45*
Runways, Taxiways and Aprons	*1*	*-*
Plant and Machinery	*120*	*13*
Computers	*18*	*2*
Office and Other Equipment	*1*	*0*
Furniture and Fixtures	*4*	*2*
Computer Software	*0*	*-*
Total – Gross Block (A)	*438*	*63*
Gross Block	***FY15***	***FY16***
Buildings / Improvements	*241*	*37*
Runways, Taxiways and Aprons	*1*	*-*
Plant and Machinery	*52*	*6*
Computers	*2*	*0*
Office and Other Equipment	*0*	*0*
Furniture and Fixtures	*2*	*1*
Computer Software	*0*	*-*
Total – Net Block (B)	*298*	*44*
Proceeds from Sale of Scrap (C)	*12*	*-*
Loss on demolition of existing T2 and T1A (B-C)	*287*	*44*

12.65. The Authority has noted the above explanation and is of the view that loss on scrap of assets is an expense, but not an operating expense. The Authority proposes to consider the same as an expense (not operating expense) but only for the aeronautical portion by applying the asset allocation ratio. The Authority further proposes to true-up this expense if realised values vary from these scrap of assets in the respective years, at the time of aeronautical tariff determination for the next Control Period. For the purpose of this Consultation Paper this expense has been appended to the operating expenses. MIAL has removed the dismantled and disposed asset of old T2 from the asset net block in FY2014-15. With regard to T1-A, MIAL may make proper assessment of the final capacity required for the airport and also assess the alternate utilization of T1-A.

Administrative Costs

12.66. The Authority has noted that Administrative Costs especially costs pertaining to travelling professional and conveyance, legal charges, communication etc. have been assumed to increase in line with the CPI inflation rate. The Authority has noted that MIAL has considered a real increase of 10% year-on-year in FY 2014-15, FY 2015-16 and 5% real increase year-on-year from FY 2016-17 to FY 2018-19 on account of various additional expenses which are likely to be incurred occur but difficult to predict in advance. The Authority has also noted the specific expenses expected on account of consultancy cost for business development and airport operations readiness (AOR). Furthermore, it has noted that the general administrative costs are assumed to increase sharply in FY2014-15 from FY2013-14. The Authority had sought basis for these assumptions.

12.67. The Authority is in receipt of the clarification dated 12.09.2014 in this regard, an extract of which is reproduced below,

> *"MIAL has assumed a real increase of 10% in FY 2014- 15 and FY 2015-16 and 5% each in the balance three years of the Control Period on account of expected but unpredictable additional expenses (eg. Legal and Professional fee etc). A one-time expenditure for study to be done by NATS for simultaneous operations of MIAL and Navi Mumbai International Airport (NMIA) amounting to Rs. 4.3 Crs. and Capacity utilization study of CSIA amounting to Rs. 4.6 Crs. is estimated.*
>
> *MIAL has reduced the specific expenditure towards Consultancy cost for Business Development and Airport Operations Readiness (AOR) earlier estimated at Rs.2 Crores and Rs. 12 Crores respectively for FY 15. "*

12.68. The Authority has noted the revised submission made by MIAL in this regard. In view of the above information, the Authority proposes to not allow the real increase in administrative expenses for the time being, but any changes in the operating expenses will be trued up at the time of determination of aeronautical tariffs in the next Control Period, based on audited values.

12.69. The Authority has noted in Para number 3.42 that the non-value added costs namely legal, consultancy, travel are on the higher side. The Authority is of the view that MIAL should take steps to control or optimize this expenditure. Further, litigations related to airlines and passengers may be minimum. Hence, going forward legal expenses are to be allocated based on the nature of the litigation between and aeronautical and non-aeronautical on cost basis.

Exchange Gain and Loss

12.70. The Authority has noted from MIAL's submission that there is an operating expense pertaining to 'Exchange Gain and Loss' booked during the year FY 2014-15. The Authority has assessed MIAL's financial statement and noted that MIAL has indicated therein that foreign currency transactions are recorded in Indian Rupees, which is the reporting currency, by applying to the foreign exchange amount the exchange rate between the foreign currency and the reporting currency at the respective date of transaction. Further, as part of translation, foreign currency monetary items as at balance sheet date have been reported using the year-end exchange rate. The Authority is of the view that any gain or loss on translation or settlement is recognized in the statement of profit and loss. The Authority also notes that since MIAL has not taken any ECBs, there is lack of clarity on why the exchange losses are occurring. Since the nature of these expenses is not clear, the Authority proposes that in the absence of any supporting document or worksheet, to not consider the expenses on account of 'Exchange Gain and Loss' booked during the year FY 2014-15, as indicated by MIAL.

Overall Operating Expenses

12.71. In view of above, the Authority had sought operating and maintenance expenditure for the first six months of 2015-16 as well and has received the same. The Authority has also noted actual expenses incurred by MIAL in FY2014-15. Considering these and keeping in view ICWAI's recommendation that the operating and maintenance expenses incurred by MIAL in FY2010-11 may be considered efficient, the Authority has projected the operating and maintenance costs for the second Control Period as below,

Table 44: Total Operating & Maintenance Expenses considered by the Authority for the second Control Period

Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Employee Cost	146.10	168.01	184.81	203.30	223.62
Operation Support Cost for AAI	0.00	0.00	0.00	0.00	0.00
Utilities Expenses (Net off)	103.82	177.21	189.73	201.45	213.97
Repair & Maintenance Expense	109.78	133.28	149.18	160.60	177.12
Rents, Rates & Taxes	28.26	41.45	42.25	43.09	43.97
Advertisement Expense	5.75	8.04	6.35	6.68	7.02
Administrative Expenses	58.52	70.50	64.64	67.94	71.40
AOA Fees	8.10	8.15	8.21	8.27	8.32
Insurance Expense	5.14	8.30	8.50	8.72	9.16
Consumption and Store Expense	4.44	5.01	5.66	6.39	7.22
Operating Expenditure	89.22	112.98	126.24	143.34	162.92
Miscellaneous Expenses	0.00	0.00	0.00	0.00	0.00
Provision for doubtful debt	1.60	0.00	0.00	0.00	0.00
Bad debts written off	0.00	0.00	0.00	0.00	0.00
Interest on Loan for AAI retirement Compensation	0.00	0.00	0.00	0.00	0.00
VRS Payment Amount to AAI	20.43	19.97	19.29	18.55	17.89
Provision for PSF(SC) disallowance[#]	9.75	26.54*	11.79	12.97	14.27
Working Capital loan Interest	6.30	6.30	6.30	6.30	6.30
Financing Charges	9.34	9.34	9.34	9.34	9.34
Loss on scrapping of assets	245.48	0.00	0.00	0.00	0.00
Collection charges over DF	3.05	0.00	0.00	0.00	0.00
CSR cost	0.00	0.49	0.00	0.00	0.00
Exchange gain and loss	0.00	0.00	0.00	0.00	0.00
Total Operating & Maintenance Expenses	**855.06**	**795.59**	**832.29**	**896.92**	**972.53**

**Provision for PSF (SC) disallowance for FY16 includes INR 15.82 crore disallowed by MoCA from PSF (SC) account but not claimed by MIAL in its accounts during the years FY10-FY15. This figure is the difference between the total amount disallowed by MoCA for FY 2007-08 to FY 2013-14 and the amount that has been accounted in the financials of MIAL from FY 2009-10 to FY 2013-14.*

^MIAL to provide evidence in respect of Airport Operator Fee as per para 12.47, for VRS as per para 12.62, for financing charges as per para 12.51, and for cargo screener salary as per para 3.36.11.

[#] Refer paras 3.36.7, 3.36.8, 3.36.9, 3.36.10, and 3.36.11 for Authority assessment of PSF (SC)

12.72. Applying the cost allocation proposed by the Authority in Table 43, the Authority has computed the following operating and maintenance expenses for the second Control Period.

Table 45: Aeronautical O&M Expenses considered by the Authority for second Control Period

Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Employee Cost	113.52	130.55	143.60	157.96	173.76
Operation Support Cost for AAI	0.00	0.00	0.00	0.00	0.00

Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Utilities Expenses (Net off)	100.32	171.23	183.34	194.67	206.76
Repair & Maintenance Expense	105.50	128.09	143.37	154.34	170.22
Rents, Rates & Taxes	25.60	37.55	38.27	39.04	39.84
Advertisement Expense	5.68	7.95	6.28	6.60	6.94
Administrative Expenses	49.45	59.58	54.62	57.41	60.34
AOA Fees	6.29	6.33	6.38	6.42	6.47
Insurance Expense	4.56	7.36	7.53	7.73	8.13
Consumption and Store Expense	3.96	4.48	5.05	5.71	6.44
Operating Expenditure	62.51	79.16	88.45	100.43	114.15
Miscellaneous Expenses	0.00	0.00	0.00	0.00	0.00
Provision for doubtful debt	0.00	0.00	0.00	0.00	0.00
Bad debts written off	0.00	0.00	0.00	0.00	0.00
Interest on Loan for AAI retirement Compensation	0.00	0.00	0.00	0.00	0.00
VRS Payment Amount to AAI	15.87	15.52	14.99	14.41	13.90
Provision for PSF(SC) disallowance	9.75	26.54	11.79	12.97	14.27
Working Capital loan Interest	5.32	5.32	5.32	5.32	5.32
Financing Charges	7.89	7.89	7.89	7.89	7.89
Loss on scrapping of assets	207.48	0.00	0.00	0.00	0.00
Collection charges over DF	0.00	0.00	0.00	0.00	0.00
CSR cost	0.00	0.49	0.00	0.00	0.00
Exchange gain and loss	0.00	0.00	0.00	0.00	0.00
Total Operating & Maintenance Expenses	**723.72**	**688.05**	**716.89**	**770.90**	**834.42**

**Provision for PSF (SC) disallowance for FY16 includes INR 15.82 crore disallowed by MoCA from PSF (SC) account but not claimed by MIAL in its accounts during the years FY10-FY15. This figure is the difference between the total amount disallowed by MoCA for FY 2007-08 to FY 2013-14 and the amount that has been accounted in the financials of MIAL from FY 2009-10 to FY 2013-14.*

^MIAL to provide evidence in respect of Airport Operator Fee as per para 12.47, for VRS as per para 12.62, for financing charges as per para 12.51, and for cargo screener salary as per para 3.36.11.

 # Refer paras 3.36.7, 3.36.8, 3.36.9, 3.36.10, and 3.36.11 for Authority assessment of PSF (SC)

Proposal No. 12. Regarding Operating Expenses to be considered for determination of ARR for second Control Period, based on the material before it and its analysis, the Authority proposes

12.a. To consider the cost allocation for the second Control Period as per Table 43.

12.b. To consider the allocation of VRS payment to AAI at the rate of employee allocation while projecting aeronautical expenses for the second Control Period.

12.c. To project the operating expenses for the second Control Period based on actual audited expenses in FY 2014-15.

12.d. To consider O&M Expenses for the purpose of determining ARR for the second Control Period as per Table 45 above.

12.e. To note the inclusion of PSF (SC) O&M expenditure of Rs. 59.42 crores for expenses in second control period and Rs. 15.82 crores towards earlier period disallowed amount, totalling Rs. 75.32 crores in the second control period. MIAL to provide evidence of reimbursement of amount into PSF (SC) escrow account reconciled with MoCA. MIAL to inform MoCA about the consideration of the earlier period and second control period PSF (SC) expenditure for tariff determination.

TruingUp No. 6. Regarding truing up for Operating Expenses the Authority proposes

6.a. To true-up operating expenses for the second Control Period at the time of determination of tariff for the 3rd Control Period subject to results of the independent study on determining efficient operating expenses in respect of the CSI Airport, Mumbai.

13. Taxation

a MIAL Submission on Taxation

13.1. MIAL submission, as part of its tariff application dated 26.12.2013, regarding taxation is as given below,

"During the bidding process all prospective bidders were provided draft of the Project Agreements which included SSA. Each bidder quoted Annual Fee (Revenue Share) based on earning prospects envisaged by respective bidders.

AERA has adopted provisions of SSA – Reference Schedule 1 and clause 3.1.1 concerning, inter alia, non-allowability of Annual Fee as cost past through. However while accepting one part of the issue, the Authority has disregarded the fact that the tax has to be computed without considering Annual Fee as an expense. Hence impact of non-allowability of Annual Fee to be borne by MIAL is net of applicable tax.

Negative impact on Target Revenue of MIAL as per the Authority's Order no. 32 dated 15th January, 2013 compared to that as per SSA Schedule 1 are shown by way of an illustration in the table below; assuming aeronautical revenue of Rs. 100, operating expenses of Rs. 31.30 and corporate tax rate of 30%.

	As per The Authority's Order (Rs.)	*As per SSA Rs.*
Aeronautical Revenue	*100.00*	*100.00*
Revenue Share @ 38.7%	*(38.70)*	*0.00*
Operating exp.	*(31.30)*	*(31.30)*
Profit Before Tax	*30.00*	*68.70*
Tax @ 30%	*9.00*	*20.61*
Loss to MIAL vis-a-vis SSA provisions	*11.61*	

As is evident from above, disallowance of part of corporate tax reimbursement is against the explicit provisions of SSA which were considered by each bidder while quoting Revenue Share.

We understand that in another similar case the Authority had allowed Income Tax based on SSA provisions i.e. without considering Annual Fee as an expense, while determining tariff for first control period.

Accordingly, the allowable income tax for Aeronautical Services for each year of the control period has been calculated as follows:

Tax on Aeronautical Income

Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Income Tax	*42*	*80*	*103*	*204*	*310*

"

13.2. MIAL's submission, as part of its tariff application dated 05.08.2014, regarding taxation is as below,

"Allowable income tax for Aeronautical Services without considering Annual Fee as an expense for each year of the control period due to changes made in projections of revenues as well as expenses is as follows:

Table: Tax on Aeronautical Income - Revised

Rs./Crs.

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Income Tax	*-*	*91*	*121*	*222*	*342*

"

13.3. MIAL's submission, as part of its tariff application dated 08.09.2015, regarding taxation is as below,

"Allowable income tax for Aeronautical Services without considering Annual Fee as an expense for each year of the control period due to changes made in projections of revenues as well as expenses is as follows:

Table: Tax on Aeronautical Income - Revised *Rs./Crs.*

	FY15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Income Tax	-	-	*150*	*247*	*357*

b Authority's Examination of MIAL Submissions on Taxation

13.4. The Authority has examined the submissions made by MIAL with regard to taxation to be considered towards determination of ARR for the second Control Period. The Authority's examination of the same is presented below.

13.5. With respect to corporate tax, vide its Decision No. 15 of the MIAL Tariff Order 32/2012-13, the Authority had decided for the reasons explained therein to consider the corporate tax pertaining to earnings from aeronautical services as calculated using revenue share (Annual Fee) on such earnings as element of cost for the years 2009-10, 2010-11 and 2011-12. The Authority also decided to make similar calculations for the balance period during the 1st Control Period i.e., 2012-13 and 2013-14.

13.6. The Authority further decided to review the above calculations based on the audited figures, to be submitted by MIAL. The Authority is in receipt of the auditor's certificates on corporate tax paid by MIAL in the 1st Control Period and has considered the same towards computation of true-up for the 1st Control Period as shown in para 3.52 above.

13.7. The Authority has noted that MIAL has calculated corporate tax on account of aeronautical revenues without considering the annual fee or revenue share to AAI as a cost for the purpose of determination of ARR in the second Control Period, in its submission. However, the Authority notes the wordings of the State Support Agreement (SSA) as "*corporate taxes on earnings pertaining to <u>aeronautical services</u>*".

13.8. The Authority has noted in its MIAL Tariff Order 32/2012-13 that the total tax paid by MIAL as a whole consists of the operations of the company, including the total cost associated with these operations. The Authority further noted that the tax paid by the company should be taken on the actual basis and that the company should not have the benefit of the difference between taxes calculated theoretically and those for regulatory account and that actually paid by the Company.

13.9. The Authority has also noted the submission of MIAL that "disallowance of part of corporate tax reimbursement is against the explicit provisions of SSA which were considered by each bidder while quoting Revenue Share". The Authority infers that according to MIAL, it has quoted (high) revenue share because it expected to be able to retain the difference between notional tax computation on regulatory accounts and actual taxes paid by it to the exchequer. The Authority remains unpersuaded by this line of reasoning as this amounts to extra enrichment.

13.10. The Authority has further taken note of the illustration presented by MIAL on estimated negative impact on Target Revenue of MIAL as per the Authority's MIAL Tariff Order 32/2012-13 compared to that as per SSA Schedule 1 for determination of taxes for ARR computation. The Authority has already discussed this aspect in detail at the time of MIAL Tariff Order 32/2012-13 and does not agree with MIAL's submission on notional loses it may incur due to Authority's approach. The Authority maintains its view, that tax being a statutory payment, its calculation on theoretical basis in any methodology of working that must lead to a situation of enrichment of the airport operator is not appropriate.

13.11. The Authority, thus, does not find any reason to review its earlier decision as stated in Para 13.5 above and proposes to continue to consider computation of tax on the basis of earnings pertaining to aeronautical services including Annual Fee / Revenue Share as an element of cost.

13.12. The Authority also notes MIAL submission that in another similar case the Authority had allowed Income Tax based on SSA provisions i.e. without considering Annual Fee as an expense, while determining tariff for 1st control period. The Authority understands that here MIAL is referring to the tariff determination carried out for IGI Airport, Delhi for the 1st Control Period. It may be useful to note for information that the Authority has already reconsidered its approach for determination of taxes for tariff determination for IGI Airport, Delhi, as discussed in the Order No. 40/2015-16 dated 08.12.2015, similar to that adopted for MIAL.

13.13. In view of the above, the Authority has computed the corporate tax estimated to be paid by MIAL on earnings pertaining to aeronautical services, which works out to be nil in each year during the second Control.

Table 46: Corporate Tax considered by the Authority for the second Control Period

Corporate Tax, Rs. Crores.	FY 15	FY 16	FY 17	FY 18	FY 19
Corporate Tax	-	-	-	-	-

13.14. The Authority also proposes to true-up the forecast figures of tax on earnings pertaining to aeronautical services of the second Control Period as per the actuals at the time of determination of aeronautical tariff for the 3rd control period.

Proposal No. 13. Regarding taxation on aeronautical service based on the material before it and its analysis, the Authority proposes

13.a. To forecast the corporate tax payable on aeronautical services as indicated in the Table 46 and consider the same for ARR determination.

TruingUp No. 7. Regarding truing up of taxation the Authority proposes

7.a. To true up the forecast figures of tax on earnings pertaining to aeronautical services of the second Control Period as per the actuals at the time of determination of aeronautical tariff for the 3rd control period.

14. Non-Aeronautical Revenue

a MIAL Submission on Revenue from Non-aeronautical Revenues

14.1. MIAL's submission as per its tariff application dated 26.12.2013 pertaining to Non-Aeronautical revenue that includes revenue from revenue share assets, cargo and ground handling, is as below,

"The revenues from Revenue Share Assets (RSA) include the revenue from lease rentals, license fees, and space rents, various concessions and cargo handling services. Revenues from Fuel Concessions, Ground Handling Concessions and Cargo Handling have been considered as Revenues from Revenue Share Assets. Based on underlying revenue drivers / agreements / contracts, as applicable, the Revenue from Revenue Share Assets has been projected for the second control period.

The approach adopted in each case is described below:

Land Lease Rentals, License Fee and Space Rent

Land Lease Rent and Hangar rent are expected to increase at the rate of 7.5% p.a. Terminal Building rent and other building Rent is also expected to increase at a rate of 7.5% p.a. or as per existing agreements/ LoIs/LoAs.

Table: Revenue from Land, Hangar and Terminal buildings

Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Land Lease rentals (excluding Real Estate)	*32*	*34*	*36*	*38*	*49*
Hangar Rent	*9*	*10*	*11*	*12*	*12*
Terminal Building Rent	*38*	*44*	*47*	*51*	*59*
Other Building Rent	*18*	*20*	*21*	*23*	*25*
Total	*98*	*108*	*115*	*123*	*145*

Lounge Concessions

Revenue from Lounge concession is assumed higher of: i) MAG and ii) estimated revenue based on per embarking passenger earned by MIAL in FY 14, which is increased YoY in line with CPI.

Table: Lounge concessions *Rs./Crs.*

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*27*	*54*	*59*	*65*	*70*

Retail Concessions

Revenue from retail concessions for international passengers is assumed higher of: i) MAG and ii) estimated revenue based on per embarking and transit passenger earned by MIAL in FY 14, which is increased YoY in line with CPI.

Revenue from retail concessions for domestic passengers is assumed based on revenue per embarking pax earned by MIAL in FY 14, which is increased YoY in line with CPI.

Table: Retail concessions *Rs./Crs.*

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*93*	*119*	*132*	*149*	*166*

Food and Beverage (F&B) Concessions

Revenue from F&B concessions for international passengers is assumed higher of: i) MAG and ii) estimated revenue based on per embarking (including transit) passenger earned by MIAL in FY 14, which is increased YoY in line with CPI.

Revenue from F&B concessions for domestic passengers is assumed based on revenue per embarking passenger earned by MIAL in FY 14, which is increased YoY in line with CPI.

Table: Food and Beverage concessions Rs./Crs.

	FY 15	FY 16	FY 17	FY 18	FY 19
Total	40	52	61	71	82

Flight Catering Concessions

This is dependent on the embarking passengers. No increase is expected in the revenue per embarking passenger due to intense competition and fall in catering rates. Therefore, the total revenue from catering concessions is expected to increase in line with the growth in embarking passengers.

Table: Flight Catering concessions Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*26*	*28*	*30*	*31*	*33*

Forex Concessions

The revenue from foreign exchange concessions are expected to increase as per growth in international passenger traffic.

Table: Forex concessions Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*45*	*47*	*49*	*51*	*54*

Automated Teller Machines (ATMs) Concessions

The revenue from ATM concessions is assumed to increase as per contracts.

Table: ATMs concessions Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*12*	*12*	*13*	*14*	*14*

Car Rental and Hotel Reservation Concessions

Only the disembarking passengers avail the car rental and hotel reservation facilities. The revenue per disembarking passenger is expected to grow in line with CPI.

Table: Car Rental and Hotel Reservation Rs./Crs.

	FY 15	FY 16	FY 17	FY 18	FY 19
Total	19	21	24	28	32

Duty Free Concession

Duty free revenue is projected as per the Letter of Award issued for the new T2 based on higher of i) MAG and ii) estimated revenue share. Sales at Duty Free Shop for the purpose of Revenue share is based on revenue per International passenger, including transit, increased YoY in line with CPI. Duty free concession, through a process of competitive bidding, was awarded to a consortium of Aer Rianta International Cpt. and Buddy Retail Pvt. Ltd. Due to delay in regulatory approvals like FIPB, Customs and BCAS, performance of concessionaire is not satisfactory. Revenue projections based on LoA may undergo changes. This is requested that The Authority permits interim true up for this revenue head.

Table: Duty free concession Rs./Crs.

	FY 15	FY 16	FY 17	FY 18	FY 19
Total	180	242	279	322	371

Advertising Concession

Revenue from Advertising concession is assumed higher of: i) MAG and ii) estimated revenue based on per passenger earned by MIAL in FY 14, which is increased YoY in line with CPI.

Table: Advertising concessions Rs./Crs.

	FY 15	FY 16	FY 17	FY 18	FY 19
Total	69	79	91	104	119

Car Parking Concessions

Revenue from Car park concession in case of new terminal is based on revenue per passenger and estimated passenger traffic. In case of domestic car park, fixed amount contract has been considered to arrive at revenue. Contract for Car park for International MLCP is yet to be awarded. Depending upon bids received there may be significant change in projected revenues. Hence, we request the Authority, to allow us to submit actual details as and when contract is awarded for its consideration.

Table: Car parking concessions Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*14*	*17*	*20*	*23*	*26*

Ground Handling Concessions

Revenue from Ground Handling concessions are assumed higher of: i) MAG and ii) estimated revenue based on per ATM revenue earned by MIAL in FY 14, which is increased YoY in line with CPI.

Table: Ground handling concessions Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*77*	*81*	*85*	*90*	*95*

Cargo

Cargo revenue has been considered as under based upon MAG/ Revenue Share as per respective concessions:

i) Domestic cargo concession given to CONCOR which came into effect from May 2013;

ii) International Cargo concession (excluding x–ray charges) given to CONCOR which is expected to commence from January 2014;

iii) Perishable cargo concession given to Cargo Service Centre; and *iv) Courier handling concession given to Express Industry Council of India.*

MIAL has also applied for increase in the rates for international cargo operations by 10% w.e.f 01.06.2013 to the Authority for which approval is awaited. Increased rates have been considered while calculating applicable revenue share.

Table: Revenue from Cargo Rs./Crs.

	FY 15	FY 16	FY 17	FY 18	FY 19
MIAL	20	21	21	22	23
Concessions:					
Domestic cargo	1	1	1	1	1
International cargo	192	199	207	215	223
Perishable Cargo	3	3	3	3	4
Courier	12	13	13	14	14
Total	228	236	245	255	264

The Summary of the Projected Revenues from Revenue Share Assets for the control period is as follows:

Table: Total Revenue from Revenue Share Assets (RSA) Rs./Crs.

	FY 15	FY 16	FY 17	FY 18	FY 19
F&B	40	52	61	71	82
Flight Catering concession	26	28	30	31	33
Retail concession	93	119	132	149	166
Foreign exchange, Banks & ATM	57	60	62	65	68
Car Rentals & Hotel Reservation	19	21	24	28	32
Duty Free Shops	180	242	279	322	371
Advertising Income	69	79	91	104	119
Car Parking	14	17	20	23	26
Ground Handling	77	81	85	90	95
Others	24	28	35	40	48
Fuel concession	110	120	131	144	157

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total Concessions	*708*	*848*	*951*	*1066*	*1196*
Land Lease rentals (excluding Real Estate)	*32*	*34*	*36*	*38*	*49*
Hangar Rent	*9*	*10*	*11*	*12*	*12*
Terminal Building Rent	*38*	*44*	*47*	*51*	*59*
Lounges	*27*	*54*	*59*	*65*	*70*
Cargo Building Rent	*18*	*20*	*21*	*23*	*25*
Total Rent & Services	*125*	*162*	*175*	*188*	*215*
Revenue from cargo and cargo concessions	*228*	*236*	*245*	*255*	*264*
Total	*1061*	*1247*	*1370*	*1509*	*1675*

"

14.2. MIAL's submission in its tariff application dated 26.12.2013 pertaining to revenue from fuel concessions is as below,

Fuel Concessions

Revenue from fuel concessions is projected based on average consumption per ATM in FY 14 multiplied by projected ATMs and throughput charge rate/KL. Throughput charge rate/KL is assumed to increase by 7% YoY. However, this increase may vary between 5% and 7% and needs to be trued up by the Authority.

The Authority in its order dated 15.01.2013 had considered Fuel concession as an Aeronautical service which has been disputed by MIAL before AERAAT. Hence, depending upon order of AERAAT, nature of this revenue will be finally decided.

Table: Fuel concessions Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*110*	*120*	*131*	*144*	*157*

14.3. MIAL's submission with regards to non-aeronautical revenues including revenue from revenue share assets, cargo and ground handling as per its tariff application dated 05.08.2014 for the second Control Period is as below,

"The projections for second control period have been revised on account of:-

Updation of actual numbers based on audited financials instead of projected numbers of FY 14.

Based on auditors certificate, projected Minimum Annual Guarantee amount (MAG) has been updated for second control period.

Change/ modification into the contracts/ agreements entered.

The approach adopted in each case is described below:

Land Lease Rentals, License Fee and Space Rent

Area given on lease and rate per square meter per month has been updated for FY 14 based on actuals and accordingly revenues for FY 15 - FY 19 have been updated.

Table: Revenue from Land, Hangar and Terminal buildings - Revised

Rs./Crs.

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Land Lease rentals (excluding Real Estate)	*32*	*34*	*35*	*37*	*39*	*51*
Hangar Rent	*9*	*9*	*10*	*11*	*11*	*12*
Terminal Building Rent	*30*	*36*	*42*	*47*	*50*	*58*
Other Building Rent	*21*	*23*	*25*	*26*	*28*	*31*
Total	*92*	*102*	*112*	*121*	*129*	*151*

Lounge Concessions

Total revenue and revenue per embarking pax has been updated for FY 14 based on actuals and accordingly revenue for FY 15-FY 19 has been updated.

MAG projected for this control period is lower than previous submission as area of Loyalty Lounge awarded to EIH Ltd. is expected to be partially surrendered (792 sqm out of 1256 sqm) and Arrival lounge concession has been terminated due to non-feasibility. Therefore MAG has been proportionately reduced.

Retail Concessions

Total revenue and revenue per embarking pax has been updated for FY 14 based on actuals and accordingly revenue for FY 15-FY 19 has been updated. MAG from retail concession has also been updated.

Table: Retail concessions – Revised *Rs./Crs*.

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*63*	*79*	*111*	*130*	*148*	*167*

Food and Beverage (F&B) Concessions

Total revenue and revenue per embarking pax has been updated for FY 14 based on actuals and accordingly revenue for FY 15-FY 19 has been updated. Further, MAG from F&B concession has been updated based on auditors certificate.

Table: Food and Beverage concessions – Revised *Rs./Crs.*

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*35*	*41*	*51*	*63*	*73*	*84*

Flight Catering Concessions

Total revenue and revenue per embarking pax has been updated for FY 14 based on actuals after reducing the revenue which pertains to prior period and accordingly revenue for FY 15-FY 19 has been revised.

Table: Flight Catering Concessions – Revised *Rs./Crs.*

	FY 14 (Actual)	FY 15	FY 16	FY 17	FY 18	FY 19
Total	28	27	29	31	33	35

Forex Concessions

Revenue from Forex concessions for international passengers is assumed at total of: i) MAG and ii) estimated revenue based on per passenger revenue share earned by MIAL in Quarter 1 of FY 15. The per passenger revenue share has dropped in the current year due to reduction in number of outlets in new T2 resulting in lower forex sales. Further, MAG from Forex concession has been updated based on auditors certificate along with an increase considered for vacant space.

The revenue from foreign exchange concessions are expected to increase as per growth in international passenger traffic and MAG.

Table: Forex concessions – Revised *Rs./Crs.*

	FY 14 (Actual)	FY 15	FY 16	FY 17	FY 18	FY 19
Total	42	36	39	41	44	47

Automated Teller Machines Concessions

The revenue from Automated Teller Machines concessions is realigned as per contracts.

Table: Automated Teller Machines concessions Rs./Crs.

	FY 14 (Actual)	FY 15	FY 16	FY 17	FY 18	FY 19
Total	7	12	13	14	15	16

Car Rental and Hotel Reservation Concessions

Total revenue and revenue per disembarking pax has been updated for FY 14 based on actuals and accordingly revenue for FY 15-FY 19 has been updated.

Table: Car Rental and Hotel Reservation – Revised Rs./Crs.

	FY 14 (Actual)	FY 15	FY 16	FY 17	FY 18	FY 19
Total	16	18	20	23	27	31

Duty Free Concession

As mentioned in the earlier submission dated 26th December, 2013, Duty free concession was awarded to a consortium of Aer Rianta International Cpt. and Buddy Retail Pvt. Ltd. through a process of competitive bidding.

Subsequent to award of concession, Aer Rianta Consortium failed to perform and accordingly, award of concession to Aer Rianta Consortium was withdrawn. On withdrawal of award of concession to Aer Rianta Consortium, as per terms of RFP, MIAL has awarded the concession to DFS being the next highest eligible bidder. Since financial offer of DFS was different from AER Rianta, projections have accordingly been updated as below:

Table: Duty free concession – Revised Rs./Crs.

	FY 14 (Actual)	FY 15	FY 16	FY 17	FY 18	FY 19
Total	91	148	201	240	271	302

Advertising Concession

Total revenue and revenue per pax has been updated for FY 14 based on actuals and accordingly revenue for FY 15-FY 19 has been updated.

Table: Advertising concessions – Revised Rs./Crs.

	FY 14 (Actual)	FY 15	FY 16	FY 17	FY 18	FY 19
Total	59	68	78	90	104	119

In the recent Union Budget service tax exemption for advertising spaces has been withdrawn. Since Service Tax on advertising spaces may not be available to all the advertisers as cenvat it will be an additional cost to the advertisers, which may affect adverting contracts and the same will have an impact on the *projections. At present impact of this change cannot be estimated, hence not considered.*

Car Parking Concessions

Revenue from Car park concession for FY 15 is revised, as the existing contract in FY 14 is extended for FY 15.

Per pax revenue calculated based on agreement of FY 15 for domestic and international terminal is expected to increase by inflation for FY 16-FY 19. Contract for Car park for Domestic and International MLCP is yet to be awarded. Depending upon bids received there may be significant change in projected revenues. Hence, we request the Authority, to allow us to submit actual details as and when contract is awarded for its consideration.

Table: Car parking concessions – Revised Rs./Crs.

	FY 14 (Actual)	FY 15	FY 16	FY 17	FY 18	FY 19
Total	14	14	18	22	25	29

Ground Handling Concessions

Total revenue and revenue per ATM has been updated for FY 14 based on actuals and accordingly revenue for FY 15-FY 19 has been updated. Revenue from Ground Handling concessions has been calculated as per the following

Higher of: i) MAG and ii) estimated revenue based on per ATM revenue earned by MIAL in FY 14 for Celebi and Cambata

Actual Revenue from others (including Air India) in FY14 expected to increase YOY as per CPI and ATM growth.

Table: Ground handling concessions – Revised Rs./Crs.

	FY 14 (Actual)	FY 15	FY 16	FY 17	FY 18	FY 19
Total	90	90	95	102	110	118

Cargo

MIAL had earlier applied for approval of increase in the rates for international cargo operations by 10% w.e.f 01.06.2013 to the Authority for which approval has not yet been accorded. Now, the international cargo operations have been transferred to CONCOR and they have approached the Authority for 10% increase in the rates for International Cargo Handling. In view of the pending approval of increased rates applied by CONCOR, the earlier 10% increase has not been considered in the amended proposal. Revenue share from Cargo operations may suitably be adjusted as and when the increase in rates are approved by the Authority.

Table: Revenue from Cargo – Revised Rs./Crs.

	FY 14 (Actual)	FY 15	FY 16	FY 17	FY 18	FY 19
MIAL (including revenue from Demurrage)	232					
Concessions:						
Domestic cargo	7	7	8	8	9	9
International cargo	17	175	183	198	199	207
Perishable Cargo	3	3	3	3	4	4
Courier	13	14	14	15	15	16
Total	271	199	208	224	226	236

The Summary of the Projected Revenues from Revenue Share Assets for the control period is as follows:

Table : Total Revenue from Revenue Share Assets (RSA) – Revised

	FY 14 (Actual)	FY 15	FY 16	FY 17	FY 18	FY 19
F&B	35	41	51	63	73	84
Flight Catering concession	28	27	29	31	33	35
Retail concession	63	79	111	130	148	167
Foreign exchange, Banks & ATM	49	48	52	55	59	63
Communication	20	0	0	0	0	0

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Car Rentals & Hotel Reservation	*16*	*18*	*20*	*23*	*27*	*31*
Duty Free Shops	*91*	*148*	*201*	*240*	*271*	*302*
Advertising Income	*59*	*68*	*78*	*90*	*104*	*119*
Car Parking	*14*	*14*	*18*	*22*	*25*	*29*
Ground Handling	*90*	*90*	*95*	*102*	*110*	*118*
Others	*20*	*24*	*30*	*36*	*41*	*49*
Fuel concession	*102*	*111*	*120*	*131*	*143*	*155*
Total Concessions	*587*	*669*	*807*	*924*	*1033*	*1154*
Land Lease rentals (excluding Real Estate)	*32*	*34*	*35*	*37*	*39*	*51*
Hangar Rent	*9*	*9*	*10*	*11*	*11*	*12*
Terminal Building Rent	*30*	*36*	*42*	*47*	*50*	*58*
Lounges	*22*	*27*	*40*	*48*	*52*	*57*
Cargo Building Rent	*21*	*23*	*25*	*26*	*28*	*31*
Total Rent & Services	*114*	*129*	*152*	*169*	*182*	*208*
Revenue from cargo and cargo concessions	*271*	*199*	*208*	*224*	*226*	*236*
Total	*972*	*997*	*1167*	*1317*	*1441*	*1598*

"

14.4. MIAL's submission regarding fuel concession in its tariff application dated 05.08.2014 is as below,

"Fuel Concessions

Average consumption per ATM and number of ATMs has been updated for FY 14 based on actuals and accordingly projection has been revised for FY 15-FY 19. Further, Throughput charge rate/KL is assumed to increase by 5.9% YoY i.e. 5 year WPI forecasted by "RBI Q2 (2013-14)-Results of the Survey of Professional Forecasters on Macroeconomic Indicators" based on estimates. However, this increase may vary between 5% and 7% and needs to be trued up by the Authority.

Source: http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/01SPA281013.pdf

Since, approval of tariffs for the second control period in respect of CSIA may take some time, MIAL vide its letter no. MIAL/VPR/14-15/21 dated 5th August, 2014 requested the Authority to approve the increased Fuel Throughput charges which need an annual increase as per agreement with the service provider.

Table: Fuel concessions - Revised

Rs./Crs.

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*102**	*111*	*120*	*131*	*143*	*155*

** Considered as Aeronautical revenue as per Authority Order No. 32/2012-13 dated 15th January, 2013"*

14.5. MIAL's submission as per its tariff application dated 08.09.2015 pertaining to Non-Aeronautical revenue that includes revenue from revenue share assets, cargo and ground handling, is as below,

"The projections for second control period have been revised on account of:-

(a) Updation of actual numbers based on audited financials instead of projected numbers of FY 15.

(b) Based on auditors certificate, projected Minimum Annual Guarantee amount (MAG) has been updated for second control period.

(c) Change/ modification into the contracts/ agreements entered.

Land Lease Rentals, License Fee and Space Rent

Area given on lease at rate per square meter per month has been updated for FY 15 based on actuals and accordingly revenues for FY 16 - FY 19 have been updated. Land lease rentals from private parties have been increased based on the recent hike done in per square mtr rates by MIAL. Space rentals projections for FY 16 have been updated based on Terminal 2 domestic section *transition plan. T2 Domestic section, earlier envisaged to be opened in July 2015, will now be opened in two phases i.e. shifting of Air India in October 2015 and Jet Airways in January 2016.*

Table: Revenue from Land, Hangar and Terminal buildings – Revised Rs./Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Land Lease rentals (excluding Real Estate)	*42*	*54*	*57*	*61*	*73*
Hangar Rent	*9*	*10*	*11*	*11*	*12*
Terminal Building Rent	*39*	*41*	*48*	*51*	*57*
Other Building Rent	*22*	*23*	*25*	*27*	*29*
Total	*112*	*128*	*141*	*151*	*171*

Lounge Concessions

Total revenue and revenue per embarking pax has been updated for FY 15 based on actuals and revenue for FY 16-FY 19 has been updated accordingly. MAG projected for FY 16 is lower than previous submission as Terminal 2 domestic section envisaged to open in July 2015, will now be opened in two phases i.e. shifting of Air India in October 2015 and Jet Airways in January 2016.

Table: Lounge concessions – revised Rs./Cr

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*27*	*33*	*47*	*52*	*56*

Retail Concessions

Total revenue and revenue per embarking pax has been updated for FY 15 based on actuals and revenue for FY 16-FY 19 has been updated accordingly. MAG from retail concession has also been updated based on the actual contracts.

Table: Retail concessions – Revised Rs/Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*72*	*99*	*126*	*139*	*154*

Food and Beverage (F&B) Concessions

Total revenue and revenue per embarking pax along with MAG has been updated for FY 15 based on actuals and accordingly revenue for FY 16-FY 19 has been updated. Though overall yearly revenue has increased due to increase in Revenue per pax; MAG now projected for this control period is lower than previous submission as:-

(a) Terminal 2 domestic section, envisaged to open in July 2015, will now be opened in two phases i.e. shifting of Air India in October 2015 and Jet Airways in January 2016 and;

(b) One of the contract has been renegotiated as the concessionaire was incurring losses and wanted to shut down operations. Hence, the contract has been amended to continue at a higher % of revenue share and in turn MMG is waived. Further, MIAL has entered into new contracts in the current year and incremental MMG of the same have been considered.

Table: Food and Beverage concessions - Revised Rs./Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*46*	*51*	*71*	*81*	*92*

Flight Catering Concessions

Total revenue and revenue per embarking pax has been updated for FY 15 based on actuals after excluding the revenue pertaining to prior period and revenue for FY 16-FY 19 has been revised accordingly.

Table: Flight Catering Concessions - Revised Rs./Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*

Total	*32*	*33*	*35*	*37*	*39*

ATMs and Forex Concessions

Revenue from Forex concession and ATMs has been updated for FY 15 based on actuals.

MAG projected for this control period for ATMs is lower than previous submission as:-

(a) Terminal 2 domestic section, envisaged to open in July 2015, will now be opened in two phases i.e. shifting of Air India in October 2015 and Jet Airways in January 2016 and;

(b) Further, MMG has been updated based on new contracts entered in the current year.

Table: ATMs and Forex concessions – Revised Rs./Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*50*	*53*	*56*	*60*	*64*

Car Rental and Hotel Reservation Concessions

Total revenue and revenue per disembarking pax has been updated for FY 15 based on actuals and revenue for FY 16-FY 19 has been updated accordingly.

Table: Car Rental and Hotel Reservation – Revised Rs./Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*15*	*17*	*19*	*21*	*24*

Duty Free Concession

Duty free concession revenue has been updated for FY 15 based on actuals

Table: Duty free concession – Revised Rs./Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*171*	*201*	*240*	*271*	*302*

Advertising Concession

Total revenue and revenue per pax has been updated for FY 15 based on actuals and revenue for FY 16-FY 19 has been updated accordingly. Though overall revenue has increased due to increase in revenue per pax; MAG projected for FY 16 is lower than previous submission as Terminal 2 domestic section, envisaged to open in July 2015, will now be opened in two phases i.e. shifting of Air India in October 2015 and Jet Airways in January 2016.

Table: Advertising concessions – Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total	76	85	95	107	120

Car Parking Concessions

Revenue from Car park concession has been updated for FY 15 based on actuals. Revenue for FY 16 is updated, as the existing contract in FY 15 is extended for FY 16.

Contract for Car park for MLCP at T1 and T2 is yet to be awarded. Depending upon bids received there may be significant change in projected revenues. Hence, we request the Authority, to allow us to submit actual details as and when contract is awarded for its consideration.

Table: Car parking concessions – Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total	14	17	21	24	27

Ground Handling Concessions

Total revenue and revenue per ATM has been updated for FY 15 based on actuals and revenue for FY 16-FY 19 has been updated accordingly.

Table: Ground handling concessions – Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total	90	93	98	103	110

*Fuel Concessions**

Average fuel consumption per ATM and number of ATMs has been updated for FY 15 based on actuals and projection has been revised accordingly for FY 16-FY 19. Further, Throughput charge rate/KL is assumed to increase by 5% YoY. However, actual increase may vary between 5% to 7% based on WPI and needs to be trued up by the Authority.

Table: Fuel concessions – Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total	104	123	128	139	151

* *Considered as Aeronautical revenue as per Authority Order No. 32/2012-13 dated 15th January, 2013*

Other revenues

Revenue from Others has been updated for FY 15 based on actuals. Revenue from Spa concession has been reclassified from Other Revenue to Retail Revenues head, accordingly revenues from FY 16-FY 19 has been updated.

Table: Other revenues – Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total	29	22	27	31	38

Cargo

International cargo operations have been concessioned out to CONCOR Air Ltd. Authority has approved 15% increase in the rates for Concor's International Cargo Handling which come into effect from 15th June 2015. The revised rates have been considered for the balance control period.

Table: Revenue from Cargo – Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Concessions:					
Domestic cargo	*8*	*9*	*9*	*10*	*10*
International cargo	*209*	*232*	*241*	*249*	*258*
Perishable Cargo	*4*	*4*	*5*	*5*	*5*
Courier	*16*	*17*	*17*	*18*	*18*
Total	*238*	*262*	*272*	*281*	*292*

"

14.6. As per its tariff application dated 08.09.2015, MIAL has submitted the following summary of Non-Aeronautical revenue:

"

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
F&B	*46*	*51*	*71*	*81*	*92*
Flight Catering concession	*32*	*33*	*35*	*37*	*39*
Retail concession	*72*	*99*	*126*	*139*	*154*
Foreign exchange, Banks & ATM	*50*	*53*	*56*	*60*	*64*
Communication	*23*	*0*	*0*	*0*	*0*
Car Rentals & Hotel Reservation	*15*	*17*	*19*	*21*	*24*
Duty Free Shops	*171*	*201*	*240*	*271*	*302*
Advertising Income	*76*	*85*	*95*	*107*	*120*
Car Parking	*14*	*17*	*21*	*24*	*27*
Ground Handling	*90*	*93*	*98*	*103*	*110*
Others	*29*	*22*	*27*	*31*	*38*
Fuel concession	*104*	*123*	*128*	*139*	*151*
Total Concessions	*721*	*793*	*916*	*1014*	*1120*
Land Lease rentals (excluding Real Estate)	*42*	*54*	*57*	*61*	*73*
Hangar Rent	*9*	*10*	*11*	*11*	*12*
Terminal Building Rent	*39*	*41*	*48*	*51*	*57*

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Lounges	*27*	*33*	*47*	*52*	*56*
Cargo Building Rent	*22*	*23*	*25*	*27*	*29*
Total Rent & Services	*139*	*161*	*189*	*202*	*227*
Revenue from cargo and cargo concessions	*238*	*262*	*272*	*281*	*292*
Total	*1098*	*1216*	*1377*	*1497*	*1638*

"

b Authority's Examination of MIAL Submissions on Revenues from Revenue Share Assets (Non-Aeronautical Revenue)

14.7. The Authority had decided as per its Decision No. 16 of the MIAL Tariff Order 32/2012-13 to retain the non-aeronautical revenue forecasts as proposed by MIAL for the 1st Control Period. The Authority had further decided to exclude the gross revenue from Non-Transfer Assets towards cross-subsidisation of aeronautical cost while determining the target revenue.

14.8. Further, vide its Decision No. 17 of the same Order, the Authority had decided to consider revenues from services of cargo and ground handling as non-aeronautical revenue in the hands of the Airport Operator, irrespective of whether these services are provided by the Airport Operator itself or concessioned out to third parties; for the purpose of estimating the X-factor. The Authority had also decided in its Decision No. 16 of MIAL Tariff Order 32/2012-13 that demurrage charges are integral part of charges for provision of aeronautical service namely, cargo facility service, hence it is an aeronautical charge and is to be determined by the Authority under Section 13 (1) (a) of the AERA Act.

14.9. Vide its Decision No. 18 of the same Order, the Authority had decided that Fuel Throughput Charges are charges in respect of provision of aeronautical service namely, supply of fuel to the aircraft, hence it is an aeronautical charge and is to be determined by the Authority under Section 13 (1) (a) of the AERA Act. It also decided to consider revenue from Fuel Throughput Charges as aeronautical revenue.

14.10. The Authority had further decided as per its Decision No. 16 of the MIAL Tariff Order 32/2012-13 to true-up the actual non-aeronautical revenue at the time of tariff determination for the next Control Period. It was further decided that once the terminal building is completed in the beginning of the next Control Period, the Authority may reckon the level of actual non-aeronautical revenue in the current Control Period as a floor for the next Control Period.

14.11. The Authority has examined MIAL's submission for non-aeronautical revenues for the 1st and second Control Periods. The true up of non-aeronautical revenues for the 1st Control Period has been provided on the basis of actual audited financials provided by MIAL; discussed in the para 3.59 above. The Authority's examination of the non-aeronautical revenues for the second Control Period has been presented below.

Land Lease Rent and Hangar Rent

14.12. The Authority has noted that for the second Control Period, MIAL has proposed Land Lease Rent and Hangar Rent to increase at the rate of 7.5% per year. However, the Authority has noted from the Tariff Model that while average rent per month per sq.mt for private airlines land leases and hangar are increased at 7.5% per year, that for Air India land leases is expected to remain unchanged from FY2013-14 to FY2017-18. In FY2018-19, this rent is considered almost double of that in FY2013-14 to FY2017-18. The Authority has sought clarification for such assumptions from MIAL.

14.13. The Authority is in receipt of the following clarification from MIAL in this regard,

> *"Average rent from Private land leases and hangar are projected to increase at 7.5% per year during the second control period, which is in line with the agreement.*
>
> *Rental for Air India leases is projected to remain unchanged till FY 2017-18 and have been increased by 89% in FY 2018-19 in line with the agreement with Air India to this effect. Calculation of estimated increase in Air India rates based on agreement is enclosed as Annexure 13."*
>
> *Annexure 13 submits the following:*

Year	*WPI**	*WPI%*	*NACIL*
2008-09	*126.0*		*100.0*
2009-10	*130.8*	*3.8%*	*103.8*
2010-11	*143.3*	*9.6%*	*113.7*
2011-12	*156.1*	*8.9%*	*123.9*
2012-13	*167.6*	*7.4%*	*133.0*
2013-14	*177.6*	*6.0%*	*141.0*
2014-15		*5.9%*	*149.3*
2015-16		*5.9%*	*158.1*
2016-17		*5.9%*	*167.4*
2017-18		*5.9%*	*177.3*
Rate 2018-19			*188.6*
Effective Escalation			*88.6%*

Note: WPI till 2013-14 are as per actuals And later projected rate as per 5 year forecast given by RBI considered for calculation

** Source: http://www.eaindustry.nic.in/wpi_data_display/display_data.asp*

14.14. Further, the Authority noted the revenues under land lease rentals have been projected to increase by a total of Rs. 127. 58 crores in the second Control Period. The Authority has further noted that for private parties the annual rental has been projected to increase by 60% in 2015-16 and 7.5% thereafter for the years 2016-17, 2017-18, and 2018-19. The Authority has noted MIAL's submission that about an increase in per square meter lease rates for private parties. The Authority has sought documentary evidence and a detailed calculation for the same.

14.15. Similarly, the Authority has noted that for rentals from land lease for government parties are projected to increase by 79.9% in the year 2018-19. The Authority has sought an explanation along with supporting documentary evidence for the same.

14.16. The Authority is in receipt of the rental agreements with government and private parties specifying the spaces rented out by them and rates charged for the same. Accordingly, the Authority proposes to accept MIAL's projections.

Terminal Building Rent

14.17. The Authority has noted MIAL submission for the second Control Period that Terminal Building rent has been increased at 7.5% per year or as per agreements. However, the

Authority has noted from the Tariff Model that it has been assumed that area rented out (except to Air India) has been projected to increase every year and the average rate per month per sq. meter has been projected to increase by 32.9% in FY2014-15 and 20% in FY2015-16 and by 7.5% per year thereafter for the balance Control Period. The average rate per month per sq. meter for NACIL (Air India) is considered to be constant at FY2013-14 level for FY2014-15 to FY2017-18 but almost double in FY2018-19. The Authority has sought basis for these assumptions.

14.18. The Authority is in receipt of the following explanation from MIAL in this regard,

"Terminal building Rent

Revenues of Terminal building Rent have been projected separately for Terminal 1 and Terminal 2 with further bifurcation between Air India and Other airlines. For projecting the revenues for FY 15, actual Q1 FY 15 rate per square mtr has been considered as mentioned in the table below."

Revenue from Others

Rate per square mtr for Q1 FY 15 is considered for FY 15. For FY 16 onwards, rate is expected to increase by @ 7.5% per year for both T1 and T2. Area of Others for T1 for FY 15 is projected based on actuals in Q1 FY15. However, area in T1 is expected to reduce from FY 16 onwards due to shifting of operations to T2. Area in T2 is projected as per the table below.

Revenue from NACIL

Rate for NACIL is expected to remain constant till FY 18 and post that escalation of 89% is considered as per the MoU signed between MIAL and NACIL (working enclosed in Annexure 13). Area of NACIL for T2 is projected based on actuals in Q1 FY15, with further increase expected over the years as per the table below. Area of NACIL for T1 for FY 15 is projected based on actuals in Q1 FY15. However, no area is expected from FY 16 onwards due to shifting of Air India operations to T2.

	FY 15	FY 16	FY 17	FY 18	FY 19
Area Rented Out to NACIL (SqMtr)	*2,491*	*-*	*-*	*-*	*-*
Area Rented Out to Others (SqMtr)	*7,106*	*5,088*	*5,088*	*5,088*	*5,088*
NACIL - Average Rate per Month Per Sqmtr (INR)	*407*	*407*	*407*	*407*	*768*
Others - Average Rate per Month Per Sqmtr (INR)	*644*	*693*	*745*	*801*	*861*
Growth as per Inflation	*7.90%*	*7.90%*	*7.90%*	*7.90%*	*7.90%*
Gross Revenue - TX (A) (Rs. in Mn)	***67***	***50***	***45***	***49***	***53***
Area Rented Out to NACIL (SqMtr)	*3,521*	*5,525*	*5,525*	*5,525*	*5,525*
Area Rented Out to Others (SqMtr)	*8,861*	*11,213*	*11,376*	*11,539*	*11,702*
NACIL - Average Rate per Month Per Sqmtr (INR)	*664*	*664*	*664*	*664*	*1,252*
Others - Average Rate per Month Per Sqmtr (INR)	*2,059*	*2,213*	*2,379*	*2,557*	*2,749*
Gross Revenue - NACIL & Air India	*28*	*40*	*44*	*44*	*83*
Gross Revenue – Others	*219*	*282*	*325*	*354*	*386*
Gross Revenue - T2 (B) (Rs. in Mn)	***247***	***322***	***369***	***398***	***469***
Gross Revenue -(A+B) (Rs. in Mn)	***314***	***372***	***414***	***447***	***522***

"

14.19. The Authority has noted MIAL's submission dated 08.09.2015 and sought clarification regarding relevant supporting document detailing how the area has been divided among NACIL and other carriers, contractual rates applicable to these carriers, especially for NACIL that has been shown to be paying lower rent for the new integrated terminal T2 than that for T1 (during FY2015-2018).

14.20. The Authority is in receipts of the respective contracts, details of the rented space and rates charged by MIAL. The Authority has proposed to accept MIAL's projections.

14.21. The Authority has further noted from the Tariff Model that the CUTE counter charges from domestic ATM are projected to escalate at the CPI inflation rate of 7.9% for the second Control Period. Correspondingly, the CUTE counter charges are projected to increase at the annual growth of total international and domestic ATM. Further, the Authority has noted that CUTE counter charges are considered as part of the Terminal Building Rent. The Authority has sought basis for these assumptions.

14.22. The Authority is in receipt of the following explanation from MIAL in this regard,

"CUTE counter charges

Cute counter charges for domestic is calculated per counter per month i.e. Rs. 6500 per month which is considered to increase YoY by inflation. CUTE counter charges from T2 are projected to increase at the combined annual growth of total international and domestic ATM because from July, 2015 onwards on shifting of the domestic operations to the new T2, same counters shall be used both by International as well as domestic operations."

14.23. The Authority has noted that Cute Counter Charges and Cargo Screening Charges have been treated as non-aeronautical by the Authority during the first control period. The treatment given to these items of revenue has been extensively discussed in the Consultation paper and tariff Order No. 40/2015-16 of DIAL for the second control period. It was finally decided that these should be treated as non-aeronautical. The Authority had revisited the treatment if X-ray screening of cargo services in case of DIAL. After considering OMDA provisions, deliberations and views that are indicated in para no. 6.110 of order no. 40/2015-16 and the conclusions are listed therein. Accordingly, it is proposed to treat the same as non-aeronautical.

14.24. The Authority vide its Decision No. 19 of the MIAL Tariff Order 32/2012-13 had decided to treat the charges levied by MIAL in respect of CUTE Counter charges as a charge for provision of aeronautical service, namely ground handling service and accordingly to be determined by the Authority, under Section 13(1)(a) of the AERA Act. The Authority further decided to consider the payment (revenue share) made by SITA to MIAL in respect of CUTE Counters as non-aeronautical revenue. In case of DIAL the Authority has revisited its stance on the treatment of CUTE counter and IT-CUTE services. After deliberating over OMDA provisions and views indicated in para 20.20 to para 20.23 of the Order No. 40/2015-16 dated 08.12.2015 regarding tariff determination with respect to IGI Airport, Delhi. Accordingly, the Authority has treated revenue from CUTE services as aeronautical revenue in case of DIAL.

14.25. The Authority has noted MIAL submission that "Other Building Rent" refers to Cargo Building Rent as in the table on summary of non-aeronautical revenues in MIAL submission in Para 14.1 above. The Authority has noted MIAL submission that this rent revenue is projected to increase at 7.5% per year or as per existing agreements.

Lounge Concessions

14.26. The Authority has noted MIAL submission on lounge concessions and noted from the Tariff Model that MIAL has considered higher of MAG and estimated revenue based on growth in embarking passenger traffic and revenue per embarking passenger rate of FY2013-14 increased at the rate of CPI inflation of 7.9% per year.

14.27. Further, the Authority has noted from the Tariff Model that MIAL has considered that 80% of its domestic passengers will embark/disembark from the new terminal T2 from FY2015-16 to FY2018-19. The Authority has sought clarification for this assumption.

14.28. The Authority is in receipt of the following clarification from MIAL in this regard,

"(iv) Traffic

It is assumed that on commissioning of Domestic wing of T2, all airlines, except Go Air and Spicejet, will shift to new T2. Since, passengers -handled by Go Air and Spicejet during FY 14 are about 21.06% (see table below) of the total domestic passengers, same percentage has been used for split of traffic between T1 and T2.

Sr. No.	***NAME OF THE AIRLINES***	***TOTAL (Pax in Mn)***	***% share***
1	*AIR INDIA*	*4.2*	*19.18%*
2	*ALLIANCE AIR*	*0.02*	*0.10%*
3	*GO AIRLINES (I) PVT LTD*	*2.41*	*11.00%*
4	*INDIGO AIR*	*5.74*	*26.24%*
5	*JET AIRWAYS INDIA LIMITED*	*5.75*	*26.29%*
6	*Jet Lite*	*1.56*	*7.12%*
7	*SPICE JET LTD*	*2.20*	*10.07%*
	Total passenger	***21.88***	

"

14.29. The Authority has noted the downward revision in revenue from lounge concessions submitted by MIAL. The Authority has sought information regarding Minimum Annual Guarantee (MAG) applicable for retail concessions. The Authority is in receipt of the Auditor's Certificates for MAG for FY 2014-15 to FY 2018-19.

14.30. The Authority is of the view that use of lounge is linked to passenger growth and should increase with increase in passenger numbers. Thus, MIAL should take proper measures for optimisation of lounge revenue. However, for the time being, the Authority has proposed to accept MIAL's projections.

Retail Concessions

14.31. Further, the Authority has noted from the Tariff Model that, in order to calculate revenues from retail concessions, MIAL has considered maximum of MAG and total estimated revenue from international embarking and transit passenger. To this MIAL has added the revenue from embarking domestic passenger from T1 and T2.

14.32. The Authority has further noted that the revenue per international embarking passenger in FY2014-15 is considered to increase by 30% and by CPI inflation of 7.9% per year on FY2013-14 level. Thereafter the revenue per international embarking passenger is expected to increase at 7.9% per year in the Period. For revenue per domestic embarking passenger from T1, it is assumed to increase at 7.9% per year from FY2013-14 level. The Authority has sought clarifications regarding the assumption of revenue per embarking domestic passenger from T2.

14.33. The Authority is in receipt of the following clarification from MIAL in this regard,

> *"(vi) The revenue per embarking domestic passenger for Retail concessions, at new T2 is considered at the same revenue per embarking international passenger, which is higher than the revenue at T1 in FY 2014-15, on the assumption that retail domestic passengers in case of full service airlines shall be at par with spending by international passengers. It is assumed that the domestic passengers shall be tempted to spend more at new T2 which would emerge into more mature retail outlets than at existing domestic terminals."*

14.34. The Authority has noted MIAL submission regarding downward revision of the projection of revenues from retail concession. The Authority has sought information regarding Minimum Annual Guarantee (MAG) applicable for retail concessions.

14.35. The Authority is in receipt of the Auditor's Certificates for MAG for FY 2014-15 to FY 2018-19. The Authority proposes to consider the same towards determination of aeronautical tariffs for the CSIA airports. The Authority has noted that the large areas have been earmarked for retail concessionaires. The Authority is of the view that MIAL should optimise revenue from these areas. The Authority has proposed to consider MIAL's projections for the time being.

Food & Beverage Concessions

14.36. The Authority has noted MIAL submission regarding Food & Beverage Concessions. The Authority has noted from the Tariff Model that MIAL has considered that 80% of its domestic passengers will embark/disembark from the new terminal T2 from FY2015-16 to FY2018-19. Further, it has noted that the MIAL has considered maximum of MAG and the total estimated revenue from international embarking and transit passenger and domestic embarking passenger from T2. To this, the F&B revenues from domestic embarking passengers from T1 are added. Further it has noted that the revenue per international (and transit) and per domestic embarking passenger has been considered to increase from FY2013-14 level at 7.9% per year during the period. The Authority has sought clarification regarding assumption pertaining to handling of domestic traffic between T1 and T2. MIAL's submission in this regard is presented in para 14.33 above.

14.37. The Authority has noted the revision in projected revenues on account of F&B concessions and has sought information regarding Minimum Annual Guarantee (MAG) applicable for retail concessions. The Authority is in receipt of the Auditor's Certificates for MAG for FY 2014-15 to FY 2018-19. The Authority is also in receipt of the Auditor's Certificates for revenue from catering concessions for FY 2014-15.

14.38. Accordingly, the Authority proposes to consider the same towards determination of aeronautical tariffs for the CSIA airports.

Car rental and Taxi Service Concessions

14.39. The Authority has also noted that MIAL submission regarding Car rental and Taxi Service concessions are based on revenue per disembarking passengers for both domestic terminal and T2, at FY2013-14 levels, escalated by inflation rate of 7.9% per year during the second Control Period and on domestic and international passengers projected for future years. The Authority has noted the revised submission made by MIAL in this regard and proposes to accept MIAL's projections.

Duty Free Concessions

14.40. The Authority has further noted that MIAL has projected revenues from duty free concessions as higher of the MAG and estimated revenue share. However, the Authority has also noted that the revenue share varies between 33.7% and 34.1% per year during the second Control Period. The Authority had sought an explanation for arriving at these revenue shares. The Authority is in receipt of the explanation from MIAL:

"Effective revenue share % for calculating revenue share from Duty free operations is given as under:

Estimated MAG	***2014-15***	***2015-16***	***2016-17***	***2017-18***	***2018-19***
DFS India Pvt. Ltd.	*120*	*170*	*205*	*233*	*261*
Nuance Group Fashions & Luxury Duty Free Private	*26*	*29*	*32*	*35*	*38*
Total MAG	***145***	***199***	***237***	***268***	*299*
ASC and License Fees	*2*	*2*	*3*	*3*	*3*
MAG plus ASC and License Fees	***148***	***201***	***240***	***271***	*302*

% of MAG with total MAG	*2014-15*	*2015-16*	*2016-17*	*2017-18*	*2018-19*	*Revenue Share*
DFS India Pvt. Ltd.	*82%*	*85%*	*87%*	*87%*	*87%*	*35.25%*
Nuance Group Fashions & Luxury Duty Free Private Limited	*18%*	*15%*	*13%*	*13%*	*13%*	*26.50%*

To arrive at weighted average revenue share %, above MAG% have been multiplied with respective revenue share as below:

Weighted Average Revenue Share	*2014-15*	*2015-16*	*2016-17*	*2017-18*	*2018-19*
DFS India Pvt. Ltd.	*29.0%*	*30.1%*	*30.5%*	*30.7%*	*30.8%*
Nuance Group Fashions & Luxury Duty Free Private Limited	*4.7%*	*3.9%*	*3.6%*	*3.4%*	*3.4%*
	33.7%	*34.0%*	*34.1%*	*34.1%*	*34.1%*

"

14.41. MIAL has also submitted an auditor certificate certifying that, *"on review of agreement with DFS India Private Limited, we certify that revenue share from duty free for the financial years 2014-15 to 2018-19 @ 35.25% for other than electronics and @ 8% for electronics."*

14.42. The Auditor Certificate further certifies the minimum annual guarantee (MAG) for concession of duty free shops during the financial years 2014-15 to 2018-19 as below:

"Minimum annual guarantee for concession of duty free shops *Rs in Million*

Particulars	*FY 2014-15*	*FY 2015-16*	*FY 2016-17*	*FY 2017-18*	*FY 2018-19*
Minimum annual guarantee	*1,482*	*2,016*	*2,404*	*2,713*	*3,024*

Note - 1: Minimum Annual Guarantee as per concession agreement with DFS India Pvt. Ltd. and Nunace Group Fashions & Luxury Duty Free Pvt. Ltd. are in USD. The same is converted into INR by yearly average exchange rate.

Note - 2: Concession agreement with Nunace Group Fashions & Luxury Duty Free Private Limited - Electronics Gizmos and Accessories is up to August, 2018. Proportionate Minimum Annual Guarantee is considered as the Company has expecting that the agreement will be renewed for the further periods."

14.43. The Authority has noted the revised projections submitted by MIAL in respect of duty free concessions and considering the above response, the Authority proposes to consider the same towards the estimation of revenue from duty free concessions in the second Control Period.

Other Rent and Services and Staff Canteen Concessions

14.44. The Authority noted that MIAL has not provided any basis for assumptions for the second Control Period for two categories - "Others" rents and services and Staff Canteen Concessions and sought clarification for the same.

14.45. The Authority is in receipt of the following clarifications from MIAL in this regard,

"(ix) Others Rents and services and staff canteen concessions :

Revenue from cargo and other building rent in FY 14 is expected to increase by 7.5% yoy in the second control period. Further, it is estimated that revenues from staff canteen will not generate any revenue."

14.46. The Authority has noted this clarification and proposes to consider MIAL projections towards estimation of these "others" rent and services revenues in the second Control Period.

ATM and Forex Concessions

14.47. The Authority had sought estimated values for minimum annual guarantee for ATM and forex concessions based on contractual agreements for the second Control Period and has received the following certified numbers from MIAL's auditor,

"

Particulars	*FY 2014-15*	*FY 2015-16*	*FY 2016-17*	*FY 2017-18*	*FY 2018-19*
ATM MAG in Mn.	*66*	*70*	*74*	*80*	*84*
Forex MAG in Mn.	*291*	*307*	*329*	*355*	*381*

"

14.48. The Authority has noted the above and MIAL's revised submission regarding this revenue but also noted that no rationale has been provided for the growth rate assumptions. The Authority had sought details of the MAG on which the projections are based. The Authority is in receipt of auditor's certificates regarding MAG for ATM concessions for the T2 in the second Control Period. The Authority accordingly proposes to consider MIAL projections towards estimation of aeronautical tariffs for the second Control Period.

Cark Parking Revenues

14.49. The Authority has noted MIAL submission regarding estimation of revenues from car parking. The Authority noted from the Tariff Model submitted by MIAL in its tariff application dated 05.08.2014, that calculation of projections for Car Parking revenue in FY2014-15 are not provided. For other years in the second Control Period, the revenue has been projected on the basis of revenue per passenger at T1 and T2 and number of passengers on T1 and T2 respectively where the revenue per passenger is derived from the calculations for FY2014-15. The Authority had sought clarification on the estimation of car parking revenues in FY2014-15.

14.50. The Authority is in receipt of the following clarification from MIAL,

> *"Car Parking: At T2 car park has been considered at Rs.0.45 crore per month for FY 2014-15 as per the agreement and thereafter the per passenger realization for FY 2014-15 has been adjusted for inflation at 7.9% p.a. for the purpose of projecting revenue from T2 car parking on the basis of international and domestic passenger volume. Car Parking for T1 has been considered at per passenger realization increased by inflation at 7.9% p.a. based on the passengers projected for Tl. "*

14.51. The Authority has noted MIAL clarification in this regard and proposes to consider this methodology towards estimation of revenue for car parking in the second Control Period.

Other Revenue

14.52. MIAL has also considered non-aeronautical revenues from other sources. The Authority had sought clarification regarding the basis of estimation of 'Other Revenue'. The Authority is in receipt of the following clarification from MIAL in this regard,

> *"Existing revenue from Other sources are estimated to increase by inflation and passenger growth in the second control period. Further, MIAL has added additional revenue share from new line of services i.e. SPA, Day Hotel & Transit Hotel and Meet and Greet. Detailed calculation of Other revenues for second control period is as below:*

	FY 14	***FY 15***	***FY 16***	***FY 17***	***FY 18***	***FY 19***
Existing Others	*20*					
Less: Non Recurring	*4*					
Existing Others as per AERA Model (a)	***16***	***18***	***21***	***24***	***28***	***32***
Pax in Crs.	*3.22*	*3.43*	*3.64*	*3.88*	*4.13*	*4.39*
Per Pax revenue - Others	*5*	*5*	*6*	***6***	*7*	*7*
Inflation		*7.90%*	*7.90%*	*7.90%*	*7.90%*	*7.90%*
New Revenue Streams						

	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19
SPA		***4***	*5*	*6*	*6*	*7*
Day Hotel & Transit Hotel			*1*	*2*	*2*	*2*
Meet & Assist		*1*	*3*	*4*	*5*	*8*
Sub Total (b)	-	***6***	***9***	***12***	***14***	***18***
Grand Total (a+b)	***16***	***24***	***30***	***36***	***41***	***49***

"

Ground Handling Revenues

14.53. The Authority has noted MIAL's submission that ground handling revenues are projected to increase at the rate of inflation after FY2013-14. Further, the Authority has noted that in the Tariff Model, ground handling revenues are computed as a sum of MAG, Air India Revenue and Other Revenue. The Authority has further noted that Air India Revenue is assumed to escalate in line with inflation rate of 5.1% per year in the second Control Period, based on FY2013-14 level and Other Revenue is assumed to escalate on the basis of ATM traffic per year, Other Revenue per ATM in FY2013-14 and inflation rate of 5.1% per year during the second Control Period.

14.54. The Authority has noted the revised submission by MIAL in respect of ground handling revenues and is in receipt of the auditor's certifications on MAG and revenue from ground handling in FY 2014-15. The Authority thus proposes to consider projections in this regard.

Cargo Revenues

14.55. With respect to projection for revenues from cargo, the Authority has noted that MIAL's domestic cargo concession to CONCOR came into effect in May 2013 and the international cargo concession was expected to come into effect in January 2014. The Authority has noted from the Tariff Model that MIAL's cargo revenues in the second Control Period comprise revenue shares from outsourced cargo operations, X-ray related charges and revenue from courier. Further, the Authority has also noted that while courier revenues, X-ray related charges, revenue from perishable cargo and international cargo concessions are being projected on the basis of expected growth in cargo every year during the second Control Period, the domestic cargo revenues are assumed to grow at 5%. Further, MIAL has submitted that it has considered an increase in rates for international cargo operations by 10% for which it submitted a letter to the Authority. The Authority had sought clarification regarding the status/date of commencement of concession for the international cargo concession given to CONCOR, perishable cargo concession given to Cargo Service Centre; and of the Courier handling concession given to Express Industry Council of India and the basis for 5% per year increase in domestic cargo in the second Control Period.

14.56. The Authority is in receipt of the following clarification in this regard,

"(a) Domestic cargo

Domestic cargo operation has been outsourced to CONCOR Air Limited w.e.f. 1st May 2013. Key points of the concession agreement are as under:

1	*Name of concessionaire*	*CONCOR Air Limited*
2	*Date of Handover*	*1st May 2013*
3	*Terms of concession*	*Concession fee would be higher of the following amounts:-* a) *The amount obtained by multiplying Revenue share percentage of 42% to the Monthly Gross Revenue arising from the concession* b) *MMG : (1) For FY 2012-13, MMG shall be Rs. 58,33,333 (2) Thereafter, from FY 2013-14, for each financial year till the end of the term, the MMG amount shall automatically stand escalated by 5%*
4	*Duration of concession*	*From Handover date till 30th September 2024*

Outsourcing of Domestic cargo handling has been intimated to the Authority vide our letter no. MIAL/CEO/157 dated 26th December, 2013 and MIAL/VPR/10 dated 10th March, 2014.

(b) International cargo operation

International cargo operation has been outsourced to CONCOR Air Limited w.e.f. 18th February 2014. Key points of the concession agreement are as under:

<table>
<tr><td>1</td><td>Name of concessionaire</td><td>CONCOR Air Limited</td></tr>
<tr><td>2</td><td>Date of Handover</td><td>18th Feb 2014</td></tr>
<tr><td>3</td><td>Terms of concession</td><td>Concession fee would be higher of the following amounts:-
c) The amount obtained by multiplying Revenue share percentage of 69% to the Monthly Gross Revenue arising from the concession

d) MMG :
<table>
<tr><td>For each month during FY</td><td>MMG (in Rs. Cr.)</td></tr>
<tr><td>2013-14</td><td>12.25</td></tr>
<tr><td>2014-15</td><td>13.50</td></tr>
<tr><td>2015-16</td><td>13.50</td></tr>
<tr><td>2016-17</td><td>16.50</td></tr>
</table></td></tr>
<tr><td>4</td><td>Duration of concession</td><td>Till the 3rd anniversary of the Handover Date</td></tr>
</table>

Outsourcing of International cargo handling has been intimated to the Authority vide our letter no. MLAL/VPR/10 dated 10th March, 2014

(c) Perishable cargo

Cargo Service Centre India Private Limited (CSC), started Cargo Handling Services at the Perishable Cargo Terminal at CSI Airport, Sahar Cargo Complex from FY 12. MIAL receives higher of MAG (Minimum Annual Guarantee) and Revenue Share from CSC. It may be noted that perishable cargo facility became operational from 16.05.2011

(d) Courier cargo

MIAL has given a concession to Express Industry Council of India (EICI) on BOT basis to construct and operate an integrated courier terminal facility for processing of export and import Express Courier and also provided infrastructure facilities to EICI for X-ray. MIAL receives the revenue share of Rs. 2.60 per kilogram and Rs. 3.25 per kilogram from EICI which depends upon the fact whether the services are provided by EICI/Airlines directly or through a Regulated Agent. "

14.57. The Authority has noted the clarifications pertaining to domestic and international cargo concessions and proposes to consider these towards estimation of revenue from cargo services.

14.58. The Authority had sought clarification from MIAL on whether it has entered any Joint Ventures (JVs) for the purpose of rendering non-aeronautical services at CSI Airport, Mumbai and MIAL has clarified that it has not entered any such JVs for the purpose of provision of such services.

Revenues from Fuel Concessions

14.59. MIAL has considered the revenue from fuel concessions as non-aeronautical for the purpose of tariff determination in the second Control Period. Authority has also noted MIAL's submission that it has disputed this issue before AERAAT. However, in absence of any decision from AERAAT or any other evidence, the Authority does not find any reason to re-consider its earlier position and proposes to continue to consider these revenues as aeronautical. Moreover, as per OMDA Clause 17 of Schedule 5, the common hydrant infrastructure for aircraft refuelling services by authorized providers is an aeronautical services. Fuel throughput fee, revenue from common infrastructure, and Into-plane services are interdependent and arise on account of aircraft fuelling services. Thus, such revenues are aeronautical in nature.

14.60. The Authority also proposes to consider revenue at the hand of the airport operator, received from the end delivery service i.e. Into-plane services, which is an aeronautical service as aeronautical revenue.

14.61. The Authority has noted that revenue from Fuel Concessions have been calculated by MIAL as product of projected total fuel throughput based on average consumption per ATM and number of ATMs and projected cost of fuel per kilolitre. The Authority has further noted that the Throughput charge rate/KL is escalated by WPI inflation rate of 5.9% from its FY2013-14 level, as per contracts.

14.62. Vide its Decision No. 18 of the MIAL Tariff Order 32/2012-13, the Authority had also decided to consider the revision in Fuel Throughput Charges in line with the agreements with the oil marketing companies and consider the escalation at CPI or 7%, whichever is less. The Authority has also noted MIAL's submission at the time of MIAL Tariff Order 32/2012-13 that the agreements with the Oil Marketing Companies is based on Wholesale Price Index and not CPI.

14.63. Thus, the Authority proposes to accept the methodology considered by MIAL for estimation of revenue from fuel concessions. The Authority proposes to consider the WPI inflation rate at 5.1% (refer Chapter 16 on Inflation). Accordingly, the Authority has worked out the revenues from fuel concession for the second Control Period to be as below,

Table 47: Revenues considered as Aeronautical by the Authority for the second Control Period

Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Fuel Concession Revenues (FTC)	103.80	123.34	128.07	138.83	150.50
Into Plane Services (ITP)	0.32	TBA*	TBA*	TBA*	TBA*
Revenue from Fuel Infrastructure from MAFFFL	TBA*	TBA*	TBA*	TBA*	TBA*

** To be accounted on receipt of data from MIAL*

14.64. Further, the Authority has noted that MIAL has earned Rs. 21.47 crore from Other Income including interest on bank deposits, interest on investments etc. in FY2014-15. The Authority proposes to consider the same and is of the view that, all components of "Other Income" should be accounted under aeronautical or non-aeronautical categories, in the future, as far as possible. Going forward, the Authority expects MIAL to classify all revenue heads, including other income as either aeronautical or non-aeronautical while submitting its proposal for the third Control Period.

Total Non-Aeronautical Revenues

14.65. Based on the above deliberations and MIAL submissions, the Authority proposes to accept MIAL's methodology for projection of non-aeronautical revenue under various sub-heads for the second Control Period.

14.66. Accordingly, the non-aeronautical revenues for the second Control Period considered by the Authority are presented below:

Table 48: Non-aeronautical revenues considered by the Authority for the second Control Period

Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
F&B	45.71	51.54	70.51	80.53	91.86
Flight Kitchen	32.06	32.92	35.37	38.00	40.82
Retail concession	71.87	99.50	127.92	142.44	158.71
Foreign exchange, Banks & ATM	49.51	53.08	56.54	60.85	65.11

Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Communication	22.71	0.00	0.00	0.00	0.00
Car Rentals & Taxi Service	15.37	17.35	19.58	22.11	24.96
Duty Free Shops	171.02	201.02	239.81	270.58	301.58
Advertising Income	75.91	85.74	96.84	109.39	123.56
Car Parking	14.40	16.80	21.42	24.18	27.30
Ground Handling	90.01	94.43	99.73	105.50	111.75
Others	28.71	22.31	27.31	31.42	37.80
Retail Licenses Revenue [A]	**617.28**	**674.68**	**795.05**	**884.99**	**983.46**
Land Rent & Lease	48.47	60.75	64.52	68.58	81.26
Hanger Rent	9.21	9.90	10.64	11.44	12.30
Terminal Building Rent (excl. CUTE Counter charges)	32.97	34.59	41.99	44.93	50.34
CUTE Counter Charges	5.77	5.97	6.18	6.41	6.63
Lounges	26.99	32.56	47.16	51.58	55.81
Cargo Building Rent	21.83	23.46	25.22	27.12	29.15
Rent & Services Revenue [B]	**145.23**	**167.23**	**195.72**	**210.05**	**235.48**
Domestic cargo	8.40	8.82	9.26	9.72	10.21
Terminal charges	0.07	0.00	0.00	0.00	0.00
De-stuffing	0.00	0.00	0.00	0.00	0.00
Palletization	0.15	0.00	0.00	0.00	0.00
X-ray	9.13	9.45	9.79	10.14	10.50
Carting, packing and others	0.01	0.00	0.00	0.00	0.00
Perishable Cargo	4.18	4.33	4.48	4.64	4.80
Other Rental Incomes (Demurrage)	6.10	0.00	0.00	0.00	0.00
Courier Revenue	16.05	16.62	17.22	17.83	18.46
Outsourced Cargo Revenues	193.48	222.91	230.84	239.06	247.57
Total Cargo Revenue [C]	**237.56**	**262.13**	**271.59**	**281.39**	**291.55**
Other Income [D]*	**29.74**	**0.00**	**0.00**	**0.00**	**0.00**
Less: Revenue from Non Transfer Assets) [E]	**10.00**	**10.75**	**11.56**	**12.42**	**13.35**
Non-aeronautical Revenues [E=A+B+C+D-E]	**1019.81**	**1093.29**	**1250.80**	**1364.02**	**1497.13**
30% of share of Non-Aeronautical Revenues [F=30% (E)]	**305.94**	**327.99**	**375.24**	**409.20**	**449.14**

** Other income for future years in the second control period shall be considered under true-up* under the next review

14.67. The Authority notes that only a portion of the new passenger terminal at MIAL is complete and became operational during the last quarter of FY2013-14 of the first Control Period.

The expansion of the terminal is yet not complete and the entire terminal is expected to become operational only in FY2015-16. Subsequently, only the terminal may be populated from aeronautical services and may saturate after some time. The Authority expects that MIAL would be in a position to surpass its projected revenues on account of the entire new terminal being operational for a substantial part of the second Control Period, with certain level of maturity of non-aeronautical services provision.

14.68. Thus, the Authority proposes to true-up revenues from non-aeronautical services based on actuals at the end of second Control Period and consider the above projections in Table 48 .

Proposal No. 14. Regarding Revenue from Non-Aeronautical services

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

i. **To consider the projected revenue from non-aeronautical services as per Table 48.**

ii. **To consider revenues from fuel concessions and ITP services as aeronautical revenues.**

iii. **To continue to consider to treat revenues from CUTE as non-aeronautical.**

TruingUp No. 8. Correction / Truing up for Non-Aeronautical services

8.a. True-up the actual non-aeronautical revenue at the time of tariff determination for the next control period subject to the projections considered above in respect of non-aeronautical revenue being treated as minimum / floor for the current control period.

8.b. Other income for future years in the second control period to be trued-up under the next review

15. Traffic Forecast

a MIAL Submission on Traffic Forecast

15.1. MIAL's submission regarding traffic forecast as part of its tariff application dated 26.12.2013 of second Control Period is as below,

"Passenger Traffic

MIAL has internally forecasted passenger traffic, ATMs and cargo volumes at CSIA for the control period.

Traffic forecast has been arrived at by following two methods:-

Quantitative analysis based on regression equation model (Econometric model) with single independent variable (GDP), GDP being explanatory or independent variable. Domestic GDP growth forecast of 6.5% (as per RBI) and International GDP growth forecast of 3% (as per World Bank report) has been considered during this control period. Under this methodology, projected growth in domestic passenger is 7.6%, in International passenger it is 2.5% and overall projected traffic growth based on passenger mix is 6.1%.

Based on past CAGR

Past 10 years CAGR of passenger traffic – Projected traffic growth is 10.4% for Domestic, 6.8% for International and overall growth is 9.1%.

Past 5 years CAGR of passenger traffic – Projected traffic growth is 6.9% for Domestic, 5% for International and overall growth is 6.3%.

Past 3 years CAGR of passenger traffic – Projected traffic growth is 2.3% for Domestic, 4.5% for International and overall growth is 3%.

As far as domestic passenger growth is concerned it may be kindly observed that forecast as per Econometric model and 5 years CAGR is converging and accordingly forecast based on past 5 years CAGR of passenger traffic is considered.

Based on 5 years CAGR, projected International passenger traffic growth is 5%. However, due to Air India having made a hub for International passenger traffic at New Delhi and also due to growing International traffic at other cities because of grant of traffic rights from new point of calls, directly competing with CSIA, there is a sudden drop in International traffic growth at CSIA as low as 2.3 % in FY 13 as compared to FY 12. While in FY 14 (up to Nov 13) there is substantial growth in International passenger traffic at other airports, at CSIA it was meagre 4.2%. Hence it has been rightly assumed that projected growth will be 4.2% and not 5%.

ATMs

ATM numbers are projected to grow in line with past 5 years CAGR of 2.3% with domestic ATMs growing by 2.4% and International ATMs growing by 2.1%.

Passenger and ATM forecast

	FY 15	FY 16	FY 17	FY 18	FY 19
Passengers (in Mn)					
- Domestic	22.89	24.47	26.16	27.97	29.90
- International	10.78	11.23	11.71	12.20	12.71
Total	33.67	35.71	37.87	40.16	42.61
ATMs (nos)					
- Domestic	186,371	190,844	195,424	200,114	204,917
- International	73,932	75,410	76,918	78,457	80,026
Total	260,303	266,254	272,343	278,571	284,943

Cargo Forecast

Domestic and International cargo traffic for CSIA is projected from FY14 (estimated) data based on the past 5 years CAGR (3.8% for international and 3.7% for domestic). Same growth is assumed to arrive at cargo forecast for MIAL's concessionaires for second control period.

The projected cargo tonnage is as below:

Cargo forecast *(in '000 MTs)*

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Domestic Cargo	*57.33*	*59.45*	*61.65*	*63.93*	*66.29*
International cargo	*352.00*	*365.37*	*379.26*	*393.67*	*408.63*
Total	*409.32*	*424.82*	*440.90*	*457.59*	*474.92*

"

15.2. MIAL's submission regarding traffic forecast as per its tariff application dated 05.08.2014 is as below,

"Passenger, ATM and Cargo Tonnage numbers for FY 14 are updated and accordingly revised projections are as under :-

Table: Passenger and ATM forecast - Revised

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Passengers (in Millions)						
- Domestic	*21.88*	*23.50*	*25.24*	*27.11*	*29.11*	*31.27*
- International	*10.34*	*10.76*	*11.21*	*11.66*	*12.14*	*12.64*
Total	*32.22*	*34.26*	*36.44*	*38.77*	*41.25*	*43.91*
ATMs						
- Domestic	*188,306*	*194,143*	*200,162*	*206,367*	*212,764*	*219,360*
- International	*72,360*	*73,807*	*75,283*	*76,789*	*78,325*	*79,891*
Total	*260,666*	*267,951*	*275,445*	*283,156*	*291,089*	*299,251*

Cargo Forecast

The projected cargo tonnage is as below:

Table: Cargo forecast - Revised (in '000 MTs)

	FY 14 (Actual)	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Domestic Cargo	*57.67*	*59.81*	*62.02*	*64.31*	*66.69*	*69.16*
International cargo	*344.76*	*359.58*	*375.04*	*391.17*	*407.99*	*425.53*
Total	*402.43*	*419.39*	*437.06*	*455.48*	*474.68*	*494.70*

15.3. MIAL's submission regarding traffic forecast as per its tariff application dated 08.09.2015 is as below,

"Passenger Traffic, Air Traffic Movements (ATMs) and Cargo Forecast

Passenger, ATM and Cargo Tonnage numbers for FY 15 are updated based on actuals. As earlier, 5 year CAGR is used for projecting the traffic from FY 16-FY 19. Updated 5 years CAGR of passenger traffic based on actual numbers of FY 15 is 7.73% for Domestic.

Based on updated 5 years CAGR, projected International passenger traffic growth is 6.78%. However, due to 4 international airlines discontinuing their operations recently from CSIA, and also due to growing International traffic at other cities because of 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 (up to July 15) there is substantial growth in International passenger traffic at other airports, while it was meagre 3.8% at CSIA, Mumbai. In view of the same projected growth is assumed to be at 3.8% and not 6.78% for International passengers.

ATM

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 - Revised

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Passengers (in Millions)					
- 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*
ATMs					
- Domestic	*195.370*	*202.169*	*209.204*	*216.485*	*224.018*

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
- International	*74,086*	*76,012*	*77,989*	*80,016*	*82,097*
Total	*269,456*	*278,181*	*287,193*	*296,501*	*306,115*

Cargo Forecast

Domestic and International cargo traffic for CSIA is projected from FY16-FY19 based on the updated past 5 years CAGR (3.56% for international and 3.58% for domestic). Same growth is assumed to arrive at cargo forecast for MIAL's concessionaires for second control period. The projected cargo tonnage is as below:

Table: Cargo forecast – Revised ('000 MT)

	FY15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Domestic Cargo	*69.19*	*71.66*	*74.23*	*76.89*	*79.64*
International cargo	*374.57*	*387.90*	*401.71*	*416.01*	*430.82*
Total	*443.75*	*459.56*	*475.94*	*492.90*	*510.46*

"

b Authority's Examination of MIAL Submissions on Traffic Forecast

15.4. The Authority has examined MIAL's submission regarding traffic projections for the second Control Period to be determined towards determination of the aeronautical tariffs. The Authority's examination is presented below.

15.5. The Authority had decided to consider the actual traffic figures for FY 2009-10, 2010-11 and 2011–12 and to consider the forecast for Passenger, ATM and Cargo traffic for the years 2012-13 and 2013-14 (with the year 2011-12 as the base year) as per Decision No. 21 of the Order 32/2012-13 dated 15.01.2013.

15.6. The Authority further decided not to have any symmetrical band around the forecast number for the purpose of truing up as per Truing up Decision No. 8.a.

15.7. The Authority had also decided to make 100% correction (truing up), of the traffic, the effect of which would be given in the second Control Period as per Truing up Decision No. 8.b.

15.8. The Authority has noted from submissions made by MIAL, that it has considered the traffic for FY2012-13 and FY2013-14 as below. The year-on-year traffic growth for the same work out to be as below,

Table 49: Traffic considered and year-on-year traffic growth, at CSI Airport, Mumbai in submitted by MIAL in its tariff application dated 05.08.2014

	Number		**Percentage Change**	
	FY13	**FY14**	**FY13**	**FY14**
Passengers (Mn)				
Domestic	20.28	21.88	-3.63%	7.89%
International	9.93	10.34	2.33%	4.14%
ATM (nos. in '000)				
Domestic	173.25	188.31	-3.38%	8.69%
International	71.26	72.36	-1.31%	1.54%
Cargo ('000 MT)				
Domestic	46.59	57.67	11.85%	23.79%
International	296.03	296.69	-10.11%	0.22%

15.9. The Authority had sought Auditor's Certificates regarding the realized traffic in FY2012-13 and FY2013-14.

15.10. The Authority is in receipt of the audited traffic numbers as below,

Table 50: Realized traffic and year-on-year traffic growth, at CSI Airport, Mumbai in FY2012-13 and FY2013-14 as per audited financials submitted by MIAL

Traffic Category	**Number**		**Percentage Change**	
	FY13	**FY14**	**FY13**	**FY14**
Passengers (Mn)				
Domestic	20.28	21.88	-3.63%	7.89%
International	9.93	10.34	2.33%	4.14%
ATM (nos. in '000)				
Domestic	173.29	188.44	-3.83%	8.75%
International	71.21	72.22	-0.14%	1.42%
Cargo ('000 MT)				
Domestic	46.59	57.67	11.85%	23.79%
International	296.03	296.69	-10.11%	0.22%

15.11. The Authority has noted that the ATM numbers considered by MIAL in its tariff application dated 05.08.2014 vary from those as per the Auditor's Certificates provided by MIAL. The Authority proposes to consider the traffic numbers as per Auditor Certificates for the years FY2012-13 and FY2013-14.

15.12. The Authority has noted from actuals of 1st Control Period, the following traffic volumes in respect of passengers, ATM, and Cargo, and their CAGR as indicated below. The Authority has also noted that the actual figures as per MIAL are more than those of AAI published figures for these parameters.

Table 51: Realized traffic and CAGR, at CSI Airport, Mumbai in the 1st Control Period

[Users / Traffic]	FY 09 [Base Year]	FY 10	FY 11	FY 12	FY 13	FY 14 [End Year]	5 year CAGR
		Control Period 1					
Passengers (in Millions)							
- Domestic	15.32	17.37	20.00	21.04	20.28	21.88	7.39%
- International	8.12	8.23	9.08	9.70	9.93	10.34	4.96%
Total	**23.44**	**25.61**	**29.07**	**30.75**	**30.20**	**32.22**	**6.57%**
ATMs (in '000)							
- Domestic	161.94	165.73	175.36	180.18	173.29	188.44	3.08%
- International	65.57	64.07	67.29	71.31	71.21	72.22	1.95%
Total	**227.51**	**229.801**	**242.651**	**251.49**	**244.499**	**260.666**	**2.76%**
Cargo [000'MT]							
- Domestic	-	.27	22.55	41.65	46.59	57.67	6.81%
- International	213.43	237.46	287.52	329.34	296.03	296.69	*36.34%
- Courier	-	12.51	30.19	40.44	39.30	48.07	*16.59%
Total	**213.43**	**250.24**	**340.26**	**411.43**	**381.93**	**402.43**	**13.52%**

* 3-year CAGR calculated with Base Year as 2010-11 [1st stable year]

15.13. The Authority has noted from the Tariff Model submitted by MIAL as part of its tariff application dated 05.08.2014 that it has:

15.13.1. Projected domestic and international passengers to grow at 7.4% and 4.1% per annum respectively, in each year of the second Control Period with traffic for FY2013-14 as the base. Accordingly the total passenger traffic growth is 6.4% per annum during the period.

15.13.2. Projected domestic and international ATMs to grow at 3.1% and 2% per annum respectively, in each year of the second Control Period with traffic for FY2013-14 as the base. Accordingly, the total ATM growth is 2.8% per annum during the period.

15.13.3. Projected domestic and international cargo volumes to grow at 3.7% and 4.3% per annum respectively, in each year of the second Control Period with traffic for FY2013-14 as the base. Accordingly, the total ATM growth is 4.22% per annum during the period.

15.14. The Authority has noted that these traffic growth rate assumptions differ from the growth rates considered by MIAL in its tariff application dated 26.12.2013, for which it had provided explanations, mentioned in Para 15.1 above.

15.15. However, the Authority has also noted that the compounded annual growth (CAGR) in traffic volumes witnessed during the 1st Control Period is not significantly different from the projections made by MIAL for the second Control Period, as can be noted from Table 52.

15.16. The Authority has noted from the Tariff Model submitted by MIAL as part of its tariff application dated 08.09.2015 that it has:

15.16.1. Projected domestic and international passengers to grow at 7.73% and 3.8% per annum respectively, in each year of the second Control Period with traffic for FY2013-14 as the base. The Authority is of the opinion that the growth has to be equal to 5-year CAGR growth. Accordingly, the Authority proposes to consider a CAGR of 6.78% for domestic traffic between FY 2009-10 and FY 2014-15, as computed in Table 3 of Order no. 46/2015-16 in the matter of Determination of DF in respect of the Metro Connectivity project for CSIA, Mumbai.

15.16.2. Projected domestic and international ATMs to grow at 3.48% and 2.60% per annum respectively, in each year of the second Control Period with traffic for FY2013-14 as the base. The Authority has noted that this rate of growth is equal to the 5-year CAGR and has agreed to adopt it.

15.16.3. Projected domestic and international cargo volumes to grow at 3.58% and 3.56% per annum respectively, in each year of the second Control Period with traffic for FY2013-14 as the base. Accordingly, the total ATM growth is 4.22% per annum during the period. The Authority has noted that this rate of growth is equal to the 5-year CAGR and has agreed to adopt it.

15.17. The Authority has noted the international passenger growth projection made by MIAL and is of the view that the withdrawal of the airlines is temporary. Thus, the CAGR of last five years should be considered to make the projections as elaborated in the Levy of Development Fee Order No. 46/2015-16 dated 28.01.2016.

15.18. The Authority has noted the volatility in traffic forecast at CSI Airport, Mumbai and has also considered the air side capacity constraint at CSIA. The Authority thus, for the time being, proposes to consider the traffic projections considered by MIAL. The Authority also proposes to make full correction (truing up) of the traffic numbers based on the actual traffic handled by MIAL during the second Control Period.

Table 52: Projected traffic considered at CSI Airport, Mumbai in the second Control Period

Traffic Category	FY15 (Actual)	FY16	FY17	FY18	FY19
Passengers (Mn)					
Domestic	25.21	27.15	29.25	31.51	33.95
International	11.43	12.20	13.03	13.92	14.86
Total	36.63	39.36	42.28	45.43	48.81
ATM (nos.)					
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
Cargo ('000 MT)					
Domestic	69.19	71.66	74.23	76.89	79.64
International	374.57	387.90	401.71	416.01	430.82
Total	443.75	459.56	475.94	492.90	510.46

Proposal No. 15. Regarding traffic forecast to be considered for the second Control Period, based on the material before it and its analysis, the Authority proposes:

15.a. To consider the passenger, ATM and cargo traffic as per Table 52 for the second Control Period.

15.b. To true-up the passenger, ATM and cargo traffic based on actual numbers realized during the second Control Period at the time of tariff determination for the 3rd Control Period.

16. Inflation

a MIAL Submission on Inflation

16.1. MIAL has made the following submission regarding CPI inflation that was considered for the purpose of financial projections to determine the aeronautical tariffs in respect of CSI Airport, Mumbai, as part of its tariff application dated 26.12.2013 for the second Control Period,

"Consumer Price Index for Industrial Workers (CPI-IW) as specified in Schedule 1 of SSA, is assumed 7.90% as per RBI forecast for the second control period."

16.2. MIAL has made the following submission regarding WPI inflation that was considered for the purpose of financial projections to determine the aeronautical tariffs in respect of CSI Airport, Mumbai, in its tariff application dated 05.08.2014 for the second Control Period,

".. is assumed to increase by 5.9% YoY i.e. 5 year WPI forecasted by "RBI Q2 (2013-14)-Results of the Survey of Professional Forecasters on Macroeconomic Indicators" based on estimates."

16.3. MIAL has made the following submission regarding WPI inflation that was considered for the purpose of financial projections to determine the aeronautical tariffs in respect of CSI Airport, Mumbai, in its tariff application dated 08.09.2015 for the second Control Period,

"MIAL has updated the CPI-IW and WPI numbers for FY 15. Similarly, CPI-IW and WPI forecast has been considered at 5.1% and 3.6% respectively for FY 16-FY19 based on "Results of the Survey of Professional Forecasters on Macroeconomic Indicators - Round 35".

b Authority's Examination of MIAL Submissions on Inflation

16.4. The Authority has noted MIAL's submissions regarding CPI and WPI inflation rates that were considered for the purpose of financial projections in order to estimate ARR and the aeronautical tariffs in respect of CSI Airport, Mumbai.

16.5. The Authority proposes to accept inflation forecasts as per the recent most RBI's quarterly Survey of Forecasters. As per the 38th round of Results of the Survey of Professional

Forecasters on Macroeconomic Indicators[1], the CPI and WPI inflation is 5.1% and 3.3% respectively. The Authority thus proposes to adopt CPI inflation forecast of 5.1% (Annual average percentage over the next 5 years) and WPI inflation forecast of 3.3% (Annual average percentage over the next 5 years) for the second Control Period for appropriate year on year tariff rate increase, wherever required, as well as for projection of various building blocks of the ARR.

Table 53: Inflation forecast – RBI Survey of Professional Forecasters on Macroeconomic Indicators – 38th Round

Annual Average Percentage Change								
	Annual average percentage change over the next five years				Annual average percentage change over the next ten years			
	Mean	Median	Max	Min	Mean	Median	Max	Min
Real GVA	8.0	8.0	10.0	7.0	8.2	8.2	10.0	7.0
CPI Combined (Inflation)	5.1	5.0	6.2	4.0	4.8	4.8	6.0	4.0
WPI	3.3	3.0	5.0	1.&	3.6	3.75	5.2	2.4

Proposal No. 16. Regarding the matter of Inflation the Authority proposes

16.a. To adopt CPI inflation forecast of 5.1% and WPI forecast of 3.3% in accordance with the latest RBI forecasts (38th round) for the next five years of the second Control Period for determination of various building blocks, wherever required.

[1] https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=16731

17. Quality of Service

a MIAL Submission on Quality of Service

17.1. MIAL has not made any submission related to Quality of Service.

b Authority's Examination on Quality of Service

17.2. The Authority as part of its MIAL Tariff Order 32 / 2012-13 had decided, as specified by the Government, to monitor the performance standards as laid down in the OMDA. The Authority had noted that OMDA provides for liquidated damages to be paid by MIAL to AAI, should the quality of service not be achieved by MIAL in line with requirements under OMDA. The Authority had decided that for the 1st control period it will not impose rebate mechanism in addition to the liquidated damages mechanism in OMDA.

17.3. The Authority notes that as per section 13.1 (ii) of the AERA Act, it shall take into consideration the service provided (by the airport operator), its quality and other relevant factors while determining tariff for aeronautical services. Further section 13.1.d of the Act also requires the Authority to monitor the set performance standards relating to quality, continuity, and reliability of service as maybe specified by the Central Government or any other authority authorized by it in this behalf.

17.4. In this regard the Authority made reference to Chapter X of OMDA, which provides that the JVC shall submit various reports to the AAI on a regular basis including *"Reports on various indicators of performance measurement as specified in this Agreement"*. The Authority thus notes that the JVC is under contractual obligation to report its performance to AAI and based on the performance, the AAI is *"…permitted to inspect at any time but with reasonable prior intimation any part of the Airport Site or any of the assets at the Airport and undertake any survey or other check in order to monitor compliance with the JVC's obligations under this Agreement, or check the quality of service performance by the JVC or any Relevant Authority,…"*.

17.5. In line with the above, the Authority would like to be advised by the AAI on the performance standards maintained by MIAL during the 1st Control Period and on any liquidated damages levied by AAI on MIAL. The Authority is not in receipt of any such information from AAI. In absence of the same, the Authority has noted media reports as well as ACI website, which state that CSI Airport, Mumbai has been consistently adjudged the second best airport in the world for its service quality among the airports handling 25-40 million passengers per annum (MPPA), by Airports Council International in 2011, 2012 and 2013 (ASQ Awards).

17.6. Based on the information available to it, the Authority finds that the ASQ rating awarded to MIAL for FY 2011-12 and FY 2012-13 are 4.83 and 4.84 respectively. The Authority notes that provisions under OMDA require MIAL to *"…achieve a rating of 3.75 in the IATA/ACI AETRA passenger survey or greater and maintains the same throughout the Term."*

17.7. The Authority thus is unable to consider any adjustments towards determination of aeronautical tariff on account of service quality maintained by MIAL during the 1st Control Period.

17.8. On balance, the Authority proposes to continue with its earlier decision to monitor the performance standards as laid down in the OMDA for the second Control Period and also not to impose the rebate mechanism in addition to the provision of liquidated damages in the OMDA.

Proposal No. 17. Regarding the matter of Quality of Service, based on the material before it and its analysis, the Authority proposes:

17.a. As specified by the government, to monitor the performance standards as laid down in the OMDA for the second Control Period

17.b. To not impose rebate mechanism in addition to the provision of liquidated damages in the OMDA.

18. Target Revenue (ARR) and X-Factor

a MIAL Submission on Target Revenue (ARR) and X-Factor

18.1. In its tariff application dated 08.09.2015, MIAL has submitted the following with respect to estimation of CPI-X:

"Authority vide its Order No. 26/2015-16 dated 21st August, 2015, has decided that the Aeronautical tariffs approved by it vide Order no. 32/2012-13 dated 15th January, 2013 shall continue up to 30th November 2015, 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 January, 2016.

Based on the above details Target Revenue for the second control period has been computed and the same has been summarized below:

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
*Regulatory Base**	*7,115*	*7,768*	*8,633*	*8,219*	*7,946*
WACC	*14.82%*	*14.82%*	*14.82%*	*14.82%*	*14.82%*
Return on Regulatory Base	*1,055*	*1,152*	*1,280*	*1,218*	*1,178*
Operation & Maintenance cost	*828*	*787*	*897*	*971*	*1,057*
Depreciation	*559*	*518*	*597*	*594*	*586*
Corporate Tax	*0*	*0*	*150*	*247*	*357*
30% of Revenue from Revenue Share Assets (RSA)	*329*	*365*	*413*	*449*	*492*
Truing up of first control period	*17*	*0*	*0*	*0*	*0*
Target Revenue	*2,130*	*2,092*	*2,510*	*2,581*	*2,686*
CPI –X	*0.00%*	*104.82 %*	*5.10%*	*5.10%*	*5.10%*
Revenue from proposed tariff	*1,272*	*1,664*	*2,931*	*3,219*	*3,537*

"

b Authority's Examination of MIAL Submissions on Target Revenue (ARR) and X-Factor

18.2. MIAL, in their MYTP submission, had calculated 'CPI-X' factor at 78.03% based on their interpretation and assumption regarding various parameters of the building blocks which go into the calculation and particularly that of the methodology indicated in Schedule 1 of the State Support Agreement.

18.3. This 'CPI-X' factor of 78.03% was calculated based on the assumption that the tariffs proposed by MIAL would be effective w.e.f. 01.11.2014. Since the exercise of tariff determination is underway, the question of making tariffs applicable w.e.f. 01.11.2014 now does not arise. Hence, the Authority proposes to recalculate the CPI-X factor w.e.f. 01.05.2016.

18.4. The Authority has decided that CPI is a forecasted value dependent upon the official 5-year forecast released by the RBI from time to time. Therefore, the authority proposes to perform sensitivity analyses independent of the value of CPI forecast.

18.5. The Authority has also noted that MIAL submitted PSF (SC) as a separate building block, as mentioned in Chapter 12. The Authority is of the view that a decision on PSF (SC) as a separate building block is outside purview of OMDA and SSA. Accordingly, the Authority has included the impact of PSF (SC) in the RAB, depreciation on RAB, and Operation & Maintenance Cost, for the purpose of calculating the target revenue as provided in Table 54. Any future expenditure under PSF (SC) already considered in the RAB will have to be executed with the permission of the MoCA/BCAS, and in case it is allowed and MIAL incurs the expenditure, it will be allowed under true-up. MIAL needs to provide evidence of depositing the claimed amount into the PSF security escrow account, as decided in Proposal 3.f, 5.e, and 12.e.

18.6. Accordingly, the Authority has calculated the actual target revenue based on ARR for the second Control Period as below and the resulting CPI-X is an increase of -7.20%.

Table 54: Target Revenues considered by the Authority for the second Control Period

Computation of Target Revenue (in Crores)		FY15	FY16	FY17	FY18	FY19	Total
A	RAB including PSF(SC)	5720.95	6550.34	7222.44	6874.84	6801.49	33170.06
B	WACC	11.75%	11.75%	11.75%	11.75%	11.75%	11.75%
C=A*B	Return on RAB	672.07	769.50	848.45	807.62	799.00	3896.64
D	OM - Efficient Operation & Maintenance cost	723.72	688.05	716.89	770.90	834.42	3733.98
E	Depreciation (Aero Depreciation)	503.28	442.74	499.00	496.13	494.38	2435.54

Computation of Target Revenue (in Crores)		FY15	FY16	FY17	FY18	FY19	Total
F	Taxation	0.00	0.00	0.00	0.00	0.00	0.00
G	Share of Revenue from Revenue Share Assets	305.94	327.99	375.24	409.20	449.14	1867.51
H	True-up	(559.10)					(559.10)
X=C+D+E+F+ H-G	**Target Revenue**	1034.02	1572.30	1689.11	1665.45	1678.67	7639.55
	Discounted Target Revenue	**1034.02**	**1407.01**	**1352.64**	**1193.49**	**1076.50**	**6063.67**
Computation of Total Aeronautical Revenues							
a	Total Landing Fees	648.20	667.10	638.65	689.20	745.50	3388.65
b	Total Parking & Housing Fess	28.66	29.54	28.26	30.62	33.18	150.27
c	Total UDF (excluding Collection Charges)	547.30	587.98	586.22	661.93	747.43	3130.87
d	FTC	103.80	123.34	128.07	138.83	150.50	644.54
e	Into Plane (ITP) Services	0.32	0.00	0.00	0.00	0.00	0.03
f	Unauthorized Overstay	5.92	5.92	5.92	5.92	5.92	29.60
g	Aerobridge charges	42.10	43.46	44.87	46.33	47.83	224.59
h	Total Aeronautical Revenues	1376.01	1457.34	1432.00	1572.83	1730.37	7568.55
Y=a+b+c+d+ e+f+g+h	**Discounted Total Aeronautical Revenues**	**1376.01**	**1304.14**	**1146.74**	**1127.12**	**1109.66**	**6063.67**
	X-Factor (%)	**12.30%**					
	CPI-X (%)	**-7.20%**					

18.7. The Authority in Order No. 32/2012-13 dated 15.01.2013 had approved the charges for unauthorized overstay beyond the slot allotted period in case of general aviation and aircraft not having usual station at CSIA. The Authority is in receipt of MIAL's submission dated 29th February 2016 regarding non-scheduled aircraft unauthorized overstay tariff to be considered. The principle behind their submission is General Aviation Aircrafts, both non-scheduled operators and private aircraft operators, occupy apron that is otherwise needed for regular operations. CSIA on the airside is constrained, hence MIAL proposed to charge higher tariff for unauthorized overstay for General Aviation Aircraft. The Authority notes that charges have been worked out based on cost of return journey to the nearest airport. The summary of the scheduled charges for unauthorized overstay has been annexed.

18.8. As per MoCA's letter no G-17018/7/2001-AAI, for scheduled aircraft with less than 80 seat capacity, the landing and parking charges are not to be charged. Accordingly, the Authority proposes that the tariff card for the second control period shall be as per MoCA/government policy. The Authority proposes waiver of landing charges for (a) aircraft with a maximum certified capacity of less than 80 seats, being operated by domestic scheduled operators, and (b) Helicopters of all types as per the Govt. of India vide Order no. G-17018/7/2001-AAI dated 9th February 2004 in order to encourage and promote Intra regional connectivity at CSIA, Mumbai.

Proposal No. 18. Regarding Target Revenue (ARR) and X-Factor , based on the above proposals,

18.a. The Authority proposes to follow the formulation specified in the SSA and calculate the "X" factor by solving the system of equations mentioned therein. The Authority proposes an increase of CPI-X of (-7.20%).

18.b. To waive landing charges for (a) aircraft with a maximum certified capacity of less than 80 seats, being operated by domestic scheduled operators, and (b) Helicopters of all types as per the Govt. of India vide Order no. G.17018/7/2001-AAI dated 9th February 2004 in order to encourage and promote Intra regional connectivity at CSIA, Mumbai.

19. Summary of Proposals

20. 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 (Chapter 19 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 and II)**. 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 Chapter 19 above, **latest by 18.04.2016** 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

21. List of Tables

22. ANNEXURES

MIAL Submissions	Annexure 1A	Letters dated 26.12.2013, 08.01.2014, 17.02.2014, 05.04.2014,
	Annexure 1B	Letters dated 05.05.2014,
	Annexure 1C	Letters dated 20.06.2014(15), 20.06.2014(16), 25.06.2014, 15.07.2014, 15.07.2014(18), 31.07.2014,
	Annexure 1D	Letters dated 05.08.2014, 20.08.2014, 27.08.2014, 12.09.2014, 17.09.2014, 22.09.2014, 27.09.2014, 20.10.2014, 19.11.2014
	Annexure 1E	Letters dated 20.11.204, 01.12.2014,
	Annexure 1F	Letters dated 05.12.2014, 02.01.2015, 12.01.2015, 06.02.2015, 12.03.2015, 06.04.2015
	Annexure 1G	Letters dated , 27.04.2015, 18.05.2015, 27.05.2015, 04.06.2015, 23.06.2015, 23.06.2015(1), 12.07.2015, 22.07.2015, 31.07.2015, 08.09.2015, 03.11.2015, 13.11.2015, 24.11.2015, 01.12.2015, 02.12.2015, 15.12.2015, 21.12.2015, 24.12.2015, 29.12.2015, 31.12.2015, 04.01.2016, 05.01.2016, 08.01.2016, 12.01.2016, 15.01.2016, 16.01.2016
	Annexure 1H	Letters dated 19.01.2016, 19.01.2016(1), 19.01.2016(2), 22.01.2016, 22.01.2016(1), 25.01.2016, 30.01.2016, 11.02.2016, 16.02.2016
Report of ICWAI Management Accounting Research Foundation	Annexure 2A	Study for Allocation of Assets as on 31st March 2014 at CSI Airport, Mumbai
	Annexure 2B	Report on Assessment of Efficiency on Operating and Maintenance Cost of Aeronautical Operations during the 1st Control Period (FY 2009-10 to FY 2013-14) at CSI Airport, Mumbai