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भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण  
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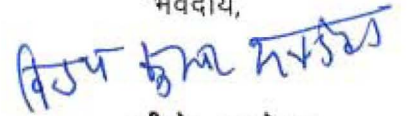
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दिनांक : 1 सितंबर, 2017

**विषय:** श्रीनगर अंतरराष्ट्रीय हवाई अड्डे के दूसरे नियंत्रण अवधि (01.04.2017 से 31.03.2021) के लिए संबंध में सिविल एन्क्लेव में वैमानिक टैरिफ के निर्धारण के मामले में।

उपर्युक्त विषय पर दिनांक 01.09.2017 का परामर्श पत्र संख्या 20/2017-18 सूचना एवं टिप्पणी के लिए संलग्न है।

भवदीय,



(वी.के. सचदेवा)

उप महा प्रबंधक (वित्त)

सेवा में,

सभी पणधारी

**File No. AERA/20010/MYTP/AAI-Srinagar/CP-II/2016-17**

**Consultation Paper No. 20/2017-18**



**Airports Economic Regulatory Authority of India**

**In the matter of determination of aeronautical tariffs  
at Civil Enclave in respect of Srinagar International Airport  
for the second Control Period (01.04.2016 – 31.03.2021).**

**1<sup>st</sup> September, 2017**

**AERA Building  
Administrative Complex  
Safdarjung Airport  
New Delhi – 110 003**

## Table of Contents

1. Introduction .....	2
2. Methodology for Tariff determination .....	4
3. Multi Year Tariff Proposal for civil enclave at Srinagar .....	6
4. True-up for First control period.....	7
5. Traffic forecast.....	17
6. Allocation of Assets (Aeronautical and Non-Aeronautical).....	19
7. Opening Regulatory Asset Base for Second control period .....	24
8. Capital Expenditure for Second control period .....	25
9. Depreciation .....	30
10. RAB for Second control period .....	33
11. Cost of Equity, Cost of Debt, Gearing, and Fair Rate of Return (FRoR).....	35
12. Revenue from services other than aeronautical services .....	36
13. Operation and Maintenance Expenditure.....	40
14. Taxation .....	47
15. Aggregate Revenue Requirement for Second control period.....	49
16. Annual Tariff Proposal .....	51
17. Summary of Proposals.....	57
18. Stakeholders' Consultation Timeline.....	58

## 1. Introduction

1.1. Srinagar International Airport is an international airport located in Srinagar, summer capital of the Indian state of Jammu and Kashmir. It belongs to the Indian Air Force, Ministry of Defence. AAI maintains a civil enclave comprising of passenger terminal building and civil apron.

1.2. The traffic handled by civil enclave at Srinagar during the 1<sup>st</sup> control period is given in table below:

Table 1 - Passenger and ATM traffic during the 1<sup>st</sup> control period at civil enclave Srinagar

Year	Dom. Pax (mn)	Int. Pax (mn)	Total Pax (mn)	Dom. ATMs	Int. ATMs	Total ATMs
2012	1.63	-	1.63	12,187	0	12,187
2013	1.84	0.02	1.86	13,985	124	14,109
2014	1.99	0.02	2.00	15,158	130	15,288
2015	2.03	0.02	2.04	14,698	130	14,828
2016	2.30	0.01	2.31	16,228	40	16,268

1.3. Civil enclave at Srinagar, with a traffic of more than 1.5 mppa, is a major airport as defined in Section 2 (i) of AERA Act. Accordingly, tariff determination of aeronautical services at the airport is undertaken by AERA.

1.4. Technical and Terminal building details of civil enclave at Srinagar are provided in the table below:

Table 2 – Technical and Terminal building details of civil enclave Srinagar

Technical Details of civil enclave Srinagar	
Particulars	Details
Airport area	67.10 acres (Civil Enclave)
Runway orientation and length	13-31; 12000 ft (IAF)
No. of Taxi Tracks	2
No. of Apron Bays	9 (Civil Apron)
Aerodrome Category	C
Navigational Aids	DVOR, DME & ILS
Operational Hours	0630-1930
Terminal building Details	
Particulars	Integrated Terminal Building
Terminal Building Area	20,000 sq. m.
Immigration Counters	5
Customs Counters	2
Security Counters	Domestic – 7; International – 3

<b>Particulars</b>	<b>Integrated Terminal Building</b>
Departure Conveyor	1
Arrival Conveyor	Domestic – 2; International - 2
Peak hour passenger capacity	1250
No. of Check-in Counters (CUTE)	23
Total Area of Car Parking	4,700 sq. m.

## 2. Methodology for Tariff determination

2.1. The Authority, vide its Order No. 13/2010-11 dated 12.01.2011 ("Airport Order") and Direction No. 5/2010/11 dated 28.02.2011 ("Airport Guidelines"), has issued guidelines to determine tariffs at major airports based on single till mechanism. Subsequently, the Authority has amended guidelines vide its Order No. 14, 2016-17 dated 12.1.2017 to determine future tariffs using hybrid till.

2.2. The tariff determination process consists of true-up for 1<sup>st</sup> control period and determination of building blocks for 2<sup>nd</sup> control period. The Authority proposes to undertake true-up of 1<sup>st</sup> control period based on actual financials and traffic data under single till (as was applicable during 1<sup>st</sup> control period) and determination of building blocks for 2<sup>nd</sup> control period under hybrid till.

2.3. The Aggregate Revenue Requirement (ARR) under regulatory framework of Authority is calculated as under

$$ARR = \sum_{t=1}^5 (ARR_t) \text{ and}$$
$$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - \alpha \times NAR_t$$

Where

- 2.3.1.  $t$  is the Tariff Year in the control period;
- 2.3.2.  $ARR_t$  is the Aggregate Revenue Requirement for year  $t$ ;
- 2.3.3.  $FRoR$  is the Fair Rate of Return for the control period;
- 2.3.4.  $RAB_t$  is the Aeronautical Regulatory Asset Base for year  $t$ ;
- 2.3.5.  $D_t$  is the Depreciation corresponding to the Aeronautical RAB for year  $t$ ;
- 2.3.6.  $O_t$  is the Aeronautical Operation and Maintenance Expenditure for year  $t$ , which include all expenditures incurred by the Airport Operator(s) towards aeronautical activities including expenditure incurred on statutory operating costs and other mandatory operating costs;
- 2.3.7.  $T_t$  is the Tax in year  $t$ , which includes payments by Airport Operator in respect of corporate tax on income from assets/ amenities/facilities/services taken into consideration for determination of ARR for year  $t$ ;
- 2.3.8.  $\alpha$  is 30% cross subsidy factor for revenue from services other than aeronautical services under hybrid till for 2<sup>nd</sup> control period.  $\alpha$  is 100% cross

subsidy factor under single till for 1<sup>st</sup> control period; and

2.3.9.  $NAR_t$  is revenue from services other than aeronautical services (Non-Aeronautical Revenues or NAR) for year t.

2.4. Based on ARR, Yield per Passenger is calculated as per formula given below:

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

Where,

2.4.1. Present value (PV) of  $ARR_t$  for a tariff year t is calculated at the beginning of the control period and the discounting rate for calculating PV is equal to the Fair Rate of Return determined by the Authority.

2.4.2.  $VE_t$  is the Traffic volume in a tariff year t as estimated by the Authority

2.4.3.  $ARR_t$  is the Aggregate Revenue Requirement for tariff year t.

2.5. While determining building blocks and ARR for civil enclave at Srinagar, Authority proposes to:

2.5.1. Allocate CHQ/ RHQ overhead expenses on revenue basis as per the approach followed by the Authority while determining tariffs for Guwahati and Lucknow airports

2.5.2. Adopt depreciation rates consistent with Companies Act and for assets not defined in the Companies Act at 3.33%.

2.6. The Authority caps airport tariffs at a level where revenue generated through approved tariffs is equal to the permissible ARR for the Airport Operator. The Authority's approach on the above is detailed in subsequent sections.

2.7. The true-up for 1<sup>st</sup> control period and determination of building blocks for 2<sup>nd</sup> control period are detailed in subsequent sections.

### **3. Multi Year Tariff Proposal for civil enclave at Srinagar**

- 3.1. In the 1<sup>st</sup> control period, the Authority, vide its Order No. 17/2015-16 dated 11.05.2015 had decided that the tariffs for civil enclave at Srinagar would continue at the existing level on ad-hoc basis till 31.03.2016 and advised AAI to submit MYTP for the 2<sup>nd</sup> control period well in time by providing details of assets created by it and sitting in its books, the operating expenditure pertaining to such civil enclaves being incurred by AAI and details of other building blocks only pertaining to AAI. The Authority would accordingly determine the Parking and Housing charges and PSF/ UDF to be levied by AAI.
- 3.2. Accordingly, AAI made submissions dated 01.04.2016 to the Authority for determination of tariffs for 2<sup>nd</sup> control period as per single till. Subsequent to the announcement of National Civil Aviation Policy, AAI made revised submissions under hybrid till on 27.03.2017. The Authority has adopted the model proposed by AAI on 27.03.2017 and considered subsequent submissions made by AAI for this consultation paper.
- 3.3. AAI collects parking, housing, fuel throughput and other aeronautical charges at civil enclave Srinagar except for landing charges. The Authority noted that landing charges at civil enclave Srinagar are collected by IAF as it is a civil enclave. Further, the Authority noted that the Communication, Navigation, Surveillance/ Air Traffic Management (CNS/ATM) services at civil enclave Srinagar are provided by IAF. AAI has submitted that the tariff proposal does not consider revenues, expenditure and assets on account of CNS/ ATM and runway assets. This consultation paper discusses the determination of tariffs for aeronautical services at the airport excluding CNS/ ATM services and landing charges.
- 3.4. AAI has informed that accounts of AAI are audited by C&AG of India as mandated by the AAI Act. The C&AG's resident audit party audits the financial records and statements of AAI airports, regional/ field offices. However, the C&AG issues the final audit certificate for the AAI as a whole and only trial balance is available for civil enclave at Srinagar. The Authority has utilized these documents as submitted by AAI for determination of tariffs.



#### 4. True-up for First control period

4.1. True-up for 1<sup>st</sup> control period is calculated as difference between

4.1.1. Permissible aeronautical revenue calculated based on actual traffic and financials

4.1.2. Actual aeronautical revenue received by AAI for 1<sup>st</sup> control period

4.2. AAI has submitted opening RAB for the 1<sup>st</sup> control period under single till at ₹ 112.5 crore.

Table 3 – Opening RAB for the 1<sup>st</sup> control period as per AAI – Single till

S. No.	Particulars	Amount (₹ crore)
1	Original Cost of Airport Assets excluding CNS/ATM related assets as on 01.04.2011	170.2
2	Accumulated Depreciation as on 01.04.2011	57.7
3	<b>Opening RAB[(1)-(2)] as on 01.04.2011</b>	<b>112.5</b>

#### Permissible aeronautical revenues

4.3. AAI has calculated Aggregate Revenue Requirement of ₹ 192.8 crore (PV of ARR is ₹ 151.7 crore as on 1<sup>st</sup> April 2012) for 1<sup>st</sup> control period.

Table 4 - ARR as per AAI for the 1<sup>st</sup> control period – Single till

Details (₹ crore)	2011-12	2012-13	2013-14	2014-15	2015-16
Opening RAB	112.5	102.6	88.0	73.3	59.3
Assets capitalized during the year	6.7	1.9	1.6	2.1	9.0
Disposals/ Transfer	0.0	0.0	0.0	0.0	0.0
Depreciation	16.6	16.6	16.3	16.1	16.9
Closing RAB	102.6	88.0	73.3	59.3	51.4
<b>Average RAB</b>	<b>107.6</b>	<b>95.3</b>	<b>80.6</b>	<b>66.3</b>	<b>55.3</b>
Return on Average RAB@14%	15.1	13.3	11.3	9.3	7.7
Operating Expenditure	14.6	15.5	15.8	18.0	20.8
Depreciation	16.6	16.6	16.3	16.1	16.9
Corporate Tax	0.0	0.0	0.0	0.0	0.0
Less- Revenue from services other than Regulated services	5.5	6.1	6.1	6.1	7.3
<b>ARR as per AAI</b>	<b>40.8</b>	<b>39.3</b>	<b>37.2</b>	<b>37.3</b>	<b>38.2</b>
Total ARR as per AAI	<b>192.8</b>				
<b>Discounted ARR</b>	<b>40.8</b>	<b>34.5</b>	<b>28.6</b>	<b>25.2</b>	<b>22.6</b>
<b>PV of ARR for the control</b>	<b>151.7</b>				

period as on 01.04.2012	
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#### Actual aeronautical revenues

4.4. AAI has submitted that it has earned ₹ 43.6 crore during 1<sup>st</sup> control period.

Correspondingly, AAI has submitted that it has a shortfall of ₹ 259.5 crore (future value as on 01 April 2017) during the 1<sup>st</sup> control period. The aeronautical revenues for the 1<sup>st</sup> control period is shown below:

Table 5 - Aeronautical revenue earned for the 1<sup>st</sup> control period as per AAI Submission – Single till

No.	Particulars (₹ crore)	2011-12	2012-13	2013-14	2014-15	2015-16
	Revenues from Regulated Services					
1	Landing Charges:					
1.1	Domestic	0.0	0.0	0.0	0.0	0.0
1.2	International	0.0	0.0	0.0	0.0	0.0
1.3	<b>Total Landing Charges</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
2	<b>Parking and Housing Charges:</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
3	<b>Total PSF (FC)</b>	<b>6.3</b>	<b>7.1</b>	<b>8.0</b>	<b>8.0</b>	<b>8.6</b>
4	<b>Fuel Throughput Charges</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
5	<b>Ground Handling Services</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>	<b>0.5</b>	<b>0.3</b>
6	<b>Royalty from CUTE charges</b>	<b>0.2</b>	<b>0.2</b>	<b>1.0</b>	<b>0.7</b>	<b>0.6</b>
7	<b>Extension of Watch hours</b>	<b>0.4</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
	<b>Total Aeronautical Revenues</b>	<b>7.3</b>	<b>7.8</b>	<b>9.4</b>	<b>9.3</b>	<b>9.7</b>

Table 6 - ARR and its resultant shortfall as per AAI for 1<sup>st</sup> control period – Single till

No.	Components (₹ crore)	2011-12	2012-13	2013-14	2014-15	2015-16	Total
1	ARR for year	40.8	39.3	37.2	37.3	38.2	192.8
2	Aeronautical Revenue	7.3	7.8	9.4	9.3	9.7	43.6
3	Shortfall (+)	33.5	31.5	27.8	28.0	28.5	149.2
4	<b>Future Value of shortfall (+) as on 01.04.2017</b>	<b>73.4</b>	<b>60.7</b>	<b>46.9</b>	<b>41.5</b>	<b>37.0</b>	<b>259.5</b>

#### Authority's Examination

4.5. The Authority proposes adjustments on the following building blocks for calculating true-up of 1<sup>st</sup> control period

- 4.5.1. Adjustment of depreciation
- 4.5.2. Adjustment of non-aeronautical revenues.
- 4.5.3. Apportionment of CHQ/RHQ costs and change in tax calculation
- 4.5.4. Correction of present value factor for shortfall calculation

#### **Adjustment for Depreciation**

4.6. AAI has used depreciation rates as per the accounting policy approved by AAI board.

The depreciation rates used by AAI for key assets are –

Table 7 - Depreciation rates as submitted by AAI

<b>No.</b>	<b>Asset Class</b>	<b>As per AAI</b>
1	Land	0.0%
2	Runways	13.0%
3	Aprons	13.0%
4	Road, Bridges & Culverts	13.0%
5	Building- Terminal	8.0%
6	Building - Temporary	100.0%
7	Building - Residential	5.0%
8	Security Fencing - Temporary	100.0%
9	Boundary Wall -Operational	8.0%
10	Other Building - Unclassified	8.0%
11	Computer & Peripherals	20.0%
12	Intangible Assets- Software	20.0%
13	Plant & Machinery	11.0%
14	Tools & Equipments	20.0%
15	Office Furniture	20.0%
16	Other Vehicles	14.0%
17	Vehicle- Cars & Jeeps	14.0%
18	Electrical Installations	11.0%
19	Other Office & Equipments	18.0%
20	Furniture & Fixtures	20.0%
21	X Ray Baggage System	11.0%
22	CFT/Fire Fighting Equipments	13.0%

4.7. The Authority proposes the following depreciation rates

- 4.7.1. For asset types not defined under Companies Act (runway, taxiway and aprons): 3.33% based on useful life of 30 years
- 4.7.2. For asset types defined under Companies Act: rates prevalent under the Companies Act 1956 till FY 2013-14 and as per the Companies Act 2013 from FY

2014-15 onwards as the effective date of implementation of the Companies Act 2013 is 01.04.2014. The depreciation rates as submitted by AAI and as considered by the Authority are given in Table 29.

4.8. Depreciation for the 1<sup>st</sup> control period has been calculated on the basis of actual date of capitalization of assets.

4.9. The revised depreciation for the 1<sup>st</sup> control period under single till is given below:

Table 8 – The Authority's consideration on depreciation for 1<sup>st</sup> control period – Single till

No.	Details (₹ crore)	2011-12	2012-13	2013-14	2014-15	2015-16	Total
1	As per AAI	16.6	16.6	16.3	16.1	16.9	<b>82.5</b>
2	As per Authority	4.9	5.0	5.0	8.6	9.1	<b>32.6</b>

4.10. AAI has taken the cost of land in to RAB. In respect of cost of land, the Authority notes that land is not a depreciable asset and if taken into RAB, the return over it has to be paid perpetually. Besides, if the principle of FRoR based on cost of capital is applied on cost of land the aeronautical charges may have to be fixed at exorbitantly high rates. Since the Authority has so far not come across instances where the land cost is significant part of the RAB, it is necessary to examine all the ramifications of taking the value of cost of land into RAB. The Authority realizes that unless some kind of return is given on land, future land acquisitions for airport purposes could become a major hurdle for airport development. Therefore, it is proposed to conduct a study based on which the treatment to be given to cost of land can be determined on a sound reasoning.

4.11. In the case of civil enclave at Srinagar it is proposed to exclude the existing cost of land (₹ 1.0 in FY 2011-12) as well as any additions (₹ 0.0 in 1<sup>st</sup> control period) from the RAB till a final decision is taken on the issue.

4.12. The change in depreciation rates and exclusion of land from RAB results in a change in average RAB of the 1<sup>st</sup> control period as shown below –

Table 9 – The Authority's consideration of average RAB for 1<sup>st</sup> control period – Single till

No	Details (₹ crore)	2011-12	2012-13	2013-14	2014-15	2015-16
1	<b>As per AAI</b>					
	Opening RAB	112.5	102.6	88.0	73.3	59.3
	Additions	6.7	1.9	1.6	2.1	9.0
	Disposals	0.0	0.0	0.0	0.0	0.0

No	Details (₹ crore)	2011-12	2012-13	2013-14	2014-15	2015-16
	Depreciation	16.6	16.6	16.3	16.1	16.9
	Closing RAB	102.6	88.0	73.3	59.3	51.4
	<b>Average RAB</b>	<b>107.6</b>	<b>95.3</b>	<b>80.6</b>	<b>66.3</b>	<b>55.3</b>
2	<b>As per Authority</b>					
	Opening RAB	112.5	114.3	111.2	107.8	101.3
	Additions	6.7	1.9	1.6	2.1	9.0
	Disposals	0.0	0.0	0.0	0.0	0.0
	Depreciation	4.9	5.0	5.0	8.6	9.1
	Closing RAB	114.3	111.2	107.8	101.3	101.2
	<b>Average RAB</b>	<b>113.4</b>	<b>112.7</b>	<b>109.5</b>	<b>104.5</b>	<b>101.3</b>

#### Adjustment for Non-Aeronautical revenues

4.13. The Authority noted that AAI has considered lease rental revenues from cargo facility and supply of fuel to aircraft as non-aeronautical revenues during the 1<sup>st</sup> control period. As per the provisions of the AERA Act, the services rendered in respect of Cargo facility, Ground Handling Services and Supply of fuel to aircraft are aeronautical services.

4.14. The Authority proposes to consider the revenues from Cargo facility, Ground Handling Services and Supply of fuel to aircraft including land lease rentals as aeronautical revenue.

Table 10 – Comparison of NAR as considered by AAI and the Authority for 1<sup>st</sup> control period

NAR (₹ crore)	2011-12	2012-13	2013-14	2014-15	2015-16
<b>NAR as submitted by AAI (1)</b>	<b>5.48</b>	<b>6.09</b>	<b>6.14</b>	<b>6.09</b>	<b>7.28</b>
<b>Adjustment</b>					
<i>Revenue from Ground handling treated as aeronautical (2)</i>	0.07	0.08	0.08	0.10	0.25
<b>NAR as per Authority (3 = 1 - 2)</b>	<b>5.41</b>	<b>6.01</b>	<b>6.06</b>	<b>5.99</b>	<b>7.03</b>

#### Adjustment for operating expenditure (CHQ/ RHQ expenditure apportionment)

4.15. Total CHQ/ RHQ expenses for AAI is as shown in table below. AAI has requested the apportionment of CHQ/ RHQ expenses while determining tariffs of major airports. CHQ/ RHQ expenses consist of three components – Expenditure for civil enclave Srinagar employee's retirement benefit allocated at CHQ, overheads at CHQ and overheads at RHQ. The CHQ/ RHQ expense considered for apportionment have been netted off against the income received by CHQ/ RHQ.

4.16. The retirement benefit is allocated on the basis of number of employees at civil

enclave Srinagar. The Authority proposes to allocate the CHQ/ RHQ overhead expenses for the airport services after excluding the ANS expenses on revenue basis which is consistent with the approach adopted by the Authority in MYTP of 1<sup>st</sup> Control Period for Guwahati and Lucknow airports. The Authority observes that as per the above methodology the CHQ/ RHQ overhead expenses are allocated in proportion to the capacity of the airport to absorb higher cost of CHQ/ RHQ. Under this methodology, a portion of CHQ/ RHQ expenses are allocated to Delhi and Mumbai airports based on revenue received by AAI from these airports.

Table 11 - Summary of CHQ/ RHQ Overheads as submitted by AAI for 1<sup>st</sup> control period

No.	in ₹ cr.	2012	2013	2014	2015	2016
<b>Apportionment of CHQ/ RHQ overheads</b>						
1	CHQ Expenses	259.3	331.2	303.8	397.3	404.6
2	Less - CHQ Revenue	93.8	152.6	183.5	236.8	227.7
<b>3</b>	<b>Net CHQ Expenses (1-2)</b>	<b>165.6</b>	<b>178.7</b>	<b>120.3</b>	<b>160.5</b>	<b>176.9</b>
1	Northern Region - RHQ Expenses	89.3	116.1	124.6	167.1	155.5
2	Less – Northern Region - RHQ Revenues	7.7	16.1	16.8	11.0	15.5
<b>3</b>	<b>Net Northern Region RHQ Expenses (1-2)</b>	<b>81.6</b>	<b>100.0</b>	<b>107.3</b>	<b>156.1</b>	<b>140.0</b>
	<b>Total of Net CHQ and RHQ Expenses</b>	<b>247.1</b>	<b>278.6</b>	<b>227.6</b>	<b>316.6</b>	<b>316.9</b>
	<b>CHQ/RHQ Overheads allocated to Srinagar</b>	<b>2.9</b>	<b>2.4</b>	<b>2.0</b>	<b>2.6</b>	<b>2.3</b>
<b>Apportionment of Retirement Benefits at CHQ</b>						
	<b>Total provision of retirement benefits at CHQ</b>	<b>159.7</b>	<b>289.4</b>	<b>160.0</b>	<b>275.2</b>	<b>182.9</b>
	<b>Provision of Retirement Benefits at CHQ for Srinagar</b>	<b>0.9</b>	<b>1.8</b>	<b>1.1</b>	<b>1.8</b>	<b>1.5</b>

4.17. The Authority observed that AAI has allocated 50% of the ANS staff expense under airport payroll costs. AAI vide their submissions dated 17.07.2017 submitted that the staff deputed at Srinagar Airport (Civil Enclave) for CNS/ ATC is also working for airport activities as ATC work is performed by Defence Authorities. Hence, 50% staff related costs of CNS / ATC staff is taken as cost of airport activities. Further, the AAI vide their submissions dated 05.08.2017 submitted that the expenses of the ANS/ CNS employees working exclusively for airport would be booked under airport from the FY 2017-18 onwards. The Authority proposes to consider 50% of the ANS staff cost as the airport payroll costs since these employees have been working in airport activities for the 1<sup>st</sup>

control period.

4.18. AAI vide their submission dated 17.07.2017 revised the percentage of common employee expenses of finance and HR for ANS as per actuals from 6.6% in FY 2011-12, 10.2% in FY 2012-13, 10.3% in FY 2013-14, 8.3% in FY 2014-15 and 11.3% in FY 2015-16 to 2.3% in FY 2011-12, 2.6% in FY 2012-13, 3.8% in FY 2013-14, 3.8% in FY 2014-15 and 4.7% in FY 2015-16. Accordingly, the Authority proposes to revise the common employee expenses of finance and HR for ANS for the 1<sup>st</sup> control period.

4.19. In view of the above, the O&M expenditure for 1<sup>st</sup> control period is given in table below.

Table 12 - Summary of O&M expenditure as per the Authority for 1<sup>st</sup> control period -Single till

No.	Particulars (₹ crore)	2011-12	2012-13	2013-14	2014-15	2015-16
1	Pay roll Expenditure of civil enclave Srinagar	4.6	4.4	5.0	5.8	8.4
2	Expenditure for civil enclave Srinagar employees' retirement benefits allocated at CHQ	0.9	1.8	1.1	1.8	1.5
<b>A</b>	<b>Total Pay roll Expenditure (1+2)</b>	<b>5.5</b>	<b>6.2</b>	<b>6.1</b>	<b>7.6</b>	<b>9.8</b>
3	Administrative and General Expenditure	0.5	0.6	0.8	0.9	0.9
4	Apportionment of administration & General expenditure of CHQ/RHQ	2.9	2.4	2.0	2.6	2.3
<b>B</b>	<b>Total Administration &amp; General Expenditure(3+4)</b>	<b>3.4</b>	<b>3.0</b>	<b>2.8</b>	<b>3.5</b>	<b>3.2</b>
<b>C</b>	<b>Repairs and Maintenance Expenditure</b>	<b>3.1</b>	<b>3.0</b>	<b>3.6</b>	<b>3.9</b>	<b>5.7</b>
5	Power Charges	1.1	1.6	1.8	1.5	1.6
6	Water Charges	1.4	1.6	1.5	1.5	1.0
<b>D</b>	<b>Utility and Outsourcing Expenditure</b>	<b>2.5</b>	<b>3.1</b>	<b>3.2</b>	<b>3.0</b>	<b>2.6</b>
<b>E</b>	<b>Other Outflows</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
	<b>Total (A+B+C+D+E)</b>	<b>14.6</b>	<b>15.5</b>	<b>15.8</b>	<b>18.0</b>	<b>21.5</b>

#### Adjustment in base year for calculating present value of shortfall

4.20. The Authority noted that the present value factor considered by AAI for the shortfall in aggregate revenue collection in comparison to allowable aggregate revenue for the 1<sup>st</sup> control period (refer to Table 6) is calculated as on 01.04.2017 instead of 01.04.2016. The Authority proposes to consider the present value of shortfall as on 01.04.2016.

#### Tax calculation for 1<sup>st</sup> control period

4.21. The tax calculation as submitted by AAI for 1<sup>st</sup> control period apportions actual tax liability of AAI based on the profit before tax of civil enclave Srinagar and profit before tax of AAI.

4.22. The Authority noted that the tax liability of AAI would include tax as a result of income from Delhi and Mumbai airports. Therefore, the Authority proposes to determine tax for civil enclave Srinagar by applying provisional tax rate on the standalone profit before tax of the airport. In addition, for calculation of tax, the Authority proposes to determine depreciation considering the depreciation rates applicable under Income Tax laws.

4.23. AAI has submitted revised tax calculations based on standalone financials of civil enclave Srinagar. The Authority proposes to consider the tax calculation as given below.

Table 13 – Revised amount of Tax as considered by Authority for the 1<sup>st</sup> control period

<b>Particular (₹ crore)</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
Aeronautical Revenues	7.4	7.8	9.5	9.4	9.9
Non-Aeronautical Revenues	5.4	6.0	6.1	6.0	7.0
O&M (excluding retirement benefits and CHQ/ RHQ Overheads)	10.8	11.3	12.7	13.6	17.8
Retirement benefits and CHQ/ RHQ Overheads	3.8	4.2	3.0	4.4	3.7
Depreciation as per IT Act	14.9	13.1	11.6	10.4	10.5
PBT	-16.7	-14.8	-11.8	-13.0	-15.0
<b>Tax</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

#### **Revised Aggregate Revenue Requirement**

4.24. The ARR for the 1<sup>st</sup> control period has been revised based on adjustments detailed above.

4.24.1. Change in depreciation rates as per Table 29

4.24.2. Apportionment of CHQ/RHQ costs and change in tax calculation

4.24.3. Lease rentals from ground handling agencies to be treated as aeronautical revenues

4.24.4. Correction of present value factor for shortfall calculation

Table 14 - ARR as per Authority for the 1<sup>st</sup> control period – Single till

<b>Details (₹ crore)</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
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Details (₹ crore)	2011-12	2012-13	2013-14	2014-15	2015-16
Average RAB	113.4	112.7	109.5	104.5	101.3
Return on Average RAB@14%	15.9	15.8	15.3	14.6	14.2
Operating Expenditure	14.6	15.5	15.8	18.0	21.5
Depreciation	4.9	5.0	5.0	8.6	9.1
Corporate Tax	0.0	0.0	0.0	0.0	0.0
Less- Revenue from services other than Regulated services	5.4	6.0	6.1	6.0	7.0
<b>ARR as per Authority</b>	<b>30.0</b>	<b>30.3</b>	<b>30.0</b>	<b>35.2</b>	<b>37.7</b>
<b>Total ARR as per Authority</b>	<b>163.3</b>				
<b>Discounted ARR</b>	<b>30.0</b>	<b>26.5</b>	<b>23.1</b>	<b>23.8</b>	<b>22.3</b>
<b>PV of ARR for the control Period as on 01.04.2012</b>	<b>125.8</b>				

4.25. Correspondingly, the shortfall during the 1<sup>st</sup> control period between permissible aeronautical revenues and actual aeronautical revenues is calculated as below:

Table 15 - ARR, yield and shortfall as per Authority for 1<sup>st</sup> control period – Single till

No.	Components (₹ crore)	2011-12	2012-13	2013-14	2014-15	2015-16	Total
1	ARR for year (refer Table 14)	30.0	30.3	30.0	35.2	37.7	
2	Aeronautical Revenue	7.4	7.8	9.5	9.4	9.9	
3	Shortfall	22.6	22.4	20.5	25.8	27.8	
4	Future Value of shortfall as on 01.04.2016	43.6	37.9	30.4	33.5	31.7	<b>177.1</b>

#### **Proposal No. 1. True-up for the 1<sup>st</sup> control period**

- 1.a. The Authority proposes to true-up the 1<sup>st</sup> control period on the basis of single till
- 1.b. The Authority proposes to apportion CHQ/RHQ overheads on revenue basis
- 1.c. The Authority proposes to consider the revenues from Cargo facility, Ground Handling Services and Supply of fuel to aircraft including land lease rentals as aeronautical revenue.
- 1.d. The Authority proposes the following depreciation rates:
  - a. For asset types not defined under Companies Act (runway, taxiway and aprons): 3.33% based on useful life of 30 years.
  - b. For asset types defined under Companies Act: rates prevalent under the Companies Act 1956 till FY 2013-14 and as per the Companies Act 2013 from FY 2014-15 onwards as the effective date of implementation of the Companies Act

2013 is 01.04.2014. The depreciation rates as submitted by AAI and as considered by the Authority are given in Table 29.

1.e. The Authority proposes to consider short fall of ₹ 177.1 crores in the 1<sup>st</sup> control period to be added to ARR for the 2<sup>nd</sup> control period.

## 5. Traffic forecast

5.1. The traffic growth rates as submitted by AAI for 2<sup>nd</sup> control period are as follows:

Table 16 - Traffic Growth rates assumed by AAI for the 2<sup>nd</sup> control period

YEAR	Passenger			ATM		
	Domestic	International	Combined	Domestic	International	Combined
2016-17	15.0%	-100.0%	15.0%	15.0%	-100.0%	15.0%
2017-18	10.0%	0.0%	10.0%	10.0%	0.0%	10.0%
2018-19	10.0%	0.0%	10.0%	10.0%	0.0%	10.0%
2019-20	10.0%	0.0%	10.0%	10.0%	0.0%	10.0%
2020-21	10.0%	0.0%	10.0%	10.0%	0.0%	10.0%

5.2. AAI submitted that traffic growth rate for FY 2016-17 is based on the actual traffic during FY 2016-17.

### **Authority's Examination**

5.3. The Authority observed that the actual traffic data is available for FY 2016-17 for civil enclave Srinagar. Accordingly, AAI submitted that traffic growth rate for FY 2016-17 can be revised by the Authority based on actual traffic during FY 2016-17. The Authority proposes to revise traffic growth rates for FY 2016-17 as per Table 18.

5.4. The Authority calculated CAGR (Compounded Annual Growth Rate) for ATM and passenger traffic from FY 2010-11 to FY 2015-16 (5 year CAGR) and from FY 2005-06 to FY 2015-16 (10 year CAGR) for civil enclave Srinagar. The details have been provided in table below:

Table 17 - CAGR for Traffic at Civil enclave Srinagar

	Growth rates as per AAI (FY18 to FY21)	10 Year CAGR (FY06 to FY16)	5 Year CAGR (FY11 to FY16)
<b>Passenger</b>			
Domestic	10.0%	17.6%	17.3%
International	-100.0%	-9.5%	-
<b>ATM</b>			
Domestic	10.0%	14.3%	12.5%
International	-100.0%	-13.7%	-

5.5. The Authority noted that the domestic passenger traffic at Srinagar Airport has seen negative growth (-9.3%) in the last financial year. Further, the Authority observes that the international passenger traffic at Srinagar airport is insignificant (6,630 in FY 2015-

16) and AAI proposes no international passenger and ATM traffic from FY 2018-19 to FY 2020-21. AAI vide their submissions dated 17.07.2017 clarified that the rationale for no international passenger and ATM traffic shown in projection is because of the Haj movements. The Haj movements may vary from year to year and may not take place from Srinagar also. The Airports which will cater to Haj ATM movement changes every year.

5.6. After evaluation of 5 and 10 year CAGR of traffic and given the current geo-political situation in Srinagar, the Authority proposes to adopt growth rates for passenger and ATM traffic from FY 2017-18 to FY 2020-21 based on AAI traffic projections.

Table 18 - Traffic growth rates and traffic as considered by Authority for the 2<sup>nd</sup> control period

Year	Passenger			ATM		
	Domestic	International	Combined	Domestic	International	Combined
<b>Growth Rates</b>						
2016-17	-9.3%	94.4%	-9.0%	-4.7%	90.0%	-4.5%
2017-18	10.0%	-100.0%	9.3%	10.0%	-100.0%	9.5%
2018-19	10.0%	0.0%	10.0%	10.0%	0.0%	10.0%
2019-20	10.0%	0.0%	10.0%	10.0%	0.0%	10.0%
2020-21	10.0%	0.0%	10.0%	10.0%	0.0%	10.0%
<b>Traffic</b>						
2016-17	2,088,871	12,891	2,101,762	15,467	76	15,543
2017-18	2,297,758	0	2,297,758	17,014	0	17,014
2018-19	2,527,534	0	2,527,534	18,715	0	18,715
2019-20	2,780,287	0	2,780,287	20,587	0	20,587
2020-21	3,058,316	0	3,058,316	22,645	0	22,645

5.7. The Authority proposes to true-up traffic as per actual growth achieved during the current control period at the time of determination of tariff for 3<sup>rd</sup> control period as explained in earlier orders of the Authority.

## **Proposal No. 2. Traffic Forecast**

2.a. The Authority proposes to consider the ATM and passenger traffic as per Table 18.

2.b. The Authority proposes to true up the traffic volume (ATM and Passengers) based on actual traffic in 2<sup>nd</sup> control period while determining tariffs for the 3<sup>rd</sup> control period.

## 6. Allocation of Assets (Aeronautical and Non-Aeronautical)

6.1. Under hybrid till, only aeronautical assets are included as part of the Regulatory Asset Base. As a result of the shift from single till to hybrid till at the end of 1<sup>st</sup> control period, the assets need to be segregated and opening RAB for 2<sup>nd</sup> control period needs to be recalculated.

6.2. For the allocation of assets between aeronautical and non-aeronautical services, AAI had divided assets into aeronautical, non-aeronautical and common components. Common components have been further segregated into aeronautical and non-aeronautical assets by applying one of the following ratios:

- a) Terminal Area Ratio - ratio of aeronautical area to non-aeronautical area (applied for Terminal related assets)
- b) Employee Ratio - ratio of staff providing commercial services (3 employees) to total staff providing aeronautical and non-aeronautical services (60 employees)
- c) Quarter Ratio – ratio of residential quarters for commercial employees (1) to total number of quarters at airport (32)

6.3. The allocation of gross block of assets as on 01.04.2016 as submitted by AAI is given in the table below:

Table 19 – Allocation of gross block of assets as on 01.04.2016 between aeronautical and non-aeronautical services as submitted by AAI

Sr. No.	Assets	Aero Assets (₹ crore)	Total Assets (₹ crore)	% Aero
1	Land	0.0	0.0	100.0%
2	Runways / taxiway / Aprons	31.3	31.3	100.0%
3	Road, Bridges & Culverts	0.7	0.7	100.0%
4	Building- Terminal	72.5	83.0	87.4%
5	Building – Temporary	2.6	2.6	98.0%
6	Building – Residential	3.6	3.7	97.2%
7	Security Fencing - Temporary	0.6	0.6	100.0%
8	Boundary Wall -Operational	2.6	2.6	100.0%
9	Boundary Wall - Residential	0.0	0.0	0.0%
10	Other Buildings-Unclassified	0.1	0.1	100.0%
11	Computer & Peripherals	1.4	1.4	100.0%
12	Intangible Assets- Software	0.1	0.1	100.0%
13	Plant & Machinery	11.2	11.3	99.2%
14	Tools & Equipments	2.2	2.2	100.0%

Sr. No.	Assets	Aero Assets (₹ crore)	Total Assets (₹ crore)	% Aero
15	Office Furniture	1.7	1.7	99.9%
16	Other Vehicles	0.0	0.0	0.0%
17	Vehicle- Cars & Jeeps	0.4	0.4	98.8%
18	Electrical Installations	32.7	32.8	99.6%
19	Other Office Equipments	0.4	0.4	99.1%
20	Furniture & Fixtures-Other than office	2.0	2.0	100.0%
21	X Ray Baggage System	14.6	14.6	100.0%
22	CFT/Fire Fighting Equipments	0.0	0.0	100.0%
	<b>Total</b>	<b>180.7</b>	<b>191.6</b>	<b>94.3%</b>

### ***Authority's Examination***

#### **Allocation based on Terminal Area Ratio**

6.4. AAI submitted the workings for the calculation of aeronautical area to non-aeronautical area ratio vide letter dated 01.04.2017.

Table 20 – Workings of Terminal Area Ratio calculation as submitted by AAI for FY 2015-16

S.No.	Category	Domestic Terminal /International Terminal (Sq.m)
1	Restaurant / Snack Bars	604.0
2	T.R. Stall	217.2
3	Duty Free Shop	0.0
4	Hoarding & Display	0.0
5	Building Non-Residential	562.4
6	Porterage	0.0
7	Admission Tickets	0.0
8	Cargo	0.0
9	Other Miscellaneous	0.0
	<b>Total Non-aeronautical area</b>	<b>1383.6</b>
	<b>Total Terminal area</b>	<b>18,600.0</b>
	<b>TB Ratio</b>	<b>7.44%</b>

6.5. The Authority observed that the percentage of non-aeronautical area is lower compared to similar airports. The Authority proposes to use 90.0 % as aeronautical area for asset allocation of Terminal related assets to encourage growth of NAR which would cross-subsidize aeronautical charges.

6.6. Specific assets under Electrical Installations related to the Terminal Building have been

considered as aeronautical by AAI. The Authority proposes to allocate these assets in the ratio of 90% to 10%.

6.7. The asset allocation proposed by Authority is tabulated below:

Table 21 – Change in allocation of gross block of assets existing as on 01.04.2016 between aeronautical and non-aeronautical services proposed by the Authority

Sr. No.	Particulars	Aero Assets	Justification
1	Building - Terminal	85.2%	Total assets are ₹ 82.9 crores out of which ₹ 8.3 crores are purely aeronautical assets, ₹ 5.3 crores are purely non-aeronautical assets and ₹ 69.4 crores are common assets. Common assets have been allocated based on 90% ratio as aeronautical assets.
2	Building - Temporary	98.0%	Total assets are ₹ 2.60 crores out of which ₹ 2.55 crores are purely aeronautical assets and ₹ 0.05 crores are purely non-aeronautical assets.
3	Buildings – Residential	97.2%	Total assets are ₹ 3.7 crores out of which ₹ 0.4 crores are purely aeronautical assets and ₹ 3.3 crores are common assets. Common assets have been allocated based on quarter ratio (1/32) as non-aeronautical and remaining as aeronautical assets.
4	Plant & Machinery	99.0%	Total assets are ₹ 11.3 crores out of which ₹ 9.9 crores are purely aeronautical assets and ₹ 1.4 crores are common assets. Common assets have been allocated based on terminal building ratio and employee ratio.
5	Office Furniture	99.9%	Total assets are ₹ 1.65 crores out of which ₹ 1.61 crores are purely aeronautical assets and ₹ 0.04 crores are common assets. Common assets have been allocated based on terminal building ratio and employee ratio.
6	Vehicle – Cars & Jeep	98.4%	Total assets are ₹ 0.36 crores out of which ₹ 0.3 crores are purely aeronautical assets and ₹ 0.06 crores are common assets. Common assets have been allocated based on 90% ratio as aeronautical assets.
7	Electrical Installations	98.0%	Total assets are ₹ 32.8 crores out of which ₹ 29.1 crores are purely aeronautical assets, ₹ 0.3 cr. are purely non-aeronautical assets and ₹ 3.4 crores are common assets. Common assets have been allocated based on terminal building ratio

Sr. No.	Particulars	Aero Assets	Justification
			and employee ratio.
8	Other Office Equipments	99.0%	Total assets are ₹ 0.44 crores out of which ₹ 0.38 crores are purely aeronautical assets and ₹ 0.06 crores are common assets. Common assets have been allocated based on terminal building ratio and employee ratio.

6.8. The allocation of gross block of assets as on 01.04.2016 as considered by the Authority based on revised asset allocation is given in the table below:

Table 22 – Allocation of gross block of assets as on 01.04.2016 between aeronautical and non-aeronautical services as considered by the Authority

Sr. No.	Assets	Total Assets (₹ crore)	Aero Assets (₹ crore)	% Aero
1	Land	0.0	0.0	100.0%
2	Runways / taxiway / Aprons	31.3	31.3	100.0%
3	Road, Bridges & Culverts	0.7	0.7	100.0%
4	Building- Terminal	70.7	83.0	85.2%
5	Building – Temporary	2.6	2.6	98.0%
6	Building – Residential	3.6	3.7	97.2%
7	Security Fencing - Temporary	0.6	0.6	100.0%
8	Boundary Wall -Operational	2.6	2.6	100.0%
9	Boundary Wall - Residential	0.0	0.0	0.0%
10	Other Buildings-Unclassified	0.1	0.1	100.0%
11	Computer & Peripherals	1.4	1.4	100.0%
12	Intangible Assets- Software	0.1	0.1	100.0%
13	Plant & Machinery	11.2	11.3	99.0%
14	Tools & Equipments	2.2	2.2	100.0%
15	Office Furniture	1.7	1.7	99.9%
16	Other Vehicles	0.0	0.0	0.0%
17	Vehicle- Cars & Jeeps	0.4	0.4	98.4%
18	Electrical Installations	32.1	32.8	98.0%
19	Other Office Equipments	0.4	0.4	99.0%
20	Furniture & Fixtures-Other than office	2.0	2.0	100.0%
21	X Ray Baggage System	14.6	14.6	100.0%
22	CFT/Fire Fighting Equipments	0.0	0.0	100.0%
	<b>Total</b>	<b>178.3</b>	<b>191.6</b>	<b>93.1%</b>

### Proposal No. 3. Allocation of assets between Aeronautical and Non-aeronautical services

3.a.The Authority proposes the allocation of assets as on 1<sup>st</sup> April 2016 between



aeronautical and non-aeronautical assets as detailed in Table 22.

## 7. Opening Regulatory Asset Base for Second control period

7.1. Opening RAB for 2<sup>nd</sup> control period under hybrid till as per AAI submission dated 01.04.2017 is ₹ 46.6 crore

Table 23 - Calculation of opening RAB as on 1<sup>st</sup> April 2016 as per AAI submission – Hybrid Till

S. No.	Particulars	Amount (₹ crore)
1	Original Cost of Airport Aeronautical Assets excluding CNS/ATM related assets as on 01.04.2011	159.4
2	Aeronautical asset addition during the 1 <sup>st</sup> control period	21.3
3	<b>Cost of Aeronautical Assets [(1)+(2)] as on 01.04.2016</b>	<b>180.7</b>
4	Accumulated Depreciation as on 01.04.2016	134.1
5	<b>Opening RAB[(3)-(4)] as on 01.04.2016</b>	<b>46.6</b>

7.2. The Authority proposes to adopt depreciation rates as detailed earlier in para 4.7 for calculating RAB for 2<sup>nd</sup> control period.

7.3. The Authority proposes the allocation of assets between aeronautical and non-aeronautical assets as detailed in Table 22.

7.4. Based on revised depreciation rates and revised asset allocation, the opening RAB for 2<sup>nd</sup> control period considered by the Authority under hybrid till is ₹ 92.3 crore.

Table 24 - Calculation of opening RAB as on 1<sup>st</sup> April 2016 as per the Authority – Hybrid Till

S. No.	Particulars	Amount (₹ crore)
1	Original Cost of Airport Aeronautical Assets excluding CNS/ATM related assets as on 01.04.2011	157.0
2	Aeronautical asset addition during the 1 <sup>st</sup> control period	21.3
3	<b>Cost of Aeronautical Assets [(1)+(2)] as on 01.04.2016</b>	<b>178.3</b>
4	Accumulated Depreciation as on 01.04.2016	86.0
5	<b>Opening RAB[(3)-(4)] as on 01.04.2016</b>	<b>92.3</b>

## Proposal No. 4. Opening Regulatory Asset Base for the 2<sup>nd</sup> control period

4.a. The Authority proposes to consider the opening regulatory base for the 2<sup>nd</sup> control period under hybrid till as ₹ 92.3 crore

## 8. Capital Expenditure for Second control period

8.1. AAI has forecasted aeronautical capital expenditure of ₹ 410.7 crore for the 2<sup>nd</sup> control period as shown below:

Table 25 – Aeronautical assets to be capitalized at civil enclave Srinagar for 2<sup>nd</sup> control period as per AAI

S.N.	Particulars (₹ crore)	2016-17	2017-18	2018-19	2019-20	2020-21
1	Buildings - Terminal	5.6	2.1	0.0	0.0	192.1
2	Building - Residential	0.0	0.0	0.0	0.0	0.0
3	Tools and Equipments	0.0	0.0	0.0	0.0	0.0
4	Electrical Installations	1.9	1.5	0.0	0.0	207.5
	<b>Total (₹ 410.7 cr.)</b>	<b>7.6</b>	<b>3.6</b>	<b>0.0</b>	<b>0.0</b>	<b>399.6</b>
	<b>Revised capex as per AAI submission dated 17.07.2017 and 03.08.2017</b>					
1	Buildings - Terminal	0.5	7.1	0.0	0.0	231.4
2	Building - Residential	0.8	0.0	0.0	0.0	0.0
3	Tools and Equipments	0.1	0.0	0.0	0.0	0.0
4	Electrical Installations	0.9	3.0	0.0	0.0	244.8
	<b>Total (₹ 488.6 cr.)</b>	<b>2.3</b>	<b>10.1</b>	<b>0.0</b>	<b>0.0</b>	<b>476.2</b>

8.2. AAI has submitted following details of the proposed capital works to be undertaken during the control period:

### 8.2.1. Construction, Modification & Expansion Existing Passenger Terminal Building

As per current traffic data, for Srinagar Airport, Annual Traffic in 2014-15 is 2 mn (2014-15). The above building capacity is saturated, therefore it is proposed to modify and extend the existing terminal building to cater to the passenger's convenience in future growth of Srinagar airport.

As per the present proposal, modification & expansion of the existing Terminal Building, and associated facilities is to be taken up. Hence, the following Scope of Work at Srinagar Airport is prepared for obtaining in principle approval from the Competent Authority for the preparation of estimates to obtain AA & ES so as to take up the developmental works –

- Modification & expansion of the existing passenger terminal building is planned to construct 33,000 sq. m. additional space so that total area will be 53,000 sq. m.

- b) After modification & expansion the existing terminal building will be able to handle 2,300 peak hour passengers with the recommended area specifications and to match the level of services B as per IATA recommendations (growth trends indicate a traffic of 5.2 mn by 2023-24)
- c) Existing structure on the proposed area of expansion block will have to be relocated to clear space for construction of new block.

### **Authority's Examination**

8.3. The Authority requested AAI to submit the Capex to be incurred in FY 2016-17 based on current status. In response to this, AAI vide submission dated 17.07.2017 provided the revised capital expenditure to be incurred in FY 2016-17 and during 2<sup>nd</sup> control period. AAI vide their submission dated 17.07.2017 revised the capital expenditure for construction, modification and expansion of existing passenger terminal building to ₹ 494.8 cr. Out of this ₹ 494.8 cr., AAI has allocated ₹ 250 cr. for civil works and ₹ 244.8 cr. for electrical works. Further, aeronautical portion of the civil works (₹ 231.4 cr.) was determined by AAI using the terminal building ratio of 92.56%.

8.4. The Authority has issued an order on Normative Approach to Building Blocks in Economic Regulations of major airports. In this regard, AAI submitted that the following details:

Table 26 – Details of cost per unit area of Terminal Building, Runway, Apron and Taxi way as per AAI for the capital expenditure in 2<sup>nd</sup> control period

Sr. No.	Asset	Capitalizati on year	Cost (₹ cr.)	Area (sq. m.)	Cost per unit area (₹ per sq. m.)
1	Construction, Modification & Expansion Existing Passenger Terminal Building	FY 2020-21	494.8	33,000	149,924

8.5. The Authority observed that the cost of terminal per square meter of terminal area is greater than the threshold limits of normative cost as per Authority's guideline/ order. The Authority had requested AAI to provide justification for such higher cost per unit area. AAI vide their response dated 17.07.2017 provided that the cost of terminal building has been assessed as per the specification adopted for the new Integrated

Passenger Terminal Building which work out to ₹ 1,05,000/- per sqm + WCT (Applicable as on the date of ball park estimate made prior to 01.07.2017), CESS, Consultancy, Remoteness etc. The civil construction cost is ₹ 65,618/- per sqm., cost for Electrical & Mechanical Installation works out to ₹ 29,046/- per sqm., cost of IT system work is ₹ 657/- per sqm., Cost of Airport system work is ₹ 9,831/- per sqm. & cost of Art work is ₹ 612/- per sqm. etc.

8.6. The Authority has noted the above justification by AAI for cost exceeding the normative benchmarks. However, the Authority is of the view that the capital expenditure of the planned works is indicative and actual capital expenditure may be different. Hence, the Authority proposes to revise the capital expenditure for terminal building based on normative benchmarks for FY 2015-16 and increase the benchmarks by WPI of 4.2% per annum till the year of capitalization.

8.7. The total capital expenditure for these assets as proposed by the Authority have been provided in the table below:

Table 27 – Capital expenditure for terminal building, apron and PTT as proposed by the Authority

Sr. No.	Asset	Capitalization year	Area (sq. m.)	Inflation adjusted normative benchmark cost per unit area (₹ per sq. m.)	Allowed Capex (₹ cr.)
1	Construction, Modification & Expansion Existing Passenger Terminal Building	2021	33,000	79,846	263.5

8.8. The Authority further noted that the total capital expenditure for construction of terminal building and other terminal related expenditure capitalized in FY 2016-17 (₹ 0.35 cr.), FY 2017-18 (₹ 7.7 cr.) and FY 2020-21 (revised to ₹ 133.1 cr.) have been allocated into aeronautical assets using the terminal building ratio of 92.56%. The Authority proposes to consider 90% as aeronautical assets for construction of terminal building and other terminal related expenditure (₹ 0.32 cr. in 2016-17, ₹ 6.9 cr. in FY 2017-18, ₹ 119.8 cr. in FY 2020-21).

8.9. The Authority further noted that total capital expenditure for electrical installations in the terminal buildings which has been capitalized in FY 2020-21 (revised to ₹ 130.4 cr.)

have been considered by AAI as aeronautical capex. Further, AAI vide their submission dated 17.07.2017 submitted that 20% of capital expenditure for electrical installations may be considered for allocation into aeronautical and non-aeronautical assets using terminal building ratio and remaining 80% should be considered as 100% aeronautical capex. The Authority proposes to allocate 90% of the capital expenditure for electrical installations (₹ 117.3 cr.) which has been capitalized FY 2020-21 as aeronautical Capex.

8.10. The Authority also proposes to undertake a study by technical experts to estimate the allowable terminal capital expenditure for civil enclave Srinagar vis-à-vis normative benchmarks. The Authority had asked AAI for detailed information on justification for exceeding the normative benchmarks. Due to lack of detailed information and in the interest of avoiding delays in fixing tariffs, the Authority proposes to determine capital expenditure using normative norms at this stage. The Authority shall undertake a study on reasonableness of capital expenditure and make appropriate adjustments while determining tariffs for third control period. Based on the outcome of study and the fairness of the tender procedures followed for selection of contractor, the Authority proposes to true-up capital expenditure at the time of tariff determination for 3<sup>rd</sup> control period.

8.11. The other capital expenditure details have been updated based on capital expenditure status provided by AAI vide their submission dated 17.07.2017 and 03.08.2017.

Table 28 - Revised aeronautical capital expenditure for 2<sup>nd</sup> control period as considered by the Authority

S.N.	Particulars (₹ crore)	2016-17	2017-18	2018-19	2019-20	2020-21
1	Buildings - Terminal	0.5	6.9	0.0	0.0	119.8
2	Building - Residential	0.8	0.0	0.0	0.0	0.0
3	Tools and Equipments	0.1	0.0	0.0	0.0	0.0
4	Electrical Installations	0.9	3.0	0.0	0.0	117.3
	<b>Total</b>	<b>2.3</b>	<b>9.9</b>	<b>0.0</b>	<b>0.0</b>	<b>237.1</b>

8.12. The Authority proposes to consider the total aeronautical Capex to be capitalized and added to RAB at ₹ 249.4 crore.

8.13. The Authority notes that the cost of the planned works is indicative. The Authority proposes to consider the addition to aeronautical assets during the 2<sup>nd</sup> control period as

given in Table 28 subject to true-up of RAB based on actual aeronautical asset addition, outcome of the study mentioned in para 8.10 and the actual costs as per the tender while determining tariffs for the 3<sup>rd</sup> control period.

8.14. In the 2<sup>nd</sup> control period, project works related to Construction, Modification and Extension of Existing Terminal Building inclusive of Electrical Installations are proposed to be taken up. These require user consultation as per the Guidelines. The Authority expects AAI to provide all the required project information as part of the consultation process with users. AAI has submitted vide their response dated 17.07.2017 the User Consultation for construction, modification and expansion of existing terminal building.

**Proposal No. 5. Capital Expenditure**

5.a. The Authority proposes to consider allowable project cost of ₹ 249.4 crore and accordingly to reckon the amount of ₹ 249.4 crore as addition for total assets during the 2<sup>nd</sup> control period.

5.b. AAI should undertake user stakeholder consultation process for major Capex items as per the Guidelines.

5.c. The Authority proposes to true-up the Opening RAB of the next control period depending on the Capex incurred and date of capitalisation of underlying assets in a given year.

## **9. Depreciation**

9.1. AAI has submitted that the depreciation rates used are as per AAI's approved accounting policy. The salient aspects of AAI's depreciation policy being followed are as under:

9.1.1. Method of depreciation: straight line;

9.1.2. 100% of depreciation rates of assets if assets are used in a financial year for 180 days or more. If the assets are used for less than 180 days in a year the depreciation is charged at 50% of the depreciation rates. This policy is effective from the financial year 2012-13;

9.1.3. Residual value for each asset is taken as Re.1 balance to be provided by way of depreciation as per prescribed rates.

### ***Authority's Examination***

9.2. The Authority notes that the depreciation policy of AAI is not in accordance with the depreciation rates adopted by the Authority in other private airports. AAI is a statutory body established under the AAI Act and it does not come under the Companies Act. The Board of AAI has approved the depreciation policy that has been adopted by AAI.

9.3. The Authority notes that on some of the assets the depreciation charged by AAI is not in line with the Companies Act 2013. The Authority is of the view that adoption of depreciation rates as prescribed under the Companies Act at any point of time is appropriate, considering the variation in policies adopted by the airport operators. The Authority further notes that there is no specific mention of the classes of assets viz. apron, taxiway and runway in the Companies Act 2013 or 1956 or in the Income Tax Act 1961.

9.4. In this regard, the Authority has separately commissioned a study to determine appropriate depreciation rates for regulation of airports in line with the provisions of the Companies Act 2013. The Authority proposes to consider the recommendations of the study on depreciation and finalize the depreciation rates in consultation with the stakeholders. It shall make necessary adjustments in RAB and true-up of depreciation while considering tariff determination in future.

9.5. In light of above, for the categories of assets (runway, taxiway and apron) where no



specific depreciation rate/ useful life has been mentioned in the Companies Act, the Authority proposes to adopt depreciation rate of 3.33%. This rate is proposed to be applied on runway, taxiway and apron assets existing as on 01.04.2011 and on these assets added during 1<sup>st</sup> and 2<sup>nd</sup> control period.

9.6. The Authority proposes to adopt the depreciation rates mentioned under Companies Act for assets as per the Companies Act 1956 till FY 2013-14 and as per the Companies Act 2013 from FY 2014-15 onwards as the effective date of implementation of the Companies Act 2013 is 01.04.2014.

9.7. The Authority proposes that for the new assets to be capitalized in the 2<sup>nd</sup> control period, depreciation is charged at 50% of the depreciation rates in the year of capitalization.

9.8. The depreciation rates as submitted by AAI and as considered by the Authority during the 1<sup>st</sup> and 2<sup>nd</sup> control period are given below:

Table 29 - Depreciation rates as submitted by AAI and as considered by the Authority

No.	Asset Class	As per AAI	As per Authority till FY 2014	As per Authority FY2015 onwards
1	Land	0.0%	0%	0%
2	Runways	13.0%	3.33%	3.33%
3	Aprons	13.0%	3.33%	3.33%
4	Road, Bridges & Culverts	13.0%	1.63%	3.33%
5	Building- Terminal	8.0%	1.63%	3.33%
6	Building – Temporary	100.0%	100%	33%
7	Building – Residential	5.0%	1.63%	3.33%
8	Security Fencing - Temporary	100.0%	100%	33%
9	Boundary Wall -Operational	8.0%	1.63%	3.33%
10	Other Building - Unclassified	8.0%	1.63%	3.33%
11	Computer & Peripherals	20.0%	16.21%	16.67%
12	Intangible Assets- Software	20.0%	20%	20%
13	Plant & Machinery	11.0%	4.75%	6.67%
14	Tools & Equipments	20.0%	4.75%	6.67%
15	Office Furniture	20.0%	6.33%	10.00%
16	Other Vehicles	14.0%	9.50%	12.50%
17	Vehicle- Cars & Jeeps	14.0%	9.50%	12.50%
18	Electrical Installations	11.0%	4.75%	10.00%
19	Other Office & Equipments	18.0%	4.75%	20.00%
20	Furniture & Fixtures	20.0%	6.33%	10.00%

No.	Asset Class	As per AAI	As per Authority till FY 2014	As per Authority FY2015 onwards
21	X Ray Baggage System	11.0%	4.75%	6.67%
22	CFT/Fire Fighting Equipments	13.0%	4.75%	6.67%

9.9. The revised depreciation for the 2<sup>nd</sup> control period as per hybrid till as proposed by the Authority is given below:

Table 30 - Authority's consideration on depreciation for the 2<sup>nd</sup> control period – Hybrid till

No.	Details (₹ crore)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
1	As per AAI	15.1	11.7	7.8	6.1	42.6	<b>83.3</b>
2	As per Authority	8.6	8.5	8.4	7.8	14.5	<b>47.7</b>

#### **Proposal No. 6. Treatment of Depreciation**

6.a. The Authority proposes to adopt depreciation rates as per Table 29 and depreciation for the 2<sup>nd</sup> control period as per Table 30.

6.b. The Authority proposes to consider the recommendations of the study on depreciation and finalize the depreciation rates in consultation with the stakeholders. It shall make necessary adjustments in RAB and true up of depreciation while considering tariff determination in future.

## 10. RAB for Second control period

10.1. AAI has submitted Regulatory Asset Base for 2<sup>nd</sup> control period under hybrid till as follows:

Table 31 - Summary of the RAB and Depreciation for civil enclave Srinagar (Airport Services) as per AAI for the 2<sup>nd</sup> control period

	Details (₹ crore)	2016-17	2017-18	2018-19	2019-20	2020-21
A	Opening Aeronautical RAB	46.6	39.1	30.9	23.2	17.1
B	Aeronautical Additional Assets capitalized during the year	7.6	3.6	0.0	0.0	399.6
C	Disposals/Transfers	0.0	0.0	0.0	0.0	0.0
D	Depreciation	15.1	11.7	7.8	6.1	42.6
E	Closing Aeronautical RAB (A+B-C-D)	39.1	30.9	23.2	17.1	374.1
	<b>Average RAB (A+E)/2</b>	<b>42.9</b>	<b>35.0</b>	<b>27.1</b>	<b>20.2</b>	<b>195.6</b>

### Authority's Examination

10.2. The Authority proposes to adopt opening RAB for FY 2016-17 as detailed in Table 24.

10.3. The Authority proposes to adopt depreciation as proposed in Table 30.

10.4. The Authority proposes ₹ 249.4 crore as the addition of aeronautical assets to RAB as detailed in Table 28.

10.5. The revised Regulatory Asset Base as calculated by the Authority for 2<sup>nd</sup> control period under hybrid till is as follows:

Table 32 - Summary of forecast and Roll forward RAB and Depreciation for civil enclave Srinagar (Airport Services) considered by the Authority for 2<sup>nd</sup> control period – Hybrid till

	Details (₹ crore)	2016-17	2017-18	2018-19	2019-20	2020-21
A	Opening Aeronautical RAB	92.3	86.0	87.5	79.1	71.3
B	Aeronautical Assets capitalized during the year	2.3	9.9	0.0	0.0	237.1
C	Disposals/Transfers	0.0	0.0	0.0	0.0	0.0
D	Depreciation	8.6	8.5	8.4	7.8	14.5
E	Closing Aeronautical RAB (A+B-C-D)	86.0	87.5	79.1	71.3	294.0
	<b>Average RAB (A+E)/2</b>	<b>89.2</b>	<b>86.8</b>	<b>83.3</b>	<b>75.2</b>	<b>182.7</b>

10.6. The Authority proposes to true up the RAB of 2<sup>nd</sup> control period based on actual asset

addition and revised depreciation rates, at the time of determination of tariff for the 3<sup>rd</sup> control period.

**Proposal No. 7. RAB for 2<sup>nd</sup> control period**

7.a. The Authority proposes to consider RAB for 2<sup>nd</sup> control period as given in Table 32

7.b. The Authority proposes to true up the RAB of 2<sup>nd</sup> control period based on actual asset addition and revised depreciation rates based on the outcome of the study commissioned by the Authority, at the time of determination of tariff for the 3<sup>rd</sup> control period.

## **11. Cost of Equity, Cost of Debt, Gearing, and Fair Rate of Return (FRoR)**

11.1. AAI has considered Fair Rate of Return (FRoR) as 14% at par with the decision taken by the Authority in Chennai, Kolkata Guwahati and Lucknow Airports for the 1<sup>st</sup> control period.

11.2. AAI has not apportioned any debt for civil enclave Srinagar and financing activities are undertaken centrally at the corporate office of AAI. Due to lack of any debt on civil enclave at Srinagar's books, FRoR is determined based on capital structure of AAI as a whole.

### **Authority's Examination**

11.3. The Authority has recognised that AAI's capital structure may not be regarded as an efficient one in that it doesn't optimize the cost of funds from a regulatory perspective. The Authority desires that the FRoR allowed to AAI should come down over a period of time by optimizing capital gearing. The Authority may also consider a normative capital structure to determine the FRoR at a later date. It may not be reasonable to expect AAI to contract large amounts of debt over a short period of time.

11.4. The Authority notes that as per a study conducted in respect of the 'Fair Rate of Return Estimation for AAI' in July 2011 it estimated a figure of 14.96% as Fair Rate of Return for AAI. The Authority notes that it has considered FRoR at 14% for Chennai and Kolkata airport in the 1<sup>st</sup> control period considering the recommendations of another study done by NIPFP. Based on the decision for Chennai and Kolkata airport, the Authority considered FRoR at 14% for Guwahati and Lucknow airport for 1<sup>st</sup> control period.

11.5. Based on the above, the Authority proposes to consider FRoR at the rate of 14% for civil enclave at Srinagar for the 1<sup>st</sup> and 2<sup>nd</sup> control period as submitted by AAI.

### **Proposal No. 8. FRoR**

8.a. The Authority proposes to consider the FRoR at 14% for civil enclave at Srinagar for the 1<sup>st</sup> and 2<sup>nd</sup> control period.

8.b. The Authority will undertake a study to determine FRoR for major AAI airports given the low debt structure of AAI as a whole.

## 12. Revenue from services other than aeronautical services

12.1. AAI has forecasted revenue from services other than aeronautical services as below:

Table 33 - Revenue from Non-aeronautical Services – Projected by AAI for 2<sup>nd</sup> control period

No.	Revenue from services other than Regulated Services (₹ crore)	2015-16 (base)	2016-17	2017-18	2018-19	2019-20	2020-21
1	Restaurants/Snack Bar	0.9	1.0	1.2	1.3	1.5	1.8
2	TR Stall	1.2	1.3	1.5	1.6	1.8	2.2
3	Hoardings & Displays	0.1	0.1	1.7	1.9	2.1	2.6
4	Money Exchange Counter	0.1	0.1	0.1	0.1	0.1	0.1
5	Land Leases	0.1	0.3	0.3	0.3	0.4	0.4
6	Building – (Residential)	0.0	0.0	0.0	0.0	0.0	0.0
7	Building – (Non-Residential)	3.8	4.1	4.6	5.0	5.5	6.9
8	Car Rentals	0.2	0.2	0.2	0.2	0.2	0.3
9	Car Parking	0.3	0.3	0.3	0.3	0.4	0.5
10	Other Income	0.7	0.7	0.8	0.9	1.0	1.2
	<b>Total</b>	<b>7.3</b>	<b>8.2</b>	<b>10.6</b>	<b>11.7</b>	<b>12.9</b>	<b>16.0</b>

12.2. The growth rates assumed by AAI for forecasting non aeronautical revenues are given below:

Table 34 – Assumption (growth rates) for Service other than Regulated Services for the 2<sup>nd</sup> Control Period as per AAI

No.	Particular	2016-17	2017-18	2018-19	2019-20	2020-21
1	Restaurants/Snack Bar	15%	15%	15%	15%	20%
2	TR Stall	10%	10%	10%	10%	25%
3	Hoardings & Displays	10%	1180%	10%	10%	25%
4	Money Exchange Counter	10%	10%	10%	10%	25%
5	Land Leases	109.6%	7.5%	7.5%	7.5%	7.5%
6	Building – (Residential)	10%	10%	10%	10%	10%
7	Building – (Non-Residential)	10%	10%	10%	10%	25%
8	Car Rentals	10%	10%	10%	10%	25%
9	Car Parking	10%	10%	10%	10%	25%
10	Other Income	10%	10%	10%	10%	25%

12.3. AAI has provided in their submissions dated 17.07.2017 that civil enclave at Srinagar has increase in revenues from hoarding and display in FY 2017-18 because some sites were allotted on Card rate basis due to non-finalization of regular Advt. Contract. The contract for Exclusive Advt. Rights contract has been awarded on 31.05.2017 for 10

years for area of 5305 Sq. Ft. @ ₹ 272/- per sq. Ft. and license fee for that area works out at Rs. 14,42,960/- per month.

12.4. AAI has provided in their submissions dated 17.07.2017 that civil enclave at Srinagar has increase in revenues from land lease in FY 2016-17 due to new contract to HPCL w.e.f. 14.08.2016. In the FY 2016-17 the amount shown under the head land lease is Rs 28.27 lacs , out of which ₹ 13.77 lacs inadvertently shown as revenue from HPCL for whole year which would be ₹ 8.17 lacs since the contract with HPCL came into effect from 14.08.2016. Accordingly, land lease revenues would be revised for the 2<sup>nd</sup> control period. The Authority proposes to revise the land lease revenues considering AAI's submissions.

### ***Authority's Examination***

12.5. The Authority noted that as part of clarifications provided dated 17.07.2017, AAI has revised the growth rates for non-aeronautical revenues in the 2<sup>nd</sup> control period to 10% annual growth (from 25% as submitted earlier for FY 2020-21) except for land rent where the escalation is 7.5% as per the contractual agreements. AAI has proposed these growth rates based on the contractual agreements. AAI further stated that the terminal building is proposed to be completed by FY 2020-21. The increase in area of the commercial activity and corresponding increase in revenue would likely to be effected in 3<sup>rd</sup> control period.

12.6. The Authority proposes to consider the revised growth rates as submitted by AAI dated 17.07.2017 for the determination of tariff for the 2<sup>nd</sup> control period as they are as per the contracts/ agreements.

12.7. The Authority proposes that non-aeronautical revenues will be trued up if it is higher than the projected revenues. In case there is a shortfall, true-up would be undertaken only if the Authority is satisfied that there are reasonably sufficient grounds for not realizing the projected revenues. The Authority proposes to accept the revenues from services other than regulated services as submitted by AAI except for adjustments as detailed below.

### **Adjustment of lease rentals**

12.8. AAI has allotted following land to supply of fuel to aircraft for their operations. AAI has considered income from such land leases as non-aeronautical revenues

Table 35 – Details of land allotted to supply of fuel to aircraft in 2<sup>nd</sup> control period

Service	Service Provider	Land Allocated (Sq.m)	Land Lease revenues (FY 2015-16) ₹ crore
Supply of Fuel to aircraft	Indian Oil	2091	0.14
Supply of Fuel to aircraft	HPCL	1550	0.00 (allotted in FY 2016-17)

12.9. As per the provisions of the AERA Act, services rendered in respect of cargo, ground handling and fuel supply are aeronautical services.

12.10. The Authority noted that AAI in their submission dated 17.07.2017 have revised the land lease revenues for supply of fuel to aircraft as per para 12.4.

12.11. The Authority proposes to consider land lease revenues on account of the aeronautical services of supply of fuel to aircraft as aeronautical revenue.

12.12. AAI has created a wholly owned subsidiary AAI Cargo Logistics and Allied Services Company Ltd (AAICLAS) in the FY 2016-17 which will take over all the cargo operations at civil enclave Srinagar. The proposal for cargo activities will be filed separately by AAICLAS for determination of cargo tariff in the 2<sup>nd</sup> control period. As per the clarifications received from AAI dated 18.08.2017, AAI will not receive any revenue from AAICLAS for the 2<sup>nd</sup> control period for cargo operations. The cargo revenue projection has not been considered in determination of tariff of 2<sup>nd</sup> control period of civil enclave Srinagar.

12.13. The Authority observed that civil enclave at Srinagar has accrued ₹ 11.61 lakhs in FY 2015-16 from revenue share from cargo service provider as per the Trial Balance for FY 2015-16. AAI vide its submission dated 03.08.2017 clarified that ₹ 11.61 lakhs is the amount of Royalty from Ground Handling Agencies - Cargo Handlers. There is no revenue share from cargo services. It has been booked in Misc. Other income. It may not be treated as a part of MYTP of 2<sup>nd</sup> control period because it is cargo ground handling. Accordingly future projections on this amount is not to be carried forward in the 2<sup>nd</sup>



control period. As royalty from ground handling agencies – cargo handlers is an aeronautical service and has to be undertaken by AAICLAS, the Authority proposes to deduct this revenue from non-aeronautical revenues and to not consider these for projections in the 2<sup>nd</sup> control period.

12.14. The Authority observes that non-aeronautical revenue at civil enclave Srinagar is low and expects AAI to utilize its resources better and maximize its non-aeronautical revenue to keep the aeronautical tariff down.

12.15. The Authority proposes to consider non-aeronautical revenues as given below:

Table 36 – Adjustment to Revenue from Non-aeronautical Services considered by Authority for 2<sup>nd</sup> control period

<b>Revenue from services other than Regulated Services (₹ crore)</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
<b>Non-Aeronautical Revenues as per AAI (A)</b>	<b>8.2</b>	<b>10.6</b>	<b>11.7</b>	<b>12.9</b>	<b>16.0</b>
<b>Adjustment:</b>					
Change in revenue from ground handling considered as aeronautical revenues and change in growth rates (B)	0.5	0.8	0.6	0.7	2.6
<b>Non-Aeronautical Revenues as per Authority (A-B)</b>	<b>7.7</b>	<b>9.8</b>	<b>11.1</b>	<b>12.2</b>	<b>13.4</b>

#### **Proposal No. 9. Non Aeronautical Revenues**

9.a. The Authority proposes to consider the revenues accruing to AAI on account of the aeronautical services of Cargo facility, Ground Handling Services and Supply of fuel to aircraft (FTC) including land lease from these activities as aeronautical revenue.

9.b. The Authority proposes to consider the Non Aeronautical Revenue as per Table 36

9.c. The Authority proposes that non-aeronautical revenues will be trued up if it is higher than the projected revenues. In case there is a shortfall, true-up would be undertaken only if the Authority is satisfied that there are reasonably sufficient grounds for not realizing the projected revenues.

### 13. Operation and Maintenance Expenditure

13.1. Operation and Maintenance (O&M) expenditure submitted by AAI is segregated into:

- (i) Payroll expenses; (ii) Admin and General Expenditure; (iii) Repair and Maintenance Expenditure; (iv) Utilities and Outsourcing Expenditure; and (v) Other Outflows

13.2. Summary of aeronautical expenses proposed by AAI for 2<sup>nd</sup> control period is as below:

Table 37 - Summary of Aeronautical O&M expenditure as submitted by AAI for 2<sup>nd</sup> control period on hybrid till

No.	Particulars (₹ crore)	2016-17	2017-18	2018-19	2019-20	2020-21
1	Pay roll Expenditure of civil enclave Srinagar	8.1	10.1	11.1	12.2	13.4
2	Expenditure for civil enclave Srinagar employees' retirement benefits allocated at CHQ	1.5	1.9	2.0	2.1	2.2
<b>A</b>	<b>Total Pay roll Expenditure (1+2-3)</b>	<b>9.6</b>	<b>12.0</b>	<b>13.1</b>	<b>14.3</b>	<b>15.6</b>
3	Administrative and General Expenditure	0.9	1.0	1.1	1.2	1.3
4	Apportionment of administration & General expenditure of CHQ/RHQ	2.4	2.5	2.6	2.6	2.8
<b>B</b>	<b>Total Administration &amp; General Expenditure(4+5)</b>	<b>3.3</b>	<b>3.5</b>	<b>3.7</b>	<b>3.8</b>	<b>4.1</b>
<b>C</b>	<b>Repairs and Maintenance Expenditure (Total)</b>	<b>6.1</b>	<b>6.7</b>	<b>7.3</b>	<b>8.1</b>	<b>8.9</b>
5	Power Charges	1.6	1.6	1.6	1.6	1.6
6	Consumption of Stores and Spares	1.1	1.2	1.3	1.4	1.6
<b>D</b>	<b>Utility and Outsourcing Expenditure (6+7)</b>	<b>2.7</b>	<b>2.8</b>	<b>3.0</b>	<b>3.1</b>	<b>3.2</b>
<b>E</b>	<b>Other Outflows</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
	<b>Total (A+B+C+D+E)</b>	<b>21.8</b>	<b>25.1</b>	<b>27.3</b>	<b>29.5</b>	<b>32.0</b>

13.3. The details of the assumptions made by AAI for O&M Expenditure are given below:

Table 38 – Assumptions made by AAI for each item of O&M expenditure

No.	Particular	2016-17	2017-18	2018-19	2019-20	2020-21
<b>1</b>	<b>Payroll Expenses</b>					
	Salaries and Wages	10%	25%	10%	10%	10%
	PF contribution	10%	25%	10%	10%	10%

No.	Particular	2016-17	2017-18	2018-19	2019-20	2020-21
	Fringe benefits including perks & medical expenses	10%	25%	10%	10%	10%
	Overtime	5%	25%	5%	5%	5%
	Allocation of Retirement Benefit provided at CHQ in r/o civil enclave Srinagar Employees	5%	25%	5%	5%	5%
<b>2</b>	<b>R&amp;M Expenses</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>
<b>3</b>	<b>Utility and outsourcing Expenditure</b>					
	Power & Water charges	0%	0%	0%	0%	0%
	Consumption of Stores and Spares	10%	10%	10%	10%	10%
<b>4</b>	<b>Administration and General Expenditure</b>					
	Admin & General Expenses	10%	10%	10%	10%	10%
	Apportionment of CHQ/RHQ Expenses	5%	5%	5%	5%	5%
<b>5</b>	<b>Other Outflows</b>					
	Collection charges on PSF	12%	12%	12%	12%	12%

\* Higher growth rate for increase in Payroll costs in FY 2017-18 is due to 7<sup>th</sup> Pay Commission revision

13.4. AAI has segregated total O&M expenditure for the 2<sup>nd</sup> control period into aeronautical expenses, non-aeronautical expenses, and common expenses. Common expenses in turn have been allocated between aeronautical and non-aeronautical services.

13.5. Expense allocation as submitted by AAI for 2<sup>nd</sup> control period is tabulated below:

Table 39 – O&M Expense allocation as submitted by AAI

Sr. No.	Particulars	Aero Expense	Non-Aero Expense
1	Payroll Expenses - Non-CHQ	95%	5%
2	Payroll Retirement benefit expenses Apportionment – CHQ	100%	0%
3	Admin and General Expenses – Non CHQ	92%	8%
4	Admin and General overheads Expenses Apportionment – CHQ/RHQ	100%	0%
5	R&M Expenses	96%	4%
6	Utility and Outsourcing Charges	100%	0%
7	Other Outflows	100%	0%
	<b>Total</b>	<b>97%</b>	<b>3%</b>

#### **Authority's Examination**

13.6. The Authority considered the operating expenses and their projections submitted by AAI and noted the following.

#### **Forecasting of payroll expenses**

- 13.6.1. The Authority notes that payroll costs components – Salaries and Wages, Fringe Benefits, including perks & medical expenditure and PF contribution have been increased by AAI at the growth rate of 10% annually for 2<sup>nd</sup> control period except for FY 2017-18. These growth rates appear to be on a higher side. The Authority proposes growth rate of 7% for the above payroll components.
- 13.6.2. The Authority notes that expenditure on apportionment of retirement benefits provided to CHQ in respect of civil enclave Srinagar employees is increased at 5% annually for 2<sup>nd</sup> control period which is different from the 7% for the above mentioned payroll components. The Authority proposes to apply the same growth rate of 7% annually except for FY 2017-18 for expenditure on apportionment of retirement benefits provided to CHQ in respect of civil enclave Srinagar employees (as per discussion with AAI).
- 13.6.3. The Authority has in noted that an increase of 25% has been projected in the pay roll expenditure in FY 2017-18 due to tentative increase in salary and wages on account of wage revision. The Authority notes that Public Sector Undertakings are covered under separate wage revision mechanism. Moreover, the Authority is of the view that as on date there is no actual evidence for the said outflow in FY 2017-18 and hence proposes to true up the expenditure in the 3<sup>rd</sup> control period. In view of above, an increase of 25% is proposed for projection of the pay roll expenditure for FY 2017-18 in line with Trivandrum Order for the 2<sup>nd</sup> control period.
- 13.6.4. AAI has submitted apportionment of CHQ/RHQ expenses on cost basis. The Authority proposes to adopt CHQ/RHQ overheads apportionment for the 2<sup>nd</sup> control period based on actual revenue basis data provided by AAI.
- 13.6.5. The Authority noted that an increase of 1% has been proposed by AAI for CHQ/ RHQ admin expenses for FY 2020-21 which is different from 5% considered in other years in 2<sup>nd</sup> control period. AAI vide its submission dated 17.07.2017 clarified that the growth rate for CHQ/ RHQ admin expenses for FY 2020-21 should be considered as 5% instead of 1%. The Authority proposes to increase CHQ/RHQ overheads apportionment costs (admin & general

expenditure of CHQ/RHQ) by 5% per annum for the 2<sup>nd</sup> control period as submitted by AAI.

13.6.6. The Authority observed that AAI has allocated 50% of the ANS staff expense under airport payroll costs. AAI vide their submissions dated 17.07.2017 submitted that the staff deputed at Srinagar Airport (Civil Enclave) for CNS / ATC is also working for airport activities as ATC work is performed by Defence Authorities. Hence, 50% staff related costs of CNS / ATC staff is taken as cost of airport activities. Further, the AAI vide their submissions dated 05.08.2017 submitted that the expenses of the ANS/ CNS employees working exclusively for airport would be booked under airport from the FY 2017-18 onwards. The projection of 50% may continue for 2<sup>nd</sup> control period and it would be trued up on the basis of actual while finalizing tariff at 3<sup>rd</sup> control period for Srinagar Airport. The Authority proposes to consider 50% of the ANS staff cost as the airport payroll costs since these employees have been working in airport activities for the 2<sup>nd</sup> control period. The Authority proposes to true-up the payroll costs for these CNS/ ATC staff in the 3<sup>rd</sup> control period based on actuals.

13.6.7. AAI vide their submission dated 17.07.2017 revised the percentage of common employee expenses of finance and HR for ANS from 11.3% to 4.7% for the 2<sup>nd</sup> control period based on the actual percentage of common employee expenses of finance and HR for ANS in FY 2015-16. Accordingly, the Authority proposes to revise the common employee expenses of finance and HR for ANS for the 2<sup>nd</sup> control period.

#### **Segregation of aeronautical expenses**

13.7. The Authority notes that the Payroll Costs in the operational expenditure have been allocated using percentage of employees for aeronautical services to total employees which is 95.3%. To account for common service employees handling both aeronautical and non-aeronautical activities, the Authority proposes to use ratio of 95% to 5% for allocation of payroll costs.

13.8. The Authority notes that apportionment of retirement benefits provided in CHQ and admin and general overheads Expenses Apportionment of CHQ/RHQ in respect of civil

enclave Srinagar have been considered as 100% aeronautical expenses. The Authority proposes to use the ratio of 90% to 10% for aeronautical and non-aeronautical allocation for apportionment of admin CHQ/RHQ expenses. The Authority proposes to use the ratio of 95% to 5% for aeronautical and non-aeronautical allocation for retirement benefits provided at CHQ in respect of employees at civil enclave Srinagar.

13.9. Terminal Area ratio for calculation of aeronautical assets is proposed as 90%. This ratio has been applied to specific expenses in R&M – Civil, R&M – Electrical and Upkeep Expenses.

13.10. The O&M expenditure for FY 2015-16 which includes both aeronautical and non-aeronautical expense is given in the table below:

Table 40 – Total O&M expenditure (aeronautical and non-aeronautical expenses) for FY 2015-16 as proposed by the Authority

No.	Particulars (₹ crore)	2015-16
1	Pay roll Expenditure of civil enclave Srinagar	8.4
2	Expenditure for civil enclave Srinagar employees' retirement benefits allocated at CHQ	1.5
<b>A</b>	<b>Total Pay roll Expenditure (1+2-3)</b>	<b>9.8</b>
3	Administrative and General Expenditure	0.9
4	Apportionment of administration & General expenditure of CHQ/RHQ	2.3
<b>B</b>	<b>Total Administration &amp; General Expenditure(4+5)</b>	<b>3.2</b>
<b>C</b>	<b>Repairs and Maintenance Expenditure (Total)</b>	<b>5.7</b>
5	Power Charges	1.6
6	Consumptions of Stores and Spares	1.0
<b>D</b>	<b>Utility and Outsourcing Expenditure (6+7+8)</b>	<b>2.6</b>
<b>E</b>	<b>Other Outflows</b>	<b>0.1</b>
	<b>Total (A+B+C+D+E)</b>	<b>21.5</b>

13.11. Expense allocation proposed to be considered by the Authority after above changes for 2<sup>nd</sup> control period is tabulated below:

Table 41 – Expense allocation between aeronautical and non-aeronautical services proposed by the Authority

Sr. No.	Particulars	Aero Expense	Non-Aero Expense
1	Payroll Expenses - Non-CHQ	95%	5%
2	Payroll Retirement benefit expenses Apportionment – CHQ	95%	5%

Sr. No.	Particulars	Aero Expense	Non-Aero Expense
3	Admin and General Expenses – Non CHQ	87%	13%
4	Admin and General overheads Expenses Apportionment – CHQ/RHQ	90%	10%
5	R&M Expenses	95%	5%
6	Utility and Outsourcing Charges	100%	0%
7	Other Outflows	100%	0%
	<b>Total</b>	<b>95%</b>	<b>5%</b>

13.12. In view of above, the O&M expenditure is reworked for the purpose of determination of aeronautical tariffs for the 2<sup>nd</sup> control period under hybrid till and given in table below.

Table 42 - Summary of Aeronautical O&M expenditure as per the Authority for the 2<sup>nd</sup> control period as per hybrid till

No.	Particulars (₹ crore)	2016-17	2017-18	2018-19	2019-20	2020-21
1	Pay roll Expenditure of civil enclave Srinagar	8.5	10.6	11.4	12.2	13.0
2	Expenditure for civil enclave Srinagar employees' retirement benefits allocated at CHQ	1.5	1.8	2.0	2.1	2.3
<b>A</b>	<b>Total Pay roll Expenditure (1+2-3)</b>	<b>10.0</b>	<b>12.5</b>	<b>13.3</b>	<b>14.3</b>	<b>15.3</b>
3	Administrative and General Expenditure	0.9	1.0	1.1	1.2	1.3
4	Apportionment of administration & General expenditure of CHQ/RHQ	2.1	2.2	2.3	2.5	2.6
<b>B</b>	<b>Total Administration &amp; General Expenditure(4+5)</b>	<b>3.0</b>	<b>3.2</b>	<b>3.4</b>	<b>3.6</b>	<b>3.9</b>
<b>C</b>	<b>Repairs and Maintenance Expenditure (Total)</b>	<b>6.0</b>	<b>6.6</b>	<b>7.2</b>	<b>8.0</b>	<b>8.8</b>
5	Power Charges	1.6	1.6	1.6	1.6	1.6
6	Consumption of Stores and Spares	1.1	1.2	1.3	1.4	1.6
<b>D</b>	<b>Utility and Outsourcing Expenditure (6+7)</b>	<b>2.7</b>	<b>2.8</b>	<b>3.0</b>	<b>3.1</b>	<b>3.2</b>
<b>E</b>	<b>Other Outflows</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
	<b>Total (A+B+C+D+E)</b>	<b>21.8</b>	<b>25.2</b>	<b>27.1</b>	<b>29.1</b>	<b>31.3</b>

13.13. The Authority proposes to undertake an independent study to assess the reasonableness of the operation and maintenance expenditure. The Authority would consider the results of the study to true-up the operation and maintenance expenditure

while tariff determination for the 3<sup>rd</sup> control period.

13.14. The Authority noted that O&M expenditure at civil enclave Srinagar is on higher side and expects AAI to reduce the O&M expenditure.

**Proposal No. 10. Operation and Maintenance expenditure**

10.a. The Authority proposes to consider the operational and maintenance expenditure as given in Table 42 above, for the purpose of determination of aeronautical tariffs for the 2<sup>nd</sup> control period.

10.b. The Authority expects AAI to reduce O&M expenditure over a period of time.

10.c. The Authority proposes to true up the O&M expenditure for 2016-17 to 2020-21 of the 2<sup>nd</sup> control period based on the actuals at the time of determination of tariffs for the 3<sup>rd</sup> control period.

10.d. The Authority proposes the following factors for corrections while determining tariffs for the next control period:

- (i) Mandated cost incurred due to directions issued by regulatory agencies like DGCA;
- (ii) Cost of actual operating expenses including electricity;
- (iii) 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 by AAI on final product/service provided by AAI will be reviewed by the Authority for the purpose of corrections. Any additional expenditure by way of interest payments, penalties, fines and such penal levies associated with such statutory levies which AAI has to pay, for either any delay or non-compliance, the same may not be trued up.



## **14. Taxation**

14.1. AAI has submitted tax calculations using provisional tax rate of 34.60 % for the 2<sup>nd</sup> control period. AAI had calculated the tax considering depreciation rates applicable under Income Tax laws.

### ***Authority's Examination***

#### **Adjustment for 30% of non-aeronautical revenues**

14.2. AAI vide their submissions dated 01.04.2017 calculated tax for aeronautical services under hybrid till taking into account 30% of revenues from services other than regulated services as part of total revenues. As per MIAL Order No. 32/2012-13 (Decision No. XV), the Authority had decided to consider corporate tax pertaining to earnings from aeronautical services under shared till. Therefore, the Authority proposes to exclude non-aeronautical component from revenues considered while determining tax for aeronautical services.

#### **Adjustment of aeronautical Capex**

14.3. The Authority proposes to consider aeronautical Capex of ₹ 249.4 crore as given in Table 28 while calculating depreciation as per IT Act

#### **Adjustment of O&M Expenses**

14.4. The Authority proposes to consider O&M expenses as given in Table 42.

#### **Adjustment of aeronautical revenues on account of CGF lease and rent correction**

14.5. The Authority proposes to modify total aeronautical revenues considering lease rentals from CGF as aeronautical as mentioned in para 12.11 and 12.13.

#### **Continuation of existing tariffs in FY 2016-17**

14.6. The Authority proposes to consider existing tariffs while calculating aeronautical revenues for FY 2016-17 as the revised tariffs as submitted by AAI are proposed to be applicable from 01.10.2017 onwards.

#### **Revised Tax as considered by the Authority**

14.7. The amount of tax as per submission of AAI and that arrived by the Authority after considering the above mentioned changes is given below:

Table 43 - Amount of Tax for aeronautical services as per AAI submission and as calculated

by the Authority for the 2<sup>nd</sup> control period - Hybrid till

<b>Income Tax (₹ crore)</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>Total</b>
As per AAI	0.0	6.5	9.8	12.7	2.9	<b>31.9</b>
As per Authority	0.0	0.0	4.6	6.5	3.6	<b>14.7</b>

14.8. The detailed calculation of tax for aeronautical service by the Authority is given in table below:

Table 44 - Amount of Tax for aeronautical services as calculated by the Authority for the 2<sup>nd</sup> control period - Hybrid till

<b>Particular (₹ crore)</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
Aeronautical Revenues	<b>9.5</b>	<b>26.2</b>	<b>47.8</b>	<b>54.6</b>	<b>62.4</b>
Aeronautical O&M (excluding CHQ/ RHQ Overheads)	18.2	21.2	22.8	24.5	26.5
CHQ/ RHQ Overheads	3.6	4.1	4.3	4.6	4.8
Depreciation as per IT Act	8.5	8.0	7.5	6.6	20.5
PBT	-20.8	-7.1	13.2	18.9	10.5
<b>Tax for aeronautical services</b>	<b>0.0</b>	<b>0.0</b>	<b>4.6</b>	<b>6.5</b>	<b>3.6</b>

14.9. The taxes actually paid/ apportioned in the 2<sup>nd</sup> control period are proposed to be trued up after review in the next control period.

#### **Proposal No. 11. Taxation**

11.a. The Authority proposes the corporate tax for aeronautical activities as per Table 44 for the 2<sup>nd</sup> control period.

11.b. The Authority proposes to true up the difference between the actual/ apportioned corporate tax paid and that estimated by the Authority for the 2<sup>nd</sup> control period during determination of tariffs for the 3<sup>rd</sup> control period.

## 15. Aggregate Revenue Requirement for Second control period

15.1. AAI has submitted Aggregate Revenue Requirement (ARR) and the yield per passenger (YPP) for the 2<sup>nd</sup> control period as per hybrid till. AAI has shown the true-up value separately from yield calculations for 2<sup>nd</sup> control period. During discussions, AAI had requested for including true-up while calculating tariff for 2<sup>nd</sup> control period.

Table 45 - ARR and Yield as per AAI for the 2<sup>nd</sup> control period – Hybrid till

Details (₹ crore)	2016-17	2017-18	2018-19	2019-20	2020-21
Average Aeronautical RAB	42.9	35.0	27.1	20.2	195.6
Return on Average Aeronautical RAB@14%	6.0	4.9	3.8	2.8	27.4
Aeronautical Operating Expenditure	21.8	25.1	27.3	29.5	32.0
Depreciation on aeronautical RAB	15.1	11.7	7.8	6.1	42.6
Aeronautical Corporate Tax @34.60%	0.0	6.5	9.8	12.7	2.9
Less- 30% of Non-Aeronautical Revenues	2.5	3.2	3.5	3.9	4.8
ARR as per AAI	40.5	45.1	45.1	47.2	100.1
Total ARR as per AAI	277.9				
No. of Passengers (as per Actual/Projected)	2,649,829	2,914,812	3,206,293	3,526,922	3,879,614
Discounted ARR	40.5	39.5	34.7	31.9	59.3
True up short fall in 1 <sup>st</sup> control period as on 01.04.2016	259.5				
PV of ARR (including shortfall) for the control period as on 01.04.2016	465.4				
Total Passengers during the control period	16,177,470				
Yield per passenger for the control period (PV of ARR for the control period/Total passengers during the control period)					287.7
Yield per passenger after changing FY 2016-17 traffic as per actuals					
No. of Passengers (as per Actual/Projected)	2,101,762	2,297,758	2,527,534	2,780,287	3,058,316
Total Passengers during the control period	12,765,657				
Yield per passenger for the control period (PV of ARR for the control period/Total passengers during the control period)					364.5

### Authority's examination

15.2. The Authority has examined the calculations of AAI for various elements of the regulatory building blocks that contribute to the calculation of ARR.

15.3. The Authority has estimated the following ARR and yield for the 2<sup>nd</sup> control period under hybrid till based on various submissions of AAI and proposals considered by Authority in earlier sections on the building blocks.

Table 46 - ARR and Yield as per Authority for the 2<sup>nd</sup> control period – Hybrid till

<b>Details (₹ crore)</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
Average Aeronautical RAB	89.2	86.8	83.3	75.2	182.7
Return on Average Aeronautical RAB@14%	12.5	12.1	11.7	10.5	25.6
Aeronautical Operating Expenditure	21.8	25.2	27.1	29.1	31.3
Depreciation on aeronautical RAB	8.6	8.5	8.4	7.8	14.5
Aeronautical Corporate Tax @34.6%	0.0	0.0	4.6	6.5	3.6
Less – 30% of Non-Aeronautical Revenues	2.3	2.9	3.3	3.7	4.0
<b>True up short fall in 1<sup>st</sup> control period as on 01.04.2016</b>	<b>177.1</b>				
<b>ARR as per Authority</b>	<b>217.6</b>	<b>43.0</b>	<b>48.4</b>	<b>50.3</b>	<b>71.0</b>
<b>Total ARR as per Authority</b>	<b>430.2</b>				
<b>Discounted ARR</b>	<b>217.6</b>	<b>37.7</b>	<b>37.2</b>	<b>33.9</b>	<b>42.0</b>
<b>PV of ARR for the control period as on 01.04.2016</b>	<b>368.5</b>				
No. of Passengers (as per Projected)	2,101,762	2,297,758	2,527,534	2,780,287	3,058,316
<b>Total Passengers during the control period</b>	<b>12,765,657</b>				
<b>Yield per passenger for the control period (PV of ARR for the control period/Total passengers during the control period)</b>	<b>288.6</b>				
Target yield per pax	348.6	363.2	378.4	394.3	410.8
<b>Target Aeronautical Revenues</b>	<b>73.3</b>	<b>83.5</b>	<b>95.7</b>	<b>109.6</b>	<b>125.6</b>
<b>PV of Target Aeronautical Revenues for the control period as on 01.04.2016</b>	<b>368.5</b>				

## **16. Annual Tariff Proposal**

16.1. AAI has submitted ATP(s) for all years of the 2<sup>nd</sup> control period.

16.2. AAI has submitted the revision in tariff w.e.f. 01.04.2017 till 31.03.2021.

16.3. Accordingly AAI has submitted the ATP(s) for 2<sup>nd</sup> control period in respect of civil enclave Srinagar. The ATP(s) as submitted by AAI for the tariff years 2017-18 onwards (w.e.f. 01.04.2017) is annexed herewith for stakeholder consultation.

### **Authority's Examination**

16.4. The Authority noted that landing revenues at civil enclave Srinagar is collected by IAF as it is a civil enclave. The Authority further notes that IAF has not approached the Authority for revision of landing charges at civil enclave Srinagar.

16.5. The Authority noted that the tariffs at civil enclave Srinagar had been determined in FY 2000-2001 and it has not been revised since then.

16.6. The Authority noted that AAI's proposed tariff could not be applicable from 01.04.2017.

16.7. The Authority noted that if the existing tariffs applicable at civil enclave Srinagar are not increased for the second control period, there will be shortfall of ₹ 314.0 crore vis-à-vis ARR. The shortfall can either be met by increasing various aeronautical charges such as parking & housing and fuel throughput or increasing UDF or both. Even with the increased parking & housing charges and fuel throughput charges, there is still aeronautical revenues shortfall left vis-à-vis ARR for which the UDF is proposed to reduce the gap. After considering the revised parking & housing and fuel throughput charges as proposed by AAI applicable from 01.10.2017, the resultant shortfall is ₹ 313.96 crore without the proposed UDF. To reduce the remaining shortfall, AAI has proposed the revised UDF of ₹ 350 per departing domestic passenger and ₹ 700 per departing international passenger as given in Table 47.

16.8. The Authority proposes to merge UDF and PSF (facilitation) charges and only UDF charges to be applicable on each domestic and international embarking passenger w.e.f. 01.10.2017.

16.9. The revised tariffs as applicable from 01.10.2017 as submitted by AAI and as proposed by the Authority are given in table below:

Table 47 - Revised aeronautical tariffs as submitted by AAI and as proposed by the Authority

Particular	Existing Tariff	Revised tariff by AAI	Revised tariff proposed by Authority
<b>Housing Charges</b>			
Up to 40 MT	₹ 4.1 Per Hour Per MT		
Above 40 MT up to 100 MT	₹ 164 + ₹ 7.9 per MT per Hour in excess of 40 MT		
Above 100 MT	₹ 638 + ₹ 11.9 per MT per Hour in excess of 100 MT		
Up to 25 MT		₹ 6 Per Hour Per MT	₹ 6 Per Hour Per MT
Above 25 MT up to 50 MT		₹ 150 + ₹ 8 per MT per Hour in excess of 25 MT	₹ 150 + ₹ 8 per MT per Hour in excess of 25 MT
Above 50 MT up to 100		₹ 350 + ₹ 16 per MT per Hour in excess of 50 MT	₹ 350 + ₹ 16 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT		₹ 1,150 + ₹ 20 per MT per Hours in excess of 100 MT	₹ 1,150 + ₹ 20 per MT per Hours in excess of 100 MT
Above 200 MT		₹ 3,150 + ₹ 22 per MT per Hours in excess of 200 MT	₹ 3,150 + ₹ 22 per MT per Hours in excess of 200 MT
<b>Parking Charges</b>			
Up to 40 MT	₹ 1.8 Per Hour Per MT		
Above 40 MT up to 100 MT	₹ 72 + ₹ 3.4 per MT per Hour in excess of 40 MT		
Above 100 MT	₹ 276 + ₹ 5.2 per MT per Hour in excess of 100 MT		
Up to 25 MT		₹ 3 Per Hour Per MT	₹ 3 Per Hour Per MT
Above 25 MT up to 50 MT		₹ 75 + ₹ 4 per Hour per MT in excess of 25 MT	₹ 75 + ₹ 4 per Hour per MT in excess of 25 MT
Above 50 MT up to 100		₹ 175 + ₹ 8 per MT per Hour in excess of 50 MT	₹ 175 + ₹ 8 per MT per Hour in excess of 50 MT

Particular	Existing Tariff	Revised tariff by AAI	Revised tariff proposed by Authority
Above 100 MT to 200 MT		₹ 575 + ₹ 10 per MT per Hours in excess of 100 MT	₹ 575 + ₹ 10 per MT per Hours in excess of 100 MT
Above 200 MT		₹ 1,575 + ₹ 11 per MT per Hours in excess of 200 MT	₹ 1,575 + ₹ 11 per MT per Hours in excess of 200 MT
<b>Throughput Charges</b>			
Rate per KL	₹ 143.1	₹ 143.1	₹ 143.1
<b>Passenger Service Fee (PSF) – Facilitation</b>			
Domestic Passenger (per embarking passenger)	₹ 77 per embarking passenger	₹ 350 per embarking passenger	Nil
	\$ 1.93 per embarking passenger	\$ 5.83 per embarking passenger	Nil
International Passenger (per embarking passenger)	₹ 77 per embarking passenger	₹ 700 per embarking passenger	Nil
	\$ 1.93 per embarking passenger	\$ 11.67 per embarking passenger	Nil
<b>User Development Fee (UDF) (UDF proposed by Authority instead of PSF(FC) above)</b>			
Domestic Passenger (per embarking passenger)	Nil	Nil	₹ 350
International Passenger (per embarking passenger)	Nil	Nil	₹ 700
<b>Passenger Service Fee (PSF) – Security*</b>			
Domestic Passenger (per embarking passenger)	₹ 130	₹ 130	₹ 130
	\$ 3.25	\$ 3.25	\$ 3.25
International Passenger (per embarking passenger)	₹ 130	₹ 130	₹ 130
	\$ 3.25	\$ 3.25	\$ 3.25

\* PSF-Security is determined by MoCA and the rates as provided by MoCA from time to time shall be applicable

16.10. Additionally, from 01.04.2018, the increase in tariffs as submitted by AAI is given below. The Authority proposes to accept the increase in tariffs for the second control period as submitted by AAI.

16.10.1. Yearly increase of 4% per annum every subsequent year (FY 2018-19

onwards) in UDF per departing passenger

16.10.2. Yearly increase of 4% per annum every subsequent year (FY 2018-19 onwards) in parking and housing charges during the 2<sup>nd</sup> control period

16.11. The Authority noted that AAI's proposed tariff applicable from 01.10.2017 will not be able to recover the proposed ARR for the 2<sup>nd</sup> control period. Hence, the Authority proposes to accept the revised tariffs as submitted by AAI which would be applicable from 01.10.2017. The estimated aeronautical revenues based on tariffs as proposed by AAI is indicated in Table 48.

16.12. The Authority notes that revenue from tariff as proposed by AAI would not meet aeronautical revenue permissible for the 2<sup>nd</sup> control period. The resultant shortfall as on 01.04.2016 is ₹ 225.4 crores. The Authority proposes to consider the shortfall of ₹ 225.4 crores as on 01.04.2016 in the 2<sup>nd</sup> control period while determining tariffs for the 3<sup>rd</sup> control period.

16.13. The estimated aeronautical revenues based on tariffs as proposed by the Authority is indicated in table below.

Table 48 - Projected Revenue, Target Revenue and shortfall as per the Authority for the 2<sup>nd</sup> control period

<b>Projected Aero Revenue based on AAI proposed tariffs (₹ crore)</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
Landing (A)	0.0	0.0	0.0	0.0	0.0
Parking and Housing (B)	0.01	0.01	0.02	0.02	0.03
UDF/ PSF as per existing rates (C)	8.1	8.8	9.7	10.7	11.8
FTP+ITP and lease rentals (D)	0.2	0.2	0.2	0.2	0.2
Ground Handling Charges and lease rentals (E)	0.4	0.4	0.5	0.5	0.6
CUTE (F)	0.7	0.7	0.8	0.9	1.0
Cargo Charges (G)	0.0	0.0	0.0	0.0	0.0
Land Lease from Oil Companies (H)	0.2	0.3	0.3	0.3	0.4
<b>Total Projected Revenues without increased UDF (I = A+B+C+D+E+F+G+H)</b>	<b>9.5</b>	<b>10.5</b>	<b>11.5</b>	<b>12.7</b>	<b>13.9</b>
<b>Target Aero Revenue</b>	<b>71.3</b>	<b>81.2</b>	<b>93.0</b>	<b>106.6</b>	<b>122.2</b>
Short fall (+)/ Excess (-) in revenue, i.e. difference (Projected – Permissible)	61.7	70.7	81.5	93.9	108.3



<b>Projected Aero Revenue based on AAI proposed tariffs (₹ crore)</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
<b>PV value of shortfall as on 01.04.2016 with Discount rate (14.00%)</b>	<b>61.7</b>	<b>62.0</b>	<b>62.7</b>	<b>63.4</b>	<b>64.1</b>
<b>Total PV of shortfall as on 01.04.2016 for the control period</b>	<b>314.0</b>				
UDF with revised rates proposed by AAI (J)	8.1	24.5	46.0	52.6	60.2
<b>Total Projected Revenues with increased UDF (K = I-C+J)</b>	<b>9.5</b>	<b>26.2</b>	<b>47.8</b>	<b>54.6</b>	<b>62.4</b>
<b>Target Aero Revenue</b>	<b>73.3</b>	<b>83.5</b>	<b>95.7</b>	<b>109.6</b>	<b>125.6</b>
Short fall (+)/ Excess (-) in revenue, i.e. difference (Projected – Permissible)	63.7	57.3	47.8	55.0	63.3
<b>PV value of short fall (+)/ excess (-) revenue as on 01.04.2016 with Discount rate (14.00%)</b>	<b>63.7</b>	<b>50.3</b>	<b>36.8</b>	<b>37.1</b>	<b>37.5</b>
<b>Total PV of short fall (+)/ excess (-) difference as on 01.04.2016 for the control period</b>	<b>225.4</b>				

16.14. The Authority noted that AAI has taken 6% inflation rate while determining the Yield per Passenger for tariff years in the 2<sup>nd</sup> control period and X factor of 0.01% from FY 2018-19 onwards. As per RBI issued Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 45, the WPI inflation is forecasted to be 4.2% for the next 5 years. The Authority proposes to revise WPI for the 2<sup>nd</sup> control period to 4.2%.

16.15. The Authority proposes that any shortfall/ excess in revenues for the 2<sup>nd</sup> control period based on proposed tariffs by the Authority would be considered while determining aeronautical tariffs for the 3<sup>rd</sup> control period.

16.16. The Authority notes that ASQ rating at civil enclave Srinagar has been more than 3.75 in every quarter of 1<sup>st</sup> control period as required under Section 6.14.3 of Airport Guidelines. Details of the ASQ ratings are provided below.

Table 49 – Quarterly ASQ rating of civil enclave at Srinagar during the 1<sup>st</sup> control period

<b>Quarter</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Q1	NA	4.09	4.18	4.75	4.72
Q2	NA	4.11	4.28	4.38	4.58
Q3	NA	4.11	4.34	4.22	4.26
Q4	NA	4.16	4.15	4.77	4.59

<b>Average</b>	<b>-</b>	<b>4.12</b>	<b>4.24</b>	<b>4.53</b>	<b>4.54</b>
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**Proposal No. 12. Tariff rate card**

- 12.a. To accept Annual Tariff Proposals as given in Table 47 (and Annexure) for determination of tariff during 2<sup>nd</sup> control period as the present value of proposed revenues (yield) by AAI is lower than the present value of ARR (yield) as per Authority. Detailed tariff card is provided in Annexure for stakeholder comments.
- 12.b. To continue with waiver of landing charges for (a) aircraft with a maximum certified capacity of less than 80 seats, being operated by domestic scheduled operators (b) Helicopters of all types as approved by Govt. of India vide order no. G.17018/7/2001-AAI dated 09.02.2004 in order to encourage and promote intra-regional connectivity at civil enclave Srinagar.
- 12.c. The Authority decides to provide waiver of landing and other charges in line with the Order No. 20/ 2016-17 dated 31.03.2017 of the Authority.
- 12.d. To merge UDF and PSF (facilitation) charges and only UDF charges to be applicable on each domestic and international embarking passenger w.e.f. 01.10.2017.
- 12.e. The Authority proposes to consider shortfall/ excess in revenues for the 2<sup>nd</sup> control period based on proposed tariffs by AAI while determining aeronautical tariffs for the 3<sup>rd</sup> control period.

## 17. Summary of Proposals

Proposal No. 1. True-up for the 1 <sup>st</sup> control period .....	15
Proposal No. 2. Traffic Forecast .....	18
Proposal No. 3. Allocation of assets between Aeronautical and Non-aeronautical services ...	22
Proposal No. 4. Opening Regulatory Asset Base for the 2 <sup>nd</sup> control period .....	24
Proposal No. 6. Treatment of Depreciation.....	32
Proposal No. 7. RAB for 2 <sup>nd</sup> control period .....	34
Proposal No. 8. FRoR.....	35
Proposal No. 9. Non Aeronautical Revenues .....	39
Proposal No. 10. Operation and Maintenance expenditure.....	46
Proposal No. 11. Taxation .....	48
Proposal No. 12. Tariff rate card.....	56

## **18. Stakeholders' Consultation Timeline**

18.1. In accordance with the provision of Section 13(4) of the AERA Act, 2008, the proposal contained in the Section – Summary of proposals (Section 17 above) read with the relevant discussion in the other sections of the paper is hereby put forth for Stakeholders' Consultation. To assist the Stakeholders in making their submissions in a meaningful and constructive manner, necessary documents are enclosed as **Annexure I**. For removal of doubts, it is clarified that the contents of this consultation paper may not be construed as any Order or Direction by the Authority. The Authority shall pass an order, in the matter, only after considering the submissions of the stakeholders' in response hereto and by making such decisions fully documented and explained in terms of the provisions of the Act.

18.2. The Authority welcomes written evidence based feedback, comments and suggestions from stakeholders on the proposals made in (Section 17 above), latest by **21.09.2017** at the following address.

Secretary

Airports Economic Regulatory Authority of India

AERA Building, Administrative Complex,

Safdarjung Airport,

New Delhi -110003

Tel: 011-24695043, Fax: 011-24695039

Email: [puja.jindal@nic.in](mailto:puja.jindal@nic.in)

**(S. Machendranathan)**  
**Chairperson**

## List of Tables

Table 1 - Passenger and ATM traffic during the 1 <sup>st</sup> control period at civil enclave Srinagar .....	2
Table 2 – Technical and Terminal building details of civil enclave Srinagar .....	2
Table 3 – Opening RAB for the 1 <sup>st</sup> control period as per AAI – Single till .....	7
Table 4 - ARR as per AAI for the 1 <sup>st</sup> control period – Single till.....	7
Table 5 - Aeronautical revenue earned for the 1 <sup>st</sup> control period as per AAI Submission – Single till...	8
Table 6 - ARR and its resultant shortfall as per AAI for 1 <sup>st</sup> control period – Single till .....	8
Table 7 - Depreciation rates as submitted by AAI.....	9
Table 8 – The Authority’s consideration on depreciation for 1 <sup>st</sup> control period – Single till.....	10
Table 9 – The Authority’s consideration of average RAB for 1 <sup>st</sup> control period – Single till.....	10
Table 10 – Comparison of NAR as considered by AAI and the Authority for 1 <sup>st</sup> control period.....	11
Table 11 - Summary of CHQ/ RHQ Overheads as submitted by AAI for 1 <sup>st</sup> control period .....	12
Table 12 - Summary of O&M expenditure as per the Authority for 1 <sup>st</sup> control period -Single till .....	13
Table 13 – Revised amount of Tax as considered by Authority for the 1 <sup>st</sup> control period .....	14
Table 14 - ARR as per Authority for the 1 <sup>st</sup> control period – Single till .....	14
Table 15 - ARR, yield and shortfall as per Authority for 1 <sup>st</sup> control period – Single till .....	15
Table 16 - Traffic Growth rates assumed by AAI for the 2 <sup>nd</sup> control period .....	17
Table 17 - CAGR for Traffic at Civil enclave Srinagar.....	17
Table 18 - Traffic growth rates and traffic as considered by Authority for the 2 <sup>nd</sup> control period .....	18
Table 19 – Allocation of gross block of assets as on 01.04.2016 between aeronautical and non-aeronautical services as submitted by AAI .....	19
Table 20 – Workings of Terminal Area Ratio calculation as submitted by AAI for FY 2015-16.....	20
Table 21 – Change in allocation of gross block of assets existing as on 01.04.2016 between aeronautical and non-aeronautical services proposed by the Authority .....	21
Table 22 – Allocation of gross block of assets as on 01.04.2016 between aeronautical and non-aeronautical services as considered by the Authority.....	22
Table 23 - Calculation of opening RAB as on 1 <sup>st</sup> April 2016 as per AAI submission – Hybrid Till.....	24
Table 24 - Calculation of opening RAB as on 1 <sup>st</sup> April 2016 as per the Authority – Hybrid Till.....	24
Table 25 – Aeronautical assets to be capitalized at civil enclave Srinagar for 2 <sup>nd</sup> control period as per AAI.....	25
Table 26 – Details of cost per unit area of Terminal Building, Runway, Apron and Taxi way as per AAI for the capital expenditure in 2 <sup>nd</sup> control period.....	26
Table 27 – Capital expenditure for terminal building, apron and PTT as proposed by the Authority..	27
Table 28 - Revised aeronautical capital expenditure for 2 <sup>nd</sup> control period as considered by the Authority .....	28
Table 29 - Depreciation rates as submitted by AAI and as considered by the Authority .....	31
Table 30 - Authority’s consideration on depreciation for the 2 <sup>nd</sup> control period – Hybrid till .....	32
Table 31 - Summary of the RAB and Depreciation for civil enclave Srinagar (Airport Services) as per AAI for the 2 <sup>nd</sup> control period .....	33
Table 32 - Summary of forecast and Roll forward RAB and Depreciation for civil enclave Srinagar (Airport Services) considered by the Authority for 2 <sup>nd</sup> control period – Hybrid till .....	33
Table 33 - Revenue from Non-aeronautical Services – Projected by AAI for 2 <sup>nd</sup> control period.....	36
Table 34 – Assumption (growth rates) for Service other than Regulated Services for the 2 <sup>nd</sup> Control Period as per AAI.....	36
Table 35 – Details of land allotted to supply of fuel to aircraft in 2 <sup>nd</sup> control period.....	38
Table 36 – Adjustment to Revenue from Non-aeronautical Services considered by Authority for 2 <sup>nd</sup> control period .....	39
Table 37 - Summary of Aeronautical O&M expenditure as submitted by AAI for 2 <sup>nd</sup> control period on	

hybrid till .....	40
Table 38 – Assumptions made by AAI for each item of O&M expenditure .....	40
Table 39 – O&M Expense allocation as submitted by AAI .....	41
Table 40 – Total O&M expenditure for FY 2015-16 as proposed by the Authority .....	44
Table 41 – Expense allocation between aeronautical and non-aeronautical services proposed by the Authority .....	44
Table 42 - Summary of Aeronautical O&M expenditure as per the Authority for the 2 <sup>nd</sup> control period as per hybrid till .....	45
Table 43 - Amount of Tax for aeronautical services as per AAI submission and as calculated by the Authority for the 2 <sup>nd</sup> control period - Hybrid till .....	47
Table 44 - Amount of Tax for aeronautical services as calculated by the Authority for the 2 <sup>nd</sup> control period - Hybrid till .....	48
Table 45 - ARR and Yield as per AAI for the 2 <sup>nd</sup> control period – Hybrid till .....	49
Table 46 - ARR and Yield as per Authority for the 2 <sup>nd</sup> control period – Hybrid till .....	50
Table 47 - Revised aeronautical tariffs as submitted by AAI and as proposed by the Authority .....	52
Table 48 - Projected Revenue, Target Revenue and shortfall as per the Authority for the 2 <sup>nd</sup> control period .....	54
Table 49 – Quarterly ASQ rating of civil enclave at Srinagar during the 1 <sup>st</sup> control period .....	55

**Annexure 1 – Detailed Tariff Card as proposed by the Authority to be applicable from 01.10.2017 or date of issuance of the AIC, whichever is later to 31.03.2018**

**I) PARKING AND HOUSING CHARGES**

	<b>Proposed Rates (In ₹)</b>	<b>Proposed Rates (In ₹)</b>
<b>Weight of the Aircraft</b>	<b>Parking Charges Rates per Hour</b>	<b>Housing Charges Rates per Hour</b>
Up to 25 MT	₹ 3 Per Hour Per MT	₹ 6 Per Hour Per MT
Above 25 MT up to 50 MT	₹ 75 + ₹ 4 per Hour per MT in excess of 25 MT	₹ 150 + ₹ 8 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	₹ 175 + ₹ 8 per MT per Hour in excess of 50 MT	₹ 350 + ₹ 16 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	₹ 575 + ₹ 10 per MT per Hours in excess of 100 MT	₹ 1,150 + ₹ 20 per MT per Hours in excess of 100 MT
Above 200 MT	₹ 1,575 + ₹ 11 per MT per Hours in excess of 200 MT	₹ 3,150 + ₹ 22 per MT per Hours in excess of 200 MT

**Note**

	<b>Proposed</b>
1)	No parking charges shall be levied for the first two hours. While calculating free parking period, standard time of 15 minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of taxing time of aircraft from parking stand to take off point. These periods shall be applicable for each aircraft irrespective of actual time taken in the movement of aircraft after landing and before take-off.
2)	For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour.
3)	Charges shall be calculated on the basis of nearest MT.
4)	Charges for each parking period shall be rounded off to nearest Rupee
5)	At the in-contact stands and open stands, after free parking, for the next two hours no parking charges shall be levied. After this period, the charges shall be double the no parking charges.
6)	It is proposed to waive off the night parking charges in principle for all domestic scheduled operators at Srinagar Airport if the State Government has brought the rate of tax (VAT) on ATF up to 5%. The above waiver of night parking charges (between 2200 hrs. to 0600 hrs) will be made applicable from the date of implementation of 5% tax on ATF by the State Govt. In the event of upward revision in the tax rate of ATF by the State Govt., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State.

### **III) THROUGHPUT CHARGES**

<b>Proposed</b>
<b>Proposed Rate Per KL (IN ₹)</b>
143.1

### **IV) PASSENGER SERVICE FEE (PSF) – SECURITY\***

- 1) Rs. 130/- per embarking International/ Domestic passenger.
- 2) US \$ 3.25 (US \$ Three and twenty five cents only) per passenger in respect of the tickets issued against Dollar Tariff.
- 3) Collection charges: if the payment is made within 15 days of receipt of invoice, then collection charges at ₹ 2.50% of PSF per passenger shall be paid by AAI. No collection charges shall be paid in case the airline fails to pay the PSF to AAI within the credit period of 15 days. Wherever collection charges are payable the amount shall be settled within 15 days.
- 4) No PSF (Security) will be levied for Transit Passengers.
- 5) For conversion of US \$ into ₹ the rate as on 1st day of the month for 1st fortnightly billing period and rate as on 16th of the month for the 2nd fortnightly billing period shall be adopted. If the payment is made within 15 days of receipt of bills, then collection at 2.5% of PSF per passenger is payable.

\* PSF-Security is determined by MoCA and the rates as provided by MoCA from time to time shall be applicable

### **V) USER DEVELOPMENT FEE (UDF)**

<b>Particulars</b>	<b>Proposed in ₹</b>
Domestic per embarking passenger	₹ 350
International per embarking passenger	₹ 700

#### **Notes**

	<b>Proposed</b>
1)	Collection Charge: If the payment is made within 15 days of receipt of invoice then collection charges at ₹ 5 per departing passenger shall be paid by AAI. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days or in case of any part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any account with AAI. Wherever collection charges are payable the amount shall be settled within 15 days.
2)	No collection charges are payable to casual operator/non-scheduled operators



3)	For calculating the UDF in foreign currency, the RBI reference conversion rate as on the last day of the previous month for tickets issued in the 1 <sup>st</sup> fortnight and rate as on 15 <sup>th</sup> of the month for tickets issued in the 2 <sup>nd</sup> fortnight shall be adopted.
4)	Revised UDF charges will be applicable on tickets issued on or after 01.10.2017 or date of issuance of the AIC, whichever is later.
5)	No UDF will be levied for Transit Passengers

#### **VI) Exemption from levy and collection from UDF and PSF (SC) at the Airports**

The Ministry of Civil Aviation, Govt. of India vide order no. AV.16011/002/2008-AAI dated 30.11.2011 has directed AAI to exempt the following categories of persons from levy and collection of UDF & PSF (Security).

- (a) Children (under age of 2 years),
- (b) Holders of Diplomatic Passport,
- (c) Airlines crew on duty including sky marshals & airline crew on board for the particular flight only (this would not include Dead Head Crew, or ground personnel),
- (d) Persons travelling on official duty on aircraft operated by Indian Armed Forces,
- (e) Persons traveling on official duty for United Nations Peace Keeping Missions.
- (f) Transit/transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hrs. "A passenger is treated in transit only if onward travel journey is within 24 hrs. from arrival into airport and is part of the same ticket, in case 2 separate tickets are issued it would not be treated as transit passenger").
- (g) Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions.

#### **VII) GENERAL CONDITION:**

- a) Flight operating under Regional Connectivity Scheme will be completely exempted from charges as per Order No. 20/ 2016-17 dated 31.03.2017 of the Authority from the date the scheme is operationalized by GOI.
- b) All the above Charges are excluding of GST. GST at the applicable rates are payable in addition to above charges.