

In the matter of Determination of Aeronautical Tariffs in respect of Visakhapatnam Airport for the first Control Period (01.04.2018 – 31.03.2023)

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

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1. LIST OF ABBREVIATIONS

		K_e	Cost of equity
AAI	Airport Authority of India	LD	Liquidity Damages
ACI	Airports Council International	m	meter
AERA or the Authority	Airport Economic Regulatory Authority of India	MESS	Mechanized Environmental Support Services
Aero	Aeronautical	MoCA	Ministry of Civil Aviation
	AERA	MoU	Memorandum of Understanding
Airport Guidelines	(Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 dated 28 February 2011	MYTO	Multi Year Tariff Order
		MYTP	Multi Year Tariff Proposal
AMC	Annual Maintenance Contract	NAR	Non-Aeronautical Revenues
ANS	Air Navigation Service	NCAP	National Civil Aviation Policy 2016
ARR	Aggregate Revenue Requirement	NIPFP	National Institute of Public Finance and Policy
ASQ	Airport Service Quality	Non-Aero	Non-Aeronautical
ATC	Air Traffic Control	OPEX	Operating Expenditure
ATM	Air traffic movement	P&L	Profit and Loss
CAGR	Compounded Annual Growth Rate	p.a.	Per annum
CAPEX	Capital Expenditure	PA System	Public Announcement System
CHQ	Central Headquarters	PAX	Passenger(s)
CISF	Central Industrial Security Force	PSF	Passenger Service Fee
CNS	Communication, Navigation & Surveillance	PV	Present value
CP&MS	Corporate Planning & Management Systems	RAB	Regulated Asset Base
CUTE	Common User Terminal Equipment	RHQ	Regional Headquarters
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation	SCCTV	Security Closed-Circuit Television
EMD	Earnest Money Deposit	SD	Security Deposit
EPBX	Electronic Private Branch Exchange	SLM	Straight Line Method
F&B	Food and Beverages	Sq.m.	Square Metre
FIDS	Flight Information Display Systems	T.R. Stall	Travellers Requisite Stall
FRoR	Fair Rate of Return	UDF	User Development Fee
FY	Financial Year	USD	US Dollars
GOAP	Government of Andhra Pradesh	Vishakhapatnam Airport	Vizag Airport
GOI	Government Of India	w.e.f.	with effect from
IMC	Instrument meteorological conditions	XIBS	X-ray Baggage System
INR or ₹	Indian rupees	YoY	Year-on-Year
IRR	Internal Rate of Return		

2. INTRODUCTION

2.1. Visakhapatnam Airport ("Vizag Airport") is located in the city of Visakhapatnam, which is the major commercial center in the state of Andhra Pradesh. Vizag Airport is owned by INS Dega, a naval air station of the Indian Navy and is operated as a civil enclave by Airports Authority of India ("AAI"). It commenced civilian operations in 1981 with one flight per day and presently is the busiest airport in Andhra Pradesh.

2.2. Technical details of Vizag Airport are given in Table 1.

Table 1: Technical Details of Vizag Airport

Particulars	Details
Total land area available	350.31 acres
Total built-up area of Integrated Terminal Building (ITB)	21,918.48 Sq.m. Expected to increase by 9,250 Sq.m. on account of linear expansion
Runway	Dimension of the runway strip 3170m x 150m Two runways: Primary/ main runway (28/10, 3050m x 45 m) Secondary Runway (05/23, 2090m x 45m) used only by Indian Navy
Apron	Total number of apron bays- 14 Total apron bay area- 82,986 Sq.m. This is inclusive of 56,610 Sq.m. (330m x 137m and 150 m x 76 m) for 8 parking bays and 26,376 Sq.m. for 6 new parking bays which were completed and commissioned on September 2018. 04 Apron Flood Lights
Taxiways	Five taxiways: N1 (130 m x 15 m) N2 (130 m x 15 m) N3 (183m x 23m) N4 (187m x 23m) N5 (365 m x 23 m)
ATC	The ATC is operational for 24 hours and managed by the Indian Navy
Peak hour capacity	Peak hour capacity for departure, arrival and transit is 400 domestic and 300 international passengers This is projected to increase to 600 for domestic and 450 for international passengers after completion of linear expansion of terminal building
Check-in Counter	20 domestic and international combined check-in counters, with CUTE facilities Additional 8 CUTE facilities will be available after completion of linear expansion
Other Details	One Category 7 Fire Station Aerodrome Reference Code is 4D Aircraft Suitability for A330 in Instrument Meteorological Conditions (IMC) Suitable for code C aircraft

2.3. Vizag Airport witnessed passenger traffic of 1.5 million in FY 2014-15, thereby falling under the definition of major airport as per section 2(i) of the AERA Act. Therefore, the Airport is mandatorily required to follow the Guidelines issued by the Authority and submit its proposal before the Authority for tariff determination.

3. **MULTI YEAR TARIFF PROPOSAL SUBMITTED BY VIZAG AIRPORT**

- 3.1. Vizag Airport filed its original MYTP submission on 12.09.2017 for the first control period from 01.04.2016 to 31.03.2021.
- 3.2. The Authority noted that more than 2 years had already elapsed in the first control period proposed by AAI, which might require a significant change in tariff during the remaining control period to match the Aggregate Revenue Requirement (“ARR”). It is also likely that the tariff will need to be reduced significantly for the next control period. Such steep changes in tariff are best avoided and accordingly, the Authority vide letter to AAI dated 25.06.2018 has proposed that the first control period for Vizag Airport should be from 01.04.2018 to 31.03.2023. The Authority also clarified that the shortfall, if any, for the first two years may be taken to consideration for tariff determination.
- 3.3. Subsequently, Vizag Airport filed its revised MYTP on 18.07.2018 for the control period from 01.04.2018 to 31.03.2023. Further, Vizag Airport in its revised MYTP submission has calculated shortfall w.e.f. 01.04.2016 to 31.03.2018 and included it in the present value of ARR for the first control period.
- 3.4. Salient features of Vizag Airport’s MYTP submission:
 - 3.4.1. Effective date of tariff determination has been considered as 01.12.2018.
 - 3.4.2. Actual traffic has been updated upto FY 2017-18 and projected for FY 2018-23 as per data received from Department of Corporate Planning & Management Systems, AAI (“CP&MS”).
 - 3.4.3. Capex amounting to ₹81.80 crores has been considered in MYTP.
 - 3.4.4. As per hybrid till methodology, the Regulatory Asset Base (“RAB”) as on 01.04.2016 has been segregated into Aeronautical assets, Non-Aeronautical assets and Common Assets. Common assets have been further bifurcated into Aeronautical assets and Non-Aeronautical assets. The expenses appearing in the Trial Balance for the FY 2016-17 and FY 2017-18 have been bifurcated into aeronautical expenses, non-aeronautical expenses and common expenses.
 - 3.4.5. As per the submission of Vizag Airport, the total area of integrated terminal building is 21,918.48 square meters (Sq.m.), of which 1,501.36 is earmarked for non-aeronautical activities, constituting 6.85% of the total terminal building area.
 - 3.4.6. Depreciation on RAB upto FY 2015-16 has been computed as per AAI’s depreciation rates. Depreciation for FY 2016-17 and FY 2017-18 has been computed as per rates prescribed under Companies Act, 2013 and depreciation from FY 2018-19 onwards have been computed as per rates prescribed under AERA Order No. 35/ 2017-18 “In the matter of Determination of Useful life of Airport Assets” dated 12.01.2018. Further, half yearly rates of depreciation have been considered for additions to RAB in the first year of capitalization.

3.4.7. Present value of ARR has been worked out to ₹242.26 crores including shortfall of prior period (FY 2016-17 and FY 2017-18) and first control period.

4. METHODOLOGY FOR TARIFF CALCULATION

- 4.1. The methodology adopted by the Authority to determine tariff is based on AERA Act, 2008 and the AERA (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 dated 28 February 2011. The Aggregate Revenue Requirement ("ARR") is first calculated by providing for depreciation, return on the RAB, the operations and maintenance ("O&M") expenses, and taxes. The present value of total aeronautical revenues that is estimated to be realized each year during the control period at proposed tariff levels is compared with the present value of the ARR during the control period. In case the present value of aeronautical revenues during the control period is lower than the present value of ARR during the control period, the airport operator may opt to increase the proposed tariff. In case the present value of aeronautical revenues is higher than the present value of the ARR then the airport operator will have to suitably reduce its tariff.
- 4.2. Further, tariff is based on 'hybrid till' method wherein 30% of non-aeronautical revenues is used to cross-subsidize ARR (Order No. 14/ 2016-17 "In the matter of aligning certain aspects of AERA's Regulatory Approach (Adoption of Regulatory Till) with the provisions of the National Civil Aviation Policy-2016 (NCAP-2016) approved by the Government of India" dated 12.01.2017).
- 4.3. The Authority shall determine the ARR for the current control period on the basis of the following Regulatory Building Blocks:
- 4.3.1. Regulatory Asset Base (RAB)
- 4.3.2. Depreciation (D);
- 4.3.3. Fair Rate of Return applied to the Regulatory Asset Base (FRoR x RAB);
- 4.3.4. Operation and Maintenance Expenditure (O);
- 4.3.5. Taxation (T);
- 4.3.6. Revenue from services other than aeronautical services (NAR).
- 4.4. Based on the building blocks provided above, the formula for determining ARR under Hybrid Till is as follows:

$$ARR = \sum_{t=1}^5 (ARR_t) \text{ and}$$

$$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - 30\% \text{ of } NAR_t$$

Where

't' is the Tariff Year in the Control Period;

ARR_t is the Aggregate Revenue Requirement for year 't';

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

RAB_t is the Regulatory Asset Base for the year 't';

D_t is the Depreciation corresponding to the RAB for the year 't';

O_t is the Operation and Maintenance Expenditure for the year 't', which includes all expenditures incurred by the Airport Operator(s) including expenditure incurred on statutory operating costs and other mandate operating costs;

T_t is the corporate tax for the year 't' paid by the airport operator on the aeronautical profits; and

NAR_t is revenue from services other than aeronautical services for the year 't'

- 4.5. The detailed submissions provided by Vizag Airport in respect of the opening RAB, additions to RAB, and other items of the Regulatory Building Blocks have been discussed in the subsequent sections.

5. TRAFFIC FORECAST

- 5.1. As per the Airport Guidelines, the airport operator is required to submit traffic forecasts as part of the MYTP submissions. The Airport Guidelines further provide that the Authority would reserve the right to review such forecast assumptions, methodologies and processes to determine the final forecast to be used for determination of tariffs. The Guidelines further state that the Authority will also use forecast correction mechanism if the actual traffic happens to fall outside the prescribed bands whilst keeping the upper and lower band percentages equal. As part of the tariff determination process, the Authority would require Airport Operators to provide proposals for the values of the upper and lower bands, support of evidence for the rationale of such bands and will review the operation of the bands and determine the final bands for tariff determination.
- 5.2. Traffic projections submitted by Vizag Airport have been updated up to FY 2017-18 and projected for FY 2018-23 as per data received from the department of CP&MS of AAI.
- 5.3. The actual and projected Passenger & ATM traffic along with their year on year (YoY) growth rates as considered by Vizag Airport is provided in Table 2 and Table 3.

Table 2: Projected annual passenger traffic as per Vizag Airport submission

Financial Year	Domestic	YoY growth (Domestic)	International	YoY growth (International)
FY 18-19*	2,581,231	-	153,876	-
FY 19-20	2,839,355	10.00%	176,957	15.00%
FY 20-21	3,123,290	10.00%	203,501	15.00%
FY 21-22	3,435,619	10.00%	234,026	15.00%
FY 22-23	3,710,469	8.00%	262,109	12.00%

Table 3: Projected annual ATM traffic as per Vizag Airport submission

Financial Year	Domestic	YoY growth (Domestic)	International	YoY growth (International)
FY 18-19*	19,467	-	1,943	-
FY 19-20	21,219	9.00%	2,176	12.00%
FY 20-21	23,129	9.00%	2,438	12.00%
FY 21-22	25,211	9.00%	2,730	12.00%
FY 22-23	26,976	7.00%	3,003	10.00%

Traffic for FY18-19 has been considered proportionately for operational period starting from 01.10.2018

Authority's Examination

- 5.4. The analysis of historical trend in passenger traffic and ATM of Vizag Airport is summarized in Table 4 and Table 5, respectively.

Table 4: 10-year historical passenger traffic data of Vizag Airport

Year	Domestic	YoY Rate of Growth	International	YoY Rate of Growth	Total Traffic (Domestic+International)
2008-09*	5,98,752	-	-	-	5,98,752
2009-10*	6,31,038	5.39%	-	-	6,31,038
2010-11*	7,11,557	12.76%	-	-	7,11,557
2011-12*	9,57,630	34.58%	530	-	9,58,160
2012-13*	9,83,056	2.66%	54552	NA	10,37,608
2013-14*	9,40,448	-4.33%	72074	32.12%	10,12,522
2014-15*	10,39,485	10.53%	59995	-16.76%	10,99,480
2015-16	16,83,018	61.91%	1,21,616	102.71%	18,04,635
2016-17	22,60,180	34.29%	97,849	-19.54%	23,58,029
2017-18	23,46,574	3.82%	1,33,805	36.75%	24,80,379
Average of YOY Rate of Growth		17.96%		NA	
CAGR-5 Years	25.68%		16.73%		25.11%
CAGR-10 Years	16.39%		NA	NA	NA

*Historical passenger traffic from FY 2008-09 FY 2014-15 is sourced from AAI Traffic News.

Table 5: 10-year historical ATM traffic data of Vizag Airport

Year	Domestic	YoY Rate of Growth	International	YoY Rate of Growth	Total Traffic (Domestic+international)
2008-09*	14,879	-	-	-	14,879
2009-10*	11,500	-22.71%	-	-	11,500
2010-11*	11,782	2.45%	-	-	11,782
2011-12*	15,402	30.72%	86	-	15,488
2012-13*	14,235	-7.58%	894	NA	15,129
2013-14*	9,888	-30.54%	1120	25.28%	11,008
2014-15*	10,348	4.65%	1097	-2.05%	11,445
2015-16	15,078	45.71%	1,661	51.41%	16,739
2016-17	18,129	20.23%	1,421	-14.45%	19,550
2017-18	17,860	-1.48%	1,735	22.10%	19,595
Average of YOY Rate of Growth		4.61%		NA	
CAGR-5 Years	15.93%		11.56%		15.51%
CAGR-10 Years	2.05%		NA	NA	NA

*Historical ATM traffic of Vizag Airport from FY 2008-09 FY 2014-15 is sourced from AAI Traffic News.

5.5. The Authority has examined the growth assumptions considered by Vizag Airport in its submission for projected passenger traffic for the first Control Period. The Authority has noted that Vizag Airport has taken a very conservative estimate for domestic passenger growth rate of 10% from FY 2019-20 to FY 2021-22 and 8% in FY 2022-23 as given in Table 2, as compared to its 10-years CAGR of 16.39%, as given in Table 4. The Authority, therefore, taking into consideration the 10-year CAGR, proposes to consider 15% growth per annum for domestic passenger traffic in FY 2019-20 to FY 2021-22 shown in Table 6 and 10% growth rate per annum in FY 2022-23. The reduction in the growth in FY 2022-23 to

10% is considered, as the Bhogapuram airport is likely to be commissioned by FY 2022-23. Further, on careful examination of international passenger traffic of Vizag Airport, its five-year CAGR is calculated to be 16.73%. Since the airport began international operations in 2011-12 onward, a 10-year CAGR could not be determined. The Authority proposes to accept the growth rate projected for the international passenger, of 15% in FY 2019-20 to FY 2021-22 and 12% in FY 2022-23, as the same appears to be reasonable. Accordingly, the revised passenger traffic proposed by the Authority is given in Table 6 below.

Table 6: Projected annual domestic passenger traffic as per the Authority's Examination

Financial Year	Domestic	YoY growth (Domestic)	International	YoY growth (International)
FY 18-19	26,98,560	-	153,876	-
FY 19-20	31,03,344	15.00%	176,957	15.00%
FY 20-21	35,68,846	15.00%	203,501	15.00%
FY 21-22	41,04,173	15.00%	234,026	15.00%
FY 22-23	45,14,590	10.00%	262,109	12.00%

5.6. The Authority has examined the growth in ATM traffic considered by Vizag Airport in its submission and is of the view that the projections are reasonable. Accordingly, the Authority proposes to accept traffic projections for both domestic and international ATM as submitted by Vizag Airport and furnished in Table 7.

Table 7: ATM traffic as estimated by the Authority

Financial Year	Domestic	YoY growth (Domestic)	International	YoY growth (International)
FY 18-19*	19,467	-	1,943	-
FY 19-20	21,219	9.00%	2,176	12.00%
FY 20-21	23,129	9.00%	2,438	12.00%
FY 21-22	25,211	9.00%	2,730	12.00%
FY 22-23	26,976	7.00%	3,003	10.00%

Proposal No. 1 Regarding Traffic Forecast

- 1.a. The Authority proposes to consider passenger traffic projections, given in Table 6.
- 1.b. The Authority proposes to accept ATM traffic projections submitted by Vizag Airport, given in Table 7.
- 1.c. The Authority proposes to true up the passenger and the ATM traffic of the first Control Period based on actuals at the time of determination of tariff for the next Control Period.

6. REGULATORY ASSET BASE (RAB) AND DEPRECIATION

Opening RAB - Vizag Airport's submission

- 6.1. As per clause 5.2.4 of Airport Guidelines, opening RAB is to be calculated by taking into consideration the original cost of fixed asset, accumulated depreciation, accumulated capital receipts of the nature of contributions from stakeholders, adjustment for value of assets excluded from the scope of RAB and adjustment for value of the land excluded from the scope of RAB.
- 6.2. In its submission, Vizag Airport has mentioned that depreciation is calculated as per AAI's depreciation rate upto FY 2015-16; depreciation on RAB and addition to fixed asset FY 2016-17 and FY 2017-18 is calculated as per Companies Act 2013. From FY 2018-19 onwards depreciation is worked out as per rates prescribed by the Authority. Half year rate of depreciation is calculated for additions in Assets in form 10(a) for first year of capitalization.
- 6.3. Accordingly RAB during the first control period has been calculated as per the following steps:
 - 6.3.1. Gross block as on 01.04.2016 has been considered as the starting point;
 - 6.3.2. Classification of gross block as on 01.04.2016 into aeronautical, non-aeronautical and common assets;
 - 6.3.3. Further bifurcation of common assets into aeronautical and non-aeronautical assets;
 - 6.3.4. Determination of gross opening RAB as on 01.04.2016;
 - 6.3.5. Determination of opening RAB as on 01.04.2016 by reducing accumulated depreciation upto 01.04.2016;
 - 6.3.6. Additions during FY 2016-17 and FY 2017-18 to Opening RAB as on 01.04.2016;
 - 6.3.7. Depreciation on opening RAB as on 01.04.2016 and additions to RAB during FY 2016-17 and FY 2017-18;
 - 6.3.8. Determination of opening RAB as on 01.04.2018 after considering additions and depreciation during FY 2016-17 and FY 2017-18;
 - 6.3.9. Additions to opening RAB as on 01.04.2018 during the first control period;
 - 6.3.10. Depreciation on opening RAB as on 01.04.2018 and additions during the first control period;
 - 6.3.11. Determination of RAB during the first control period after considering additions and depreciation during the first control period.
- 6.4. Vizag Airport in its submission has classified the opening gross block as on 01.04.2016 into aeronautical, non-aeronautical and common assets as shown in Table 8:

Table 8: Gross block of assets as on 01.04.2016 and bifurcation into aeronautical, non-aeronautical and common assets as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Aero	Non-Aero	Common	Cargo	ANS	Total
Land	-	-	-	-	-	-
Runways taxiway	7.44	-	-	-	-	7.44
Aprons	1,382.54	-	-	-	-	1,382.54
Roads, bridges & culverts	2.44	-	-	-	-	2.44
Terminal building	489.07	18.89	8,542.76	-	336.64	9,387.36
Temporary building	79.51	-	-	-	-	79.51
Residential building	12.75	-	23.96	-	-	36.70
Temporary boundary wall	-	-	-	-	-	-
Operational boundary wall	411.41	-	-	-	17.13	428.55
Residential boundary wall	0.94	-	69.79	-	-	70.73
Other buildings	484.44	-	-	77.84	5.35	567.63
Computers: End user devices	12.09	-	18.15	-	0.73	30.97
Software	51.15	-	-	-	-	51.15
Computers: Servers and networks	5.42	-	25.27	-	-	30.69
Machinery	52.28	0.03	627.57	-	1,521.79	2,201.67
Tools & plant	105.01	-	-	-	1.32	106.33
Plant & equipment: FIDS	56.86	-	-	-	-	56.86
Furniture-Office (Other than Trolley)	9.32	-	-	-	-	9.32
Vehicles	22.65	-	-	-	-	22.65
Cars/Jeeps	39.82	-	-	-	-	39.82
Elect installation	2,262.46	-	615.56	-	0.17	2,878.19
Office equipment	28.81	-	2.41	-	4.75	35.97
Furniture & fixtures: other than trolley	200.49	-	-	-	8.66	209.14
Furniture & fixtures: Trolley	53.35	-	-	-	-	53.35
X-ray Baggage System (XIBS)	365.68	-	-	-	-	365.68
CFT & Fire Fighting Equipment.	60.34	-	-	-	-	60.34
Grand Total	6,196.27	18.93	9,925.48	77.84	1,896.53	18,115.04

6.5. Opening common assets other than terminal building have been bifurcated into aeronautical and non-aeronautical basis actual utilization of assets.

6.6. Further, space earmarked for non-aeronautical activities in terminal building is 6.85% of total terminal building area. Accordingly, common assets relating to terminal building have been bifurcated into aeronautical and non-aeronautical in the ratio of 93.15 to 6.85 as given in Table 9.

Table 9: Classification of opening common assets into aeronautical and non-aeronautical assets as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Total common	Aero	Non-Aero
Land			
Runways taxiway	-	-	-
Aprons	-	-	-
Roads, bridges & culverts	-	-	-
Terminal building	8,542.76	7,963.43	579.33
Temporary building	-	-	-
Residential building	23.96	21.78	2.18
Temporary boundary wall	-	-	-
Operational boundary wall	-	-	-
Residential boundary wall	69.79	63.45	6.34

Asset head	Total common	Aero	Non-Aero
Other buildings	-	-	-
Computers: End user devices	18.15	17.05	1.11
Software	-	-	-
Computers: Servers and networks	25.27	23.73	1.54
Machinery	627.57	584.58	42.99
Tools & plant	-	-	-
Plant & equipment: FIDS	-	-	-
Furniture-Office (Other than Trolley)	-	-	-
Vehicles	-	-	-
Cars/Jeeps	-	-	-
Elect installation	615.56	573.33	42.23
Office equipment	2.41	2.26	0.15
Furniture & fixtures: other than trolley	-	-	-
Furniture & fixtures: Trolley	-	-	-
X-ray Baggage System (XIBS)	-	-	-
CFT & Fire Fighting Equipment.	-	-	-
Grand Total	9,925.48	9,249.61	675.87

6.7. Depreciation on RAB upto FY 2015-16 has been computed as per AAI's depreciation rates as per Vizag Airport's submission. Opening RAB as on 01.04.2016 has been computed by reducing accumulated depreciation upto FY 2015-16 from gross block as on 01.04.2016 as shown in Table 10.

Table 10: Opening RAB as on 01.04.2016 as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Gross opening RAB as on 01.04.2016 (A)	Accumulated depreciation as on 31.03.2016 (B)	Opening RAB as on 01.04.2016 (C) = (A)-(B)
Land			
Runways taxiway	7.44	7.44	-
Aprons	1,382.54	1,382.54	-
Roads, bridges & culverts	2.44	2.44	-
Terminal building	8,452.50	5,001.37	3,451.13
Temporary building	79.51	79.51	-
Residential building	34.53	17.85	16.68
Temporary boundary wall	-	-	-
Operational boundary wall	411.41	391.05	20.37
Residential boundary wall	64.39	10.24	54.15
Other buildings	484.44	453.29	31.15
Computers: End user devices	29.14	27.94	1.19
Software	51.15	51.15	-
Computers: Servers and networks	29.15	28.24	0.91
Machinery	636.86	489.40	147.46
Tools & plant	105.01	104.50	0.51
Plant & equipment: FIDS	56.86	46.51	10.35
Furniture-Office (Other than Trolley)	9.32	9.07	0.25
Vehicles	22.65	20.43	2.22
Cars/Jeeps	39.82	35.63	4.19
Elect installation	2,835.79	2,537.84	297.95
Office equipment	31.07	31.05	0.03

Asset head	Gross opening RAB as on 01.04.2016 (A)	Accumulated depreciation as on 31.03.2016 (B)	Opening RAB as on 01.04.2016 (C) = (A)-(B)
Furniture & fixtures: other than trolley	200.49	191.81	8.67
Furniture & fixtures: Trolley	53.35	48.80	4.54
X-ray Baggage System (XIBS)	365.68	329.86	35.82
CFT & Fire Fighting Equipment.	60.34	60.28	0.06
Grand Total	15,445.88	11,358.24	4,087.64

6.8. Depreciation during FY 2016-17 and FY 2017-18 on opening RAB as on 01.04.2016 has been computed as per depreciation rates prescribed under Companies Act, 2013 as shown in Table 11.

Table 11: Depreciation during FY 2016-17 and FY 2017-18 on opening RAB as on 01.04.2016 as per Vizag Airport's submission (in ₹ lakhs)

Asset head	FY 16-17	FY 17-18	Total
Land	-	-	-
Runways taxiway	-	-	-
Aprons	-	-	-
Roads, bridges & culverts	-	-	-
Terminal building	254.95	254.47	509.42
Temporary building	-	-	-
Residential building	1.15	1.15	2.30
Temporary boundary wall	-	-	-
Operational boundary wall	3.17	3.17	6.34
Residential boundary wall	2.14	2.14	4.28
Other buildings	1.57	1.57	3.14
Computers: End user devices	0.54	0.23	0.77
Software	-	-	-
Computers: Servers and networks	0.26	0.26	0.53
Machinery	39.64	39.54	79.19
Tools & plant	0.11	0.04	0.15
Plant & equipment: FIDS	1.30	1.21	2.50
Furniture-Office (Other than Trolley)	0.07	0.07	0.13
Vehicles	0.72	0.60	1.31
Cars/Jeeps	1.31	1.26	2.57
Elect installation	75.88	72.98	148.86
Office equipment	0.02	0.01	0.03
Furniture & fixtures: other than trolley	4.34	4.34	8.67
Furniture & fixtures: Trolley	2.17	2.17	4.34
X-ray Baggage System (XIBS)	4.27	4.27	8.53
CFT & Fire Fighting Equipment.	0.02	0.02	0.04
Grand Total	393.63	389.49	783.12

6.9. Further, gross additions during FY 2016-17 and FY 2017-18 to RAB as on 01.04.2016 as per Vizag Airport's submission have been shown in Table 12.

Table 12: Gross additions during FY 16-17 and FY 17-18 to RAB as on 01.04.2016 as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Description	FY 16-17	FY 17-18	Total
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Aprons	Extension of apron for 6 additional parking bays	-	2,088.41	2,088.41
Terminal building	Modular SS Body prefabricated E-Toilets	-	22.48	22.48
Residential building	Relocation of garbage dumping point	-	16.15	16.15
Operational boundary wall	Operational Boundary Wall Near Old ATC Building	27.71	-	27.71
Other buildings	Provision of entrance gate, Construction of administrative office complex	-	235.00	235.00
Computers: End user devices	Laptops, printers, UPS	8.39	6.59	14.98
Machinery	Biometric Access Control Systems, Explosive Trace Detector, Water Coolers And Ro System	15.06	-	15.06
Tools & plant	Surge protection device, Rapiscan meter 6s	41.90	113.23	155.12
Plant & equipment: FIDS	Baggage Trolleys	-	22.71	22.71
Furniture-Office (Other than Trolley)	Chairs and bookcase	-	75.27	75.27
Electrical installation	High mast for national flag, DG set, Scissor Lift And Aluminum Ladder	35.98	7.10	43.08
Office equipment	Scanners	0.50	1.90	2.40
Furniture & fixtures: other than trolley	Furniture For Housing Airport Systems Equipment	12.13	-	12.13
X-ray Baggage System (XIBS)	X-BIS 6040 ex X-BIS 100100v	168.26	-	168.26
Grand Total		309.92	2,588.83	2,898.75

6.10. Depreciation on gross additions to RAB during FY 2016-17 and FY 2017-18 has been computed as per depreciation rates prescribed under Companies Act, 2013 as shown in Table 13.

Table 13: Depreciation on additions to RAB during FY 16-17 and FY 17-18 as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Rate (%)	FY 16-17	FY 17-18	Total
Aprons	3.33	-	34.77	34.77
Terminal building	3.33	-	0.37	0.37
Residential building	3.33	-	0.27	0.27
Operational boundary wall	10.00	0.46	0.92	1.38
Other buildings	3.33	-	3.91	3.91
Computers: End user devices	33.33	0.70	1.95	2.65
Machinery	6.67	0.50	1.00	1.51
Tools & plant	6.67	1.40	6.57	7.97
Plant & equipment: FIDS	10.00	-	0.76	0.76
Furniture-Office (Other than Trolley)	14.29	-	7.53	7.53
Elect installation	10.00	1.20	2.64	3.84
Office equipment	20.00	0.05	0.29	0.34
Furniture & fixtures: other than trolley	14.29	0.61	1.21	1.82

Asset head	Rate (%)	FY 16-17	FY 17-18	Total
X-ray Baggage System (XIBS)	6.67	5.61	11.22	16.83
Total		10.53	73.42	83.95

6.11. Net additions during FY 2016-17 and FY 2017-18 to RAB as on 01.04.2016 have been computed by reducing depreciation from gross additions during FY 2016-17 and FY 2017-18 to RAB as on 01.04.2016 as shown in Table 14.

Table 14: Net additions to RAB as on 01.04.2016 during FY 16-17 and FY 17-18 as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Gross additions	Total depreciation during FY 16-17 and FY 17-18	Total
Aprons	2,088.41	34.77	2,053.64
Terminal building	22.48	0.37	22.11
Residential building	16.15	0.27	15.88
Operational boundary wall	27.71	1.38	26.33
Other buildings	235.00	3.91	231.09
Computers: End user devices	14.98	2.65	12.33
Machinery	15.06	1.51	13.56
Tools & plant	155.12	7.97	147.16
Plant & equipment: FIDS	22.71	0.76	21.95
Furniture-Office (Other than Trolley)	75.27	7.53	67.74
Elect installation	43.08	3.84	39.24
Office equipment	2.40	0.34	2.06
Furniture & fixtures: other than trolley	12.13	1.82	10.31
X-ray Baggage System (XIBS)	168.26	16.83	151.43
Grand Total	2,898.75	83.95	2,814.81

6.12. Opening RAB as on 01.04.2018 as per Vizag Airport's submission has been computed in Table 15.

Table 15: Opening RAB as on 01.04.2018 after considering additions and depreciation respectively during FY 16-17 and FY 17-18 as per Vizag Airport's submission (in ₹ lakhs)

Asset head	RAB as on 01.04.2016 as per Table 10 (A)	Net additions to RAB during FY 16-17 and FY 17-18 as per Table 14 (B)	Depreciation on during FY 16-17 and FY 17-18 opening RAB as on 01.04.2016 as per Table 11 (C)	Opening RAB as on 01.04.2018 (D) = (A)+(B)-(C)
Land	-	-	-	-
Runways taxiway	-	-	-	-
Aprons	-	2,053.64	-	2,053.64

Roads, bridges & culverts	-	-	-	-
Terminal building	3,451.13	22.11	509.42	2,963.81
Temporary building	-	-	-	-
Residential building	16.68	15.88	2.30	30.26
Temporary boundary wall	-	-	-	-
Operational boundary wall	20.37	26.33	6.34	40.35
Residential boundary wall	54.15	-	4.28	49.87
Other buildings	31.15	231.09	3.14	259.10
Computers: End user devices	1.19	12.33	0.77	12.75
Software	-	-	-	-
Computers: Servers and networks	0.91	-	0.53	0.38
Machinery	147.46	13.56	79.19	81.83
Tools & plant	0.51	147.16	0.15	147.52
Plant & equipment: FIDS	10.35	21.95	2.50	29.80
Furniture-Office (Other than Trolley)	0.25	67.74	0.13	67.86
Vehicles	2.22	-	1.31	0.91
Cars/Jeeps	4.19	-	2.57	1.62
Elect installation	297.95	39.24	148.86	188.33
Office equipment	0.03	2.06	0.03	2.06
Furniture & fixtures: other than trolley	8.67	10.31	8.67	10.31
Furniture & fixtures: Trolley	4.54	-	4.34	0.20
X-ray Baggage System (XIBS)	35.82	151.43	8.53	178.71
CFT & Fire Fighting Equipment.	0.06	-	0.04	0.02
Grand Total	4,087.64	2,814.81	783.12	6,119.33

Authority's Examination – Opening RAB

6.13. The Authority after verifying material facts and relying on AAI's audited accounts has proposed to accept Vizag Airport's submission in relation to opening gross block as on 01.04.2016, accumulated depreciation upto 01.04.2016, additions during FY 2016-17 and FY 2017-18 to RAB as on 01.04.2016 and depreciation on opening RAB as on 01.04.2016 and additions during FY 2016-17 and FY 2017-18.

6.14. As per the Authority's order in the matter of "Normative Approach to Building Block in Economic Regulation of major Airports" dated 06 June 2016 (hereafter referred to as Normative Capital Cost Order), for determination of RAB the project cost ceiling with respect to the Terminal Building is ₹65,000 per sq.m and ₹4,700 per sq.m. for Taxiway/ Apron, excluding earthwork cost.

Table 16: The Authority's examination of normative cost of additions to capital assets of Vizag Airport

Particulars	Unit	Terminal Building	Apron & Taxiways
Cost of total additions as per Vizag Airport [1]	₹ lakhs	5,942.48	3,160.89
Area in sq.m. as per Vizag Airport [2]	sq.m.	9,250.00	52,357

Cost per sq.m. [1]/[2]	₹ per sq.m.	64,243.03	6,037.19
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- 6.15. The Authority has examined the normative cost of additions to the terminal building, and apron of Vizag Airport detailed in Table 16 above.
- 6.16. In the case of terminal building expansion, the unit cost of ₹64,243.03 per sq.m. appears to be reasonable, and it is therefore proposed to accept the costs.
- 6.17. In the case of additions to Apron, the cost of completion of the project is ₹3,160.89 lakhs as per the submission of Vizag Airport. Vizag Airport confirmed that scope of work includes extension of apron for an area of 26,712 sq.m., construction of New link taxiway (N5) with associated shoulders, construction of vehicular lane, shoulders for the old apron, old taxiways N1 and N2, and new VIP road. The surface area of all the above pavements including the extended apron area is 52,357 sq.m. as shown in Table 16. The cost of construction of the above facilities is ₹6,037.19 per sq.m. which is 28.45% higher than the normative bench mark cost of ₹4,700.00 per sq.m. Vizag Airport further confirmed that the reason for higher cost is on account of poor geotechnical subsurface soil existing at Visakhapatnam airfield which require soil improvement techniques i.e. consolidation of soft clay by driving perforated vertical drains and imposition of super imposed load for a height of 2.90 meters for a period of six months to achieve desired consolidation and improvement in the geotechnical parameters. Given that high costs have been incurred towards soil stabilization, and further accounting for inflation since 2016, the Authority proposes to accept the cost of Apron and Taxiway as submitted by Vizag Airport.

Additions to RAB during the first control period as per Vizag Airport's submission

- 6.18. As per the submission of Vizag Airport additional capital expenditure amounting to ₹81.80 crores has been taken in MYTP.
- 6.19. Following major capital expenditure is submitted by Vizag Airport:
- 6.19.1. Linear expansion of Terminal Building- ₹57 crores in FY 2019-20.
- 6.19.2. Extension of apron for additional 06 number of parking bays- ₹ 31 crores which is incurred in two years— ₹21 crores in FY 2017-18 and ₹10 crores in FY 2018-19.
- 6.19.3. Construction of boundary Wall- 0.93 crores in FY 2018-19.
- 6.19.4. Baggage Trolleys- ₹0.80 crores in FY 2018-19.
- 6.20. Additions to RAB during the first control period as per Vizag Airport's submission are given in Table 17:

Table 17: Additions to RAB as on 01.04.2018 during the first control period as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Description	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
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Aprons	Extension of apron for 6 additional parking bays	1,072.48	-	-	-	-	1,072.48
Terminal building	Linear expansion of Terminal building	-	5,700.00	220.00	-	-	5,920.00
Residential building	CISF residential Quarters family accommodation	50.00	-	-	-	-	50.00
Temporary boundary wall	Fencing adjacent to CISF barracks	10.00	-	-	-	-	10.00
Operational boundary wall	Operational Boundary Wall Around Vpt Handed Over Land At Vizag	94.85	-	-	-	-	94.85
Residential boundary wall	Construction of boundary wall at residential colony	39.32	-	-	-	-	39.32
Other buildings	Misc. unforeseen works/ minor capital works	20.00	-	-	-	-	20.00
Machinery	Explosive Trace Detector	10.73	-	-	-	-	10.73
Tools & plant	Provision of Alarm & fire Hydrant system	1.00	-	-	-	-	1.00
Plant & equipment: FIDS	Baggage Trolleys	79.16	-	-	-	-	79.16
Elect installation	Replacement of existing signage with LED type Signage in terminal building	430.80	15.00	-	-	-	445.80
Office equipment	Supply, Installation, testing and commissioning (SITC) of SCCTV	40.11	396.78	-	-	-	436.89
Grand Total		1,848.45	6,111.78	220.00	-	-	8,180.23

Authority's Examination – Additions to RAB

6.21. The Authority has noted that Vizag Airport in its submission has considered the entire linear expansion of the terminal building equivalent to ₹ 5,920.00 lakhs as aeronautical. However, the Authority advises Vizag Airport to take up non-aeronautical activities in the new terminal building area to enable commercial growth of the airport. Accordingly, the Authority has proposed to allocate the expansion of the terminal building into aeronautical and non-aeronautical in the ratio of 93.15 to 6.85, as considered for common assets in Vizag's submission given in paragraph 6.6. This allocation of expansion of terminal building is given in Table 18.

Table 18: Asset allocation of Terminal Building Expansion during the control period as per the Authority's Examination (in ₹ lakhs)

Particulars	Ratio (%)	FY 19-20	FY 20-21	Total
Aeronautical	93.15%	5,309.55	204.93	5,514
Non-Aeronautical	6.85%	390.45	15.07	406
Total	100%	5,700.00	220.00	5,920

6.22. The aeronautical allocation of terminal building expansion is to be considered for computing RAB. Accordingly, the revised total additions to RAB are given in Table 19.

Table 19: Additions to RAB as on 01.04.2018 during the first control period as per the Authority's examination (in ₹ lakhs)

Asset head	Description	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Aprons	Extension of apron for 6 additional parking bays	1,072.48	-	-	-	-	1,072.48
Terminal building	Linear expansion of Terminal building	-	5,309.55	204.93	-	-	5,514
Residential building	CISF residential Quarters family accommodation	50.00	-	-	-	-	50.00
Temporary boundary wall	Fencing adjacent to CISF barracks	10.00	-	-	-	-	10.00
Operational boundary wall	Operational Boundary Wall Around Vpt Handed Over Land At Vizag	94.85	-	-	-	-	94.85
Residential boundary wall	Construction of boundary wall at residential colony	39.32	-	-	-	-	39.32
Other buildings	Misc. unforeseen works/ minor capital works	20.00	-	-	-	-	20.00
Machinery	Explosive Trace Detector	10.73	-	-	-	-	10.73
Tools & plant	Provision of Alarm & fire Hydrant system	1.00	-	-	-	-	1.00
Plant & equipment: FIDS	Baggage Trolleys	79.16	-	-	-	-	79.16
Elect installation	Replacement of existing signage with LED type Signage in terminal building	430.80	15.00	-	-	-	445.80
Office equipment	Supply, Installation, testing and commissioning (SITC) of SCCTV	40.11	396.78	-	-	-	436.89
Grand Total		1,848.45	5,721.33	204.93	-	-	7,775

6.23. Allocation of such capital expenditure towards linear expansion of terminal building shall be tried up in the next control period based on actual usage in the current control period

Depreciation on RAB as per Vizag Airport's submission

6.24. Depreciation from FY 2018-19 onwards has been computed as per rates prescribed under AERA Order No. 35/ 2017-18 "In the matter of Determination of Useful life of Airport Assets" dated 12.01.2018. Further, half yearly rates of depreciation have been considered for additions to RAB in the first year of capitalization.

Table 20: Depreciation on opening RAB as on 01.04.2018 during the first control period as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Rate	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Land	0.00 %	-	-	-	-	-
Runways taxiway	3.33 %	-	-	-	-	-
Aprons	3.33 %	-	-	-	-	-
Roads, bridges & culverts	10.00 %	-	-	-	-	-

Terminal building	3.33 %	253.70	253.64	253.38	253.04	250.94
Temporary building	33.33 %	-	-	-	-	-
Residential building	3.33 %	1.15	1.15	1.15	0.73	0.73
Temporary boundary wall	0.00 %	-	-	-	-	-
Operational boundary wall	10.00 %	7.55	3.58	2.89	-	-
Residential boundary wall	10.00 %	6.37	6.37	6.37	6.29	6.25
Other buildings	3.33 %	1.57	1.57	1.57	1.57	1.57
Computers: End user devices	33.33 %	0.30	0.12	-	-	-
Software	20.00 %	-	-	-	-	-
Computers: Servers and networks	16.67 %	0.38	-	-	-	-
Machinery	6.67 %	39.17	21.42	7.01	-	-
Tools & plant	6.67 %	0.04	0.04	0.04	0.04	0.04
Plant & equipment: FIDS	10.00 %	1.50	1.50	1.44	0.53	-
Furniture-Office (Other than Trolley)	14.29 %	0.04	0.04	0.03	-	-
Vehicles	12.50 %	0.60	0.31	-	-	-
Cars/Jeeps	12.50 %	1.10	0.52	-	-	-
Elect installation	10.00 %	97.31	47.29	3.66	0.09	0.04
Office equipment	20.00 %	-	-	-	-	-
Furniture & fixtures: other than trolley	14.29 %	-	-	-	-	-
Furniture & fixtures: Trolley	33.33 %	0.20	-	-	-	-
X-ray Baggage System (XIBS)	6.67 %	4.27	4.27	4.27	4.27	1.69
CFT & Fire Fighting Equipment.	6.67 %	0.02	0.00	-	-	-
Total		415.26	341.82	281.82	266.55	261.25

Table 21: Depreciation on additions to RAB during the first control period as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Rate	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Land	0.00 %	-	-	-	-	-
Runways taxiway	3.33 %	-	-	-	-	-
Aprons	3.33 %	87.40	105.26	105.26	105.26	105.26
Roads, bridges & culverts	10.00 %	-	-	-	-	-
Terminal building	3.33 %	0.75	95.65	194.22	197.88	197.88
Temporary building	33.33 %	-	-	-	-	-
Residential building	3.33 %	1.37	2.20	2.20	2.20	2.20
Temporary boundary wall	0.00 %	-	-	-	-	-
Operational boundary wall	10.00 %	7.51	12.26	12.26	12.26	12.26
Residential boundary wall	10.00 %	1.97	3.93	3.93	3.93	3.93
Other buildings	3.33 %	8.16	8.49	8.49	8.49	8.49
Computers: End user devices	33.33 %	4.99	4.99	-	-	-
Software	20.00 %	-	-	-	-	-
Computers: Servers and networks	16.67 %	-	-	-	-	-
Machinery	6.67 %	1.36	1.72	1.72	1.72	1.72

Tools & plant	6.67 %	10.38	10.41	10.41	10.41	10.41
Plant & equipment: FIDS	10.00 %	6.23	10.19	10.19	10.19	10.19
Furniture-Office (Other than Trolley)	14.29 %	10.76	10.76	10.76	10.76	10.76
Vehicles	12.50 %	-	-	-	-	-
Cars/Jeeps	12.50 %	-	-	-	-	-
Elect installation	10.00 %	25.85	48.14	48.89	48.89	48.89
Office equipment	20.00 %	4.49	48.18	87.86	87.86	87.86
Furniture & fixtures: other than trolley	14.29 %	1.73	1.73	1.73	1.73	1.73
Furniture & fixtures: Trolley	33.33 %	-	-	-	-	-
X-ray Baggage System (XIBS)	6.67 %	11.22	11.22	11.22	11.22	11.22
CFT & Fire Fighting Equipment.	6.67 %	-	-	-	-	-
Total		184.17	375.14	509.14	512.80	512.80

Table 22: Total depreciation on RAB during the first control period as per Vizag Airport's submission (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Depreciation on opening RAB	415.26	341.82	281.82	266.55	261.25
Depreciation on additions to RAB	184.17	375.14	509.14	512.80	512.80
Grand total	599.43	716.96	790.96	779.35	774.05

Authority's Examination – Depreciation on RAB

6.25. The Authority has noted that depreciation rates considered by Vizag Airport and methodology for computing depreciation are in line with rates and methodology prescribed under AERA Order No. 35/ 2017-18 "In the matter of Determination of Useful life of Airport Assets" dated 12.01.2018. Accordingly, the Authority has proposed to accept Vizag Airport's submission in relation to depreciation.

6.26. As given in paragraph 6.21 , the Authority has proposed to allocate the expansion of the terminal building into aeronautical and non-aeronautical in the same proportion as the existing terminal building as given in paragraph 6.6. As a result, the aeronautical allocation and its depreciation thereof is to be considered for RAB computation. Accordingly, the revised depreciation attributable to aeronautical asset of terminal building expansion is given in Table 23.

Table 23: Depreciation of aeronautical asset of terminal building expansion during the first control period as per the Authority's examination (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Depreciation of aeronautical asset of terminal building expansion	0.75	89.15	180.97	184.38	184.38

6.27. Incorporating the above computation, the revised depreciation on additions to RAB and total depreciation for the first control period of Vizag Airport as per the Authority's examination is given in Table 24 and Table 25 respectively.

Table 24: Depreciation on additions to RAB during the first control period as per the Authority's examination (in ₹ lakhs)

Asset head	Rate	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Land	0.00 %	-	-	-	-	-
Runways taxiway	3.33 %	-	-	-	-	-
Aprons	3.33 %	87.40	105.26	105.26	105.26	105.26
Roads, bridges & culverts	10.00 %	-	-	-	-	-
Terminal building	3.33 %	0.75	89.15	180.97	184.38	184.38
Temporary building	33.33 %	-	-	-	-	-
Residential building	3.33 %	1.37	2.20	2.20	2.20	2.20
Temporary boundary wall	0.00 %	-	-	-	-	-
Operational boundary wall	10.00 %	7.51	12.26	12.26	12.26	12.26
Residential boundary wall	10.00 %	1.97	3.93	3.93	3.93	3.93
Other buildings	3.33 %	8.16	8.49	8.49	8.49	8.49
Computers: End user devices	33.33 %	4.99	4.99	-	-	-
Software	20.00 %	-	-	-	-	-
Computers: Servers and networks	16.67 %	-	-	-	-	-
Machinery	6.67 %	1.36	1.72	1.72	1.72	1.72
Tools & plant	6.67 %	10.38	10.41	10.41	10.41	10.41

Plant & equipment: FIDS	10.00 %	6.23	10.19	10.19	10.19	10.19
Furniture-Office (Other than Trolley)	14.29 %	10.76	10.76	10.76	10.76	10.76
Vehicles	12.50 %	-	-	-	-	-
Cars/Jeeps	12.50 %	-	-	-	-	-
Elect installation	10.00 %	25.85	48.14	48.89	48.89	48.89
Office equipment	20.00 %	4.49	48.18	87.86	87.86	87.86
Furniture & fixtures: other than trolley	14.29 %	1.73	1.73	1.73	1.73	1.73
Furniture & fixtures: Trolley	33.33 %	-	-	-	-	-
X-ray Baggage System (XIBS)	6.67 %	11.22	11.22	11.22	11.22	11.22
CFT & Fire Fighting Equipment.	6.67 %	-	-	-	-	-
Total		184.17	368.63	495.89	499.30	499.30

Table 25: Total depreciation on RAB during the first control period as per the Authority's examination (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Depreciation on opening RAB	415.26	341.82	281.82	266.55	261.25
Depreciation on additions to RAB	184.17	368.63	495.89	499.30	499.30
Grand total	599.43	710.45	777.71	765.85	760.55

Average RAB as per Vizag Airport's submission

6.28. RAB during the control period as per Vizag Airport has been summarized in the Table 26:

Table 26: Average RAB as per Vizag Airport's submission (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Opening RAB	4,087.64	3,993.40	6,119.33	7,368.34	12,763.16	12,192.21	11,412.85
Additions to RAB	309.92	2,588.83	1,848.45	6,111.78	220.00	-	-
Disposals	-	-	-	-	-	-	-
Depreciation	(404.16)	(462.91)	(599.43)	(716.96)	(790.96)	(779.35)	(774.05)
Closing RAB	3,993.40	6,119.33	7,368.34	12,763.16	12,192.21	11,412.85	10,638.80
Average RAB	4,040.52	5,056.36	6,743.84	10,065.75	12,477.69	11,802.53	11,025.83

Authority's Examination – Average RAB

6.29. The Authority has proposed to allocate the expansion of the terminal building into aeronautical and non-aeronautical in the same proportion as the existing terminal building as given in paragraph 6.6. Accordingly, the aeronautical asset of terminal building expansion and its depreciation thereof, is considered in computing average RAB. Thus, the revised RAB during the control period as per the Authority after considering the above decisions has been summarized in the Table 27.

Table 27: Revised RAB as per the Authority's Examination (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Opening RAB	4,087.64	3,993.40	6,119.33	7,368.34	12,379.21	11,806.44	11,040.59
Additions to RAB	309.92	2,588.83	1,848.45	5,721.33	204.93	-	-
Disposals	-	-	-	-	-	-	-
Depreciation	(404.16)	(462.91)	(599.43)	(710.46)	(777.70)	(765.85)	(760.55)
Closing RAB	3,993.40	6,119.33	7,368.34	12,379.21	11,806.44	11,040.59	10,280.04
Average RAB	4,040.52	5,056.36	6,743.84	9,873.78	12,092.83	11,423.52	10,660.32

Proposal No. 2 Regarding RAB

- 2.a. The Authority has proposed to allocate the expansion area of the terminal building into aeronautical and non-aeronautical assets in the ratio of 93.15 to 6.85. Accordingly, the Authority proposes to consider additions to RAB during the first control period as given in Table 19, depreciation of additions to revised RAB as given in Table 24 and total depreciation as given in Table 25.
- 2.b. The Authority proposes to use Average RAB as given in Table 27 for calculation of ARR.
- 2.c. The Authority proposes to true up Average RAB of the first Control Period based on actuals at the time of determination of tariff for the next Control Period.

7. FAIR RATE OF RETURN (FRoR)

- 7.1. Vizag Airport in its submission has stated that the Airport has no debt. Therefore, interest rate computation is not applicable.
- 7.2. Vizag Airport has considered Fair Rate of Return (FRoR) equivalent to the cost of equity (K_e) at 14% p.a. This is in line with the decision taken by the Authority for other AAI airports such as in Chennai, Kolkata, Guwahati and Lucknow for the first Control Period.

Authority's Examination

- 7.3. The Authority has recognized that Vizag Airport'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 Vizag Airport 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 Vizag Airport to contract large amounts of debt over a short period of time.
- 7.4. The Authority has noted 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 owned airports. The Authority notes that it has considered FRoR at 14% for Chennai and Kolkata airport in the first control period considering the recommendations of another study done by National Institute of Public Finance and Policy (NIPFP). Based on the decision taken for Chennai and Kolkata airport, the Authority considered FRoR at 14% for all AAI Airports for whom tariff has been determined subsequently.
- 7.5. Based on the above, the Authority proposes to consider FRoR at the rate of 14% for Vizag Airport for the first Control Period, as submitted by Vizag Airport.

Proposal No. 3 Regarding FRoR

- 3.a. The Authority proposes to consider the FRoR at 14% for Vizag Airport for the first Control Period.**
- 3.b. The Authority will undertake a study to determine FRoR for major AAI airports given the low debt structure of AAI as a whole.**

8. OPERATION AND MAINTENANCE EXPENDITURE

8.1. Vizag Airport's submission on details and assumptions of operation and maintenance expenditure proposed to be incurred during the first control period are provided in Table 28.

Table 28: Assumptions made by Vizag Airport for each item of Operation and Maintenance Expenditure

Item	Assumption
Payroll Related Expenditure & Provision	<ul style="list-style-type: none"> Vizag Airport has assumed 40% allocation of staff as non-executive and remaining 60% as executive staff in its submission. Based on the above allocation, Vizag Airport has proposed an increase of 37.16% in FY 2018-19 for wage revision for non-executive staff and 7% increase in FY 2018-19 for wage revision for executive staff. Thereafter a year-on-year growth rate of 7% has been estimated from FY 2019-20 to FY 2022-23 for both executive and non-executive staff. Overtime staff cost is estimated to increase by 37.16% in 2018-19 and thereafter at 7% from FY 2019-20 to FY 2022-23. Apportionment of Pay and allowance for CNS staff have been bifurcated based on utilization of staff for CNS activities as the ATC services are being extended by Navy. Apportionment of Central Headquarter (CHQ)/ Regional Headquarter (RHQ) overheads has been allocated for FY 2016-17 & FY 2017-18 on the basis of actuals allocations done in FY 2015-16 with 5% increase on year on year basis. 95% of CHQ/RHQ overhead expenses have been considered as aeronautical activities. (5% considered for non-aeronautical activities).
Administration & General Expenses	<ul style="list-style-type: none"> Items under Administration and General Expenses are assumed to increase at 10% YoY for FY 2018-19 to FY 2022-23. Municipal Taxes assumed at a fixed amount of ₹5.57 lakhs from FY 2018-19 to FY 2022-23. 5% of the apportionment of Administration Expenditure CHQ/RHQ (overheads expenses other than employees related) in 2015-16 are assumed as non-aeronautical. Additional three guards were engaged in FY 2017-18 for watch and ward, cost of which is included pertaining to that year. New contract for Mechanized Environmental Support Services (MESS) of ₹17.85 lakhs, included in conservancy charges till fresh contracts are awarded. New award of ₹ 7.62 crores for three years is due to be awarded in September 2018. This cost is included in the forecasted conservancy charges for FY 2018-19 to FY 2020-21. Annual conservancy charges are assumed fixed at ₹254.32 lakhs from FY 2019-20 to FY 2022-23.
Repair & Maintenance	<ul style="list-style-type: none"> Repair & Maintenance charges have been projected to grow at 10% from FY 2018-19 to FY 2019-20, then by 15% for the subsequent period of FY 2021, on account of the Terminal Building expansion. Thereafter, 10% year-on-year increase has been computed for the remaining of the control period. ₹ 562.62 lakhs incurred for runway costs have been charged off, not reimbursed by the State Government and the runway was handed to the Indian Navy in FY 2017-18. This amount has not been previously accounted for. This amount has been included in the O&M cost for FY 2017-18. ₹ 9.98 lakhs AMC for Security Closed-Circuit Television (SCCTV), ₹ 1.64 AMC for Computers, AMC Public Announcement (PA) System & Electronic

Item	Assumption
	<p>private branch exchange (EPBX) incurred in FY 2017-18</p> <ul style="list-style-type: none"> Vizag Airport received ₹1.92 crores from insurance company towards the claim of damage caused by Hud Hud Cyclone for which repair and maintenance expenditure was incurred in FY 2015-16. This amount of claim received in FY 2017-18 which ought to be set off against the expenditure incurred in FY 2015-16 is shown as prior period income and not considered in tariff proposal.
Electricity & Water	<ul style="list-style-type: none"> Electricity and Water charges have been estimated to remain unchanged for most of the control period. However, an increase of 20% has been estimated for FY 20-2021 due to the expansion of the Terminal Building. Power charges includes electricity charges and fuel for diesel generators. Power charges are estimated based on estimated electricity units consumed.
Consumption of Stores & Spares	Expenses pertaining to Consumption of Stores & Spares has been estimated to increase by 10% year-on-year throughout the control period.
Other Outflows	Other Outflow expenses have been projected to increase by 10% year-on-year, in-line with the traffic growth rates of passenger and ATM for the control period.

8.2. Below Table 29 summarizes the operation and maintenance expenditure:

Table 29: Projected O&M expenditure by Vizag Airport for the first control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Payroll costs	759.35	820.28	979.48	1,050.33	1,123.85	1,202.52	1,286.70
Repair and maintenance	539.19	1,056.84	543.64	598.00	687.70	756.47	832.12
Consumption of stores and spares	4.50	6.53	7.19	7.90	8.69	9.56	10.52
Electricity and water charges	568.14	579.27	579.27	579.27	695.12	695.12	695.12
Admin and other expenses	615.04	697.20	810.41	902.51	939.18	978.13	1,019.52
Other Outflows (Collection charges on PSF and UDF)	48.29	52.60	58.01	63.97	70.55	77.83	84.25
Total	2,534.51	3,212.72	2,977.98	3,201.99	3,525.10	3,719.63	3,928.24

Authority's Examination

8.3. The Authority has proposed to consider the operation and maintenance expenditure as given in Table 29, for the purpose of determination of aeronautical tariffs for the first Control Period.

Proposal No. 4 Regarding Operation and Maintenance expenditure

- 4.a. The Authority proposes to true up the operation and maintenance expenditure of the first Control Period based on the actual expenditure at the time of determination of tariff for the next Control Period.

9. REVENUE FROM NON-AERONAUTICAL SERVICES

9.1. Vizag Airport has submitted the forecasts of various components of non-aeronautical revenues as well as the assumptions underlying the forecast.

Table 30: Assumptions made by Vizag Airport for each item of Non-Aeronautical Revenues

Item	Assumption
Trading Concessions	<ul style="list-style-type: none"> Trading Concessions consist of Restaurant/Snack Bars, T.R Stalls, and Hoarding & Display. Revenue from Restaurant/Snack Bars, and T.R Stalls is estimated to increase by 10% year-on-year as per agreement in FY 2018-19 and FY 2019-20. On account of the expansion of the Terminal Building, revenue from these streams are estimated to increase by 15% in FY 2020-21 and thereafter at 10% in FY 2021-22 and FY 2022-23. Hoarding & Display includes ₹30 lakhs per month w.e.f. 01.10.2017, amounting to ₹360 lakhs per year. This amount is assumed fixed for FY 2018-19 and FY 2019-20. This amount is assumed to grow at 15% in FY 2020-21 on account of expansion of the Terminal Building and thereafter remain fixed for the remaining control period.
Rent & Services	<ul style="list-style-type: none"> Rent & Services comprise of revenues generated from Land Leases along with Residential and Non-Residential Buildings. Land Leases are projected to grow by 7.5% year-on-year throughout the control period. Income from Residential Buildings are estimated to remain unchanged until FY 2022 and FY 2023, when ₹ 1 lakh has been added each year until the end of the control period. Revenue from Non-Residential Building is computed to grow by 10% year-on-year in FY 2018-19 and FY 2019-20. On account of the expansion of the Terminal Building, revenue from these streams are estimated to increase by 15% in FY 2020-21 and thereafter at 10% for the remaining control period.
Miscellaneous	<ul style="list-style-type: none"> Major revenue sources include Duty Free Shops, Car Rentals, Car Parking and Admission Tickets. Revenue from these sources is projected to increase by 10% year-on-year as per the agreement, with the exception of an estimated growth of 15% during FY 2021 on account of the Terminal Building Expansion. ₹8 lakhs excess billing for FY 2016-17 -Duty Free Shop reversed in 2017-18. Other Miscellaneous income is assumed to be ₹2 lakhs in FY2018-19, which is projected to grow at 5% year-on-year throughout the control period. Vizag Airport has assumed this as the minimum amount, excluding non-recurring Earnest Money Deposit (EMD)/ Security Deposit (SD)/Liquidity Damages (LD) of more than three years from miscellaneous income in FY 2017-18. ₹148.81 lakhs EMD/SD/LD of more than three years in miscellaneous income in 2015-16.

9.2. Revenue from Non-Aeronautical Services for the first control period submitted by Vizag Airport are as shown in Table 31.

Table 31: Revenue from non-aeronautical services projected for the first control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Restaurant/ Snack Bars	49.60	109.38	120.31	132.34	152.20	167.42	184.16

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
T.R Stall	143.10	121.15	133.26	146.59	168.58	185.44	203.98
Hoarding & Display	123.65	231.87	360.00	360.00	414.00	414.00	414.00
Land Leases	42.47	8.19	8.81	9.47	10.18	10.94	11.76
Building (Residential)	0.36	3.40	0.36	0.36	0.36	1.36	2.36
Building (Non-Residential)	121.64	116.20	127.83	140.61	161.70	177.87	195.66
Duty Free Shops	48.12	58.65	64.51	70.97	81.61	89.77	98.75
Car Rentals	48.08	35.05	38.55	42.41	48.77	53.64	59.01
Car Parking	176.16	192.14	211.35	232.49	267.36	294.10	323.51
Admission Tickets	78.78	87.80	96.58	106.24	122.17	134.39	147.83
Other Miscellaneous Income	37.46	47.64	2.00	2.10	2.21	2.32	2.43
Sale of Scrap/Fixed Asset	0.48	19.23	-	-	-	-	-
Total	869.90	1,030.69	1,163.56	1,243.56	1,429.13	1,531.24	1,643.44

Authority's Examination

9.3. Based on discussions with Vizag Airport and Authority's examination, revised assumptions for revenue from non-aeronautical services is given in Table 32:

Table 32: Revised assumptions for Non-Aeronautical Revenues as per the Authority's Examination (in ₹ lakhs)

Item	Assumption
Land leases	<ul style="list-style-type: none"> The land lease revenue for FY 2017-18 have been corrected to the audited amount of ₹55.93 lakhs. Further, land lease revenue of ₹27.83 lakhs from oil companies and Ground Handling Services, which was included under non-aero revenues has been deducted. Thus, land lease revenue towards non-aero is revised to ₹28.10 lakhs in FY 2017-18. The revenue from land lease is considered uniform from FY 2018-19 to FY 2022-23, in accordance with AAI's letter No.AV.21012/58/2016-LM/710 dated 04.12.2017, pertaining to "Review of Revision in Base Rates of Land Lease Rental/Licence Fee Rates w.e.f 01.04.2017 to 31.03.2022 at AAI Airports".
Building (residential)	<ul style="list-style-type: none"> Rent from residential building in FY 2017-18 included ₹2.81 lakhs on account of unauthorized occupancy. This has been excluded from FY 2018-19 onward. The proceeds from residential building is assumed to grow at 5% YoY during the control period.

Table 33: Revenue from non-aeronautical services as per the Authority's Examination (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Restaurant/ Snack Bars	49.60	109.38	120.31	132.34	152.20	167.42	184.16
T.R Stall	143.10	121.15	133.26	146.59	168.58	185.44	203.98
Hoarding & Display	123.65	231.87	360.00	360.00	414.00	414.00	414.00
Land Leases	14.64	28.10	28.10	28.10	28.10	28.10	28.10
Building (Residential)	0.36	3.40	0.61	0.65	0.68	0.71	0.75
Building (Non-Residential)	121.64	116.20	127.83	140.61	161.70	177.87	195.66
Duty Free Shops	48.12	58.65	64.51	70.97	81.61	89.77	98.75
Car Rentals	48.08	35.05	38.55	42.41	48.77	53.64	59.01
Car Parking	176.16	192.14	211.35	232.49	267.36	294.10	323.51
Admission Tickets	78.78	87.80	96.58	106.24	122.17	134.39	147.83
Other Miscellaneous Income	37.46	47.64	2.00	2.10	2.21	2.32	2.43
Sale of Scrap/Fixed Asset	0.48	19.23	-	-	-	-	-
Total	842.07	1,050.60	1,183.11	1,262.48	1,447.36	1,547.75	1,658.16

Proposal No. 5 Regarding Non Aeronautical Revenues

- 5.a. The Authority proposes to consider the Non Aeronautical Revenues as given in Table 33 for determination of aeronautical tariffs for the first control period.
- 5.b. The Authority proposes to true-up the Non Aeronautical Revenues of the first Control Period based on actuals at the time of determination of tariff for the next Control Period.

10. TAXATION

10.1. Clause 5.5.1 and Clause 5.5.2 of the Airport Guidelines state that:

“Taxation represents payments by the Airport Operator in respect of corporate tax on income from assets/ amenities/ facilities/ services taken into consideration for determination of Aggregate Revenue Requirement.”

“The Authority shall review forecast for corporate tax calculation with a view to ascertain inter alia the appropriateness of the allocation and the calculations thereof.”

10.2. As per the Airport Guidelines any interest payments, penalty, fines and other such penal levies associated with corporate tax, shall not be taken into consideration as expenditure or cost.

10.3. Vizag Airport in the tariff proposal has calculated income tax on the basis of rates of depreciation as per Income Tax Act.

10.4. Tax liability during the first control period considered by Vizag Airport is provided in Table 34.

Table 34: Tax liability as per Vizag Airport's submission (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Aeronautical revenues [A]	2,843.88	2,942.06	4,485.28	5,927.13	6,534.21	7,204.30	7,795.61
Less: Operating expenses (i)	2,534.51	3,212.72	2,977.98	3,201.99	3,525.10	3,719.63	3,928.24
EBIDTA [B] = {A} – {i}	309.37	(270.65)	1,507.30	2,725.14	3,009.10	3,484.66	3,867.37
Less: Book Depreciation [ii]	404.16	462.91	599.43	716.96	790.96	779.35	774.05
PBT [C] = [B] – [ii]	(94.79)	(733.56)	907.87	2,008.18	2,218.15	2,705.31	3,093.31
Less : Tax depreciation for the year [iii]	441.47	786.81	808.26	1,132.17	1,312.31	1,172.52	1,038.77
Add: Book depreciation for the year [iv]	404.16	462.91	599.43	716.96	790.96	779.35	774.05
Taxable Income [D] = [C] – [iii] + [iv]	(132.10)	(1,057.46)	699.04	1,592.97	1,696.79	2,312.14	2,828.60
Less : Carried forward of losses [v]	-	-	-	-	-	-	-
Taxable Income under normal tax provisions [E] = [D] – [v]	-	-	699.04	1,592.97	1,696.79	2,312.14	2,828.60
Tax rate to be used [vi]	34.61%	34.61%	34.94%	34.94%	34.94%	34.94%	34.94%
Tax liability as per normal tax provisions [E] * [vi]	-	-	244.27	556.65	592.93	807.96	988.43

Authority's Examination

10.5. Vizag Airport in its submission has computed tax on aeronautical profits on tax rate of 34.61% p.a. in FY 2016-17 and FY 2017-18, and at 34.94% p.a. for the first control period from FY 2018-19 to FY 2022-23.

10.6. The Authority has proposed to carry forward and set off losses from previous years in computing the tax liability of Vizag Airport during the first control period.

10.7. Based on the Authority's decision, tax liability has been recomputed as given in Table 35:

Table 35: Tax liability as per the Authority's Examination (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Aeronautical revenues as per Table 52 [A]	2,871.71	2,969.89	4,044.94	5,474.02	6,273.39	7,191.06	7,905.05
Less: Operating expenses as per Table 29 (i)	2,534.51	3,212.72	2,977.98	3,201.99	3,525.10	3,719.63	3,928.24
EBIDTA [B] = [A] – [i]	337.20	(242.82)	1,066.96	2,272.03	2,748.29	3,471.42	3,976.82
Less: Book Depreciation [ii]	404.16	462.91	599.43	710.46	777.70	765.85	760.55
PBT [C] = [B] – [ii]	(66.96)	(705.73)	467.53	1,561.57	1,970.59	2,705.57	3,216.27
Less : Tax depreciation for the year as per Table 27 [iii]	441.47	786.81	808.26	1,132.17	1,312.31	1,172.52	1,038.77
Add: Book depreciation for the year [iv]	404.16	462.91	599.43	710.46	777.70	765.85	760.55
Taxable Income [D] = [C] – [iii] + [iv]	(104.27)	(1,029.63)	258.70	1,139.86	1,435.98	2,298.90	2,938.05
Less : Carried forward of losses [v]	-	-	258.70	875.20	-	-	-
Taxable Income under normal tax provisions [E] = [D] – [v]	-	-	-	264.66	1,435.98	2,298.90	2,938.05
Tax rate to be used [vi]	34.61%	34.61%	34.94%	34.94%	34.94%	34.94%	34.94%
Tax liability as per normal tax provisions [E] * [vi]	-	-	-	92.48	501.79	803.33	1,026.67

Proposal No. 6 Regarding Taxation

6.a. The Authority proposes to consider tax computation as given in Table 35.

6.b. The Authority proposes to true up tax of the first Control Period based on actuals at the time of determination of tariff for the next Control Period.

11. QUALITY OF SERVICE

- 11.1. Airport Service Quality (ASQ) ratings are carried out by Airports Council International (ACI) on 34 parameters on quarterly basis.
- 11.2. As per the submission of Vizag Airport, ACI has categorized it in “2 to 5 Million” category of Airport Size, based on passenger traffic.
- 11.3. The ASQ ratings of Vizag Airport for 2017-18, as submitted by Vizag Airport is given in Table 36.

Table 36: ASQ ratings as submitted by Vizag Airport

Quarter (Q)	2017	2018
Q1	4.04	4.15
Q2	4.17	4.36
Q3	3.97	-
Q4	4.17	-
Average	4.09	4.26

Authority's Examination

- 11.4. The Authority has noted that Vizag Airport has received ASQ ratings for the first two quarters of 2018.
- 11.5. The Authority also noted that the ASQ ratings for years 2017 and 2018 of Vizag Airport are less than the target rating of 4.80 agreed upon in the Memorandum of Understanding (MoU) signed between the Ministry of Civil Aviation and AAI.
- 11.6. The Authority has also noted that the quality of service of Vizag Airport has improved in year 2018 as compared to year 2017, as given in Table 36. The Authority expects the ASQ rating of Vizag Airport to improve further with the commissioning of the expansion of the terminal building during the first Control Period as this will ease out the present congestion.

Proposal No. 7 Regarding quality of service

- i. **Since the ASQ ratings of Vizag Airport have been below the target rating of 4.80, the Authority advises AAI to make all out efforts to improve the Service Quality at Vizag Airport. The Authority is of the view that it will examine ASQ ratings while truing up in the next control period and if by then Vizag Airport is unable to achieve the said target, the Authority will consider imposing penalty on Vizag Airport as appropriate.**

12. PRIOR PERIOD SHORTFALL

12.1. As explained in paragraph 3.2, the Authority shall consider ARR of the first two years i.e. FY 2016-17 and FY 2017-18. ARR shall be compared with actual aeronautical revenues during such period. Any shortfall or surplus from these two years shall be considered as true-up of the current control period.

12.2. Vizag Airport in its submission has computed shortfall of ₹ 1,803.51 lakhs (compounded at 14% p.a.) for FY 2016-17 and FY 2017-18, as given in Table 37.

Table 37: Shortfall computation of FY 2016-17 and FY 2017-18 as per the submission of Vizag Airport (in ₹ lakhs)

Particulars	FY 2016-17	FY 2017-18	Total
ARR of previous years [1]	3,243.37	4,074.31	7,317.67
Aeronautical revenues of previous years [2]	2,848.82	2,942.06	5,790.88
Previous Shortfall [3]=[1]-[2]	394.55	1,132.24	1,526.79
Compound Factor as on 01.04.2018 [4]	1.30	1.14	
PV of shortfall [5]= [3]*[4]	512.75	1,290.76	1,803.51

Authority's Examination – Prior period shortfall

12.3. After careful examination, the Authority has proposed to consider land lease rentals from fuel farm operators and ground handling operations as revenue from aeronautical services. Revised aeronautical revenues during FY 2016-17 and FY 2017-18 is shown in the table below:

Table 38: Revised aeronautical revenues for FY 2016-17 and FY 2017-18 as per the Authority's examination (in ₹ lakhs)

Particulars	FY 2016-17	FY 2017-18
Total parking & housing charges	1.53	3.65
Fuel Throughput charges	98.90	84.71
Ground handling charges	119.60	161.95
CUTE Charges	214.21	219.16
UDF	1,508.96	1,502.01
PSF (excluding UDF Charges)	900.68	970.58
Land leases (fuel farm & groundhandling)	27.83	27.83
Total Aeronautical Revenues	2,871.71	2,969.89

12.4. Revised prior period shortfall after considering revised aeronautical revenues and revised present value factors recomputed till the date of determination of tariff i.e. 01.12.2018 is given in Table 39 below:

Table 39: Revised prior period shortfall of FY 2016-17 and FY 2017-18 as per the Authority's examination (in ₹ lakhs)

Particulars	FY 2016-17	FY 2017-18	Total
ARR of previous years [1]	3,251.72	4,068.33	7,320.05
Aeronautical revenues of previous years [2]	2,871.71	2,969.89	5,841.60
Previous Shortfall [3]=[1]-[2]	380.01	1,098.44	1,478.45
Compound Factor at 14% p.a. as on 01.12.2018 [4]	1.24	1.09	
PV of compounded shortfall [5]= [3]*[4]	473.04	1,199.42	1,672.46

Proposal No. 8 Regarding prior period shortfall

- 8.a. The Authority proposes to consider the revised aeronautical revenues for FY 2016-17 and FY 2017-18 as given in Table 38 and accordingly consider prior period shortfall as given in Table 39 for truing up in the current Control Period.**

13. AGGREGATE REVENUE REQUIREMENT AND SHORTFALL COMPUTATION

13.1. The ARR computation as submitted by Vizag Airport for the first control period is shown in Table 40:

Table 40: ARR computation as per Vizag Airport for the first control period (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Average RAB [1]	6,743.84	10,065.75	12,477.69	11,802.53	11,025.83	
FRoR [2]	14.00%	14.00%	14.00%	14.00%	14.00%	
Return on Average RAB [3] = [1] * [2]	944.14	1,409.21	1,746.88	1,652.35	1,543.62	
Add: Depreciation [4]	599.43	716.96	790.96	779.35	774.05	
Add: Operating expenses [5]	2,977.98	3,201.99	3,525.10	3,719.63	3,928.24	
Add: Taxation [6]	244.27	556.65	592.93	807.96	988.43	
Less: 30% of Non - Aeronautical revenues [7]	(349.07)	(373.07)	(428.74)	(459.37)	(493.03)	
ARR [8] = [3] + [4] + [5] + [6] - [7]	4,416.75	5,511.73	6,227.13	6,499.93	6,741.30	29,396.84

13.2. Shortfall computation for FY 2018-19 to FY 2022-23 submitted by Vizag Airport is given in Table 41:

Table 41: Shortfall computation for FY 18-19 to FY 22-23 as per the submission of Vizag Airport (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
ARR	4,416.75	5,511.73	6,227.13	6,499.93	6,741.30	29,396.84
Discount Factor	1.00	0.88	0.77	0.67	0.59	
PV ARR [A]	4,416.75	4,834.85	4,791.57	4,387.26	3,991.39	22,421.83
Aeronautical revenues	4,485.28	5,927.13	6,534.21	7,204.30	7,795.61	31,946.52
Discount Factor	1.00	0.88	0.77	0.67	0.59	
PV Aeronautical revenues [B]	4,485.28	5,199.24	5,027.86	4,862.69	4,615.62	24,190.70
(Shortfall)/ Surplus of the current control period [B]-[A]	68.53	364.38	236.29	475.43	624.23	1,768.86

Authority's Examination

13.3. After considering Authority's decisions pertaining to building blocks of RAB in prior chapters of this consultation paper, revised ARR as per the Authority is as given in Table 42:

Table 42: ARR computation as per the Authority for the first control period (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Average RAB [1] as per Table 27	6,743.84	9,873.78	12,092.83	11,423.52	10,660.32	
FRoR [2] as per Proposal No. 3	14.00%	14.00%	14.00%	14.00%	14.00%	
Return on Average RAB [3] = [1] * [2]	944.14	1,382.33	1,693.00	1,599.29	1,492.44	
Add: Depreciation [4] as per Table 27	599.43	710.46	777.70	765.85	760.55	
Add: Operating expenses [5] Table 29	2,977.98	3,201.99	3,525.10	3,719.63	3,928.24	
Add: Taxation [6] as per Table 35	-	92.48	501.79	803.33	1,026.67	
Less: 30% of Non - Aeronautical revenues [7] as per Table 33	354.93	378.74	434.21	464.32	497.45	
ARR [8] = [3] + [4] + [5] + [6] - [7]	4,166.62	5,008.51	6,063.38	6,423.78	6,710.46	28,372.75

13.4. The Authority is of the view that present value factor should be computed till the date of determination of tariff, which is 01.12.2018 and not 01.09.2018 as given in the submission of Vizag Airport.

13.5. Revised shortfall computation as per the Authority for FY 2018-19 to FY 2022-23 without considering revenues from UDF is given in Table 43:

Table 43: Shortfall computation for the first control period as per the Authority's examination (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
ARR as per Table 42	4,166.62	5,008.51	6,063.38	6,423.78	6,710.46	
Aeronautical revenues (excluding UDF) as per Table 50	1,293.22	635.57	709.19	792.21	859.43	
Discount Factor at 14% p.a.	0.96	0.84	0.74	0.65	0.57	
PV ARR	3,990.94	4,206.68	4,467.26	4,151.56	3,804.24	20,620.69
PV Aeronautical revenues (excluding UDF)	1,238.69	533.82	522.50	511.99	487.22	3,294.22
Difference between PV of Aero revenues (excluding UDF) and PV of ARR						-17,326.47

Proposal No. 9 Regarding ARR

9.a. The Authority proposes to consider the ARR as provided in Table 42 for determination of aeronautical tariffs for the first Control Period.

- 9.b. The Authority proposes to true up all the building blocks of ARR of the first Control Period based on actuals at the time of determination of tariff for the next Control Period.**

14. TRUE-UP

14.1. Total shortfall for the first control period as per Vizag Airport is given in Table 44.

Table 44: Computation of total shortfall for the first control period as per the submission of Vizag Airport (in ₹ lakhs)

Particulars	Value
PV Aeronautical revenues during the first control period [1] as per Table 41	24,190.70
PV Target ARR considered by Vizag Airport [2]	22,422.10
(Shortfall)/ Surplus for current control period [3]=[1]-[2]	1,768.60
Add: True-up (Shortfall of prior periods) from [4] as per Table 37	(1,803.51)
Total (shortfall) / surplus for the control period [5]=[3]+[4]	(34.91)

Authority's examination

14.2. Revised total shortfall (before considering UDF) as per the Authority is given in Table 45.

Table 45: Revised total shortfall (before considering UDF) as per the Authority (in ₹ lakhs)

Revised (shortfall) / surplus of current control period (without considering UDF) as per Table 43	(17,326.47)
Add: Revised prior period (shortfall)/surplus as per Table 39	(1,672.46)
Revised total (shortfall)/ surplus (before considering UDF)	(18,998.93)

14.3. After considering total revised shortfall (before considering UDF), the Authority has proposed a UDF of ₹295 per passenger for both domestic and international passengers to reasonably bridge the total revised shortfall.

14.4. Revised aeronautical revenues from UDF is shown in Table 46 .

Table 46: Revised aeronautical revenues from UDF as per the Authority (in ₹ lakhs):

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Aeronautical Revenues from UDF as per Table 51	2,751.73	4,838.44	5,564.21	6,398.84	7,045.63	26,598.86
Discount Rate at 14% p.a.	0.96	0.84	0.74	0.65	0.57	
PV of revenues from UDF	2,635.71	4,063.84	4,099.49	4,135.45	3,994.26	18,928.74

14.5. Revised total shortfall (after considering UDF) is given in table below:

Table 47: Revised total shortfall (after considering UDF) as per the Authority (in ₹ lakhs)

Revised total (shortfall)/surplus (before considering UDF) as per Table 45	(18,998.93)
PV of UDF as per Table 46Table 51	18,928.74
Revised net total (shortfall)/ surplus	(70.19)

15. REVENUE FROM AERONAUTICAL SERVICES

15.1. As per section 2(a) of the AERA Act, aeronautical services include services for Landing, Housing or Parking, Ground handling services, services for Cargo facility, and services for supplying fuel to the aircraft at an airport.

15.2. Vizag Airport in its submission has bifurcated revenues for FY 2018-19 into two periods, 01.04.2018 to 31.08.2018 constituting five months and 01.09.2018 to 31.03.2019 constituting seven months. Aeronautical revenues for the first five months is calculated at the previous rates of FY 2017-18 and escalated rates have been assumed for the next seven months as applicable.

15.3. Vizag Airport's submission in relation to revenues from aeronautical services is discussed in Table 48.

Table 48: Assumptions made by Vizag Airport for each item of Aeronautical Revenues

Item	Assumption
Housing & Parking Charges	On account of increase in average housing and parking charges and increment in aircraft movement, these charges are proposed to increase by 114% from the existing charges w.e.f. 01.09.2018 till 31.03.2019. An increase of 4% thereafter on YoY basis from 2019-20 onwards is proposed.
PSF-Domestic & International	PSF(Facilitation) charges of ₹77- charged presently for both Domestic and International passenger is withdrawn.
UDF- Domestic & International	UDF collected from domestic passenger is proposed to be increased from ₹150 to ₹355 per pax from FY 2018-19 (w.e.f. 01/09/2018). No UDF is charged at present in respect of international passenger. It is proposed to charge ₹355 per pax in respect of international passenger from FY 2018-19 (w.e.f. 01/09/2018) No increase in UDF is proposed for the subsequent Years.
Fuel throughput Charges	10% increase is proposed for FY 2018-19 year w.e.f. 01.09.2018. No increase is proposed for subsequent financial years.
Ground Handling Services	Charges for ground handling services are given for FY 2017-18; these charges are assumed to grow year-on-year at the rate equivalent to the combined growth rate of ATM traffic.
CUTE Charges	CUTE charges are given for FY 2017-18; these charges are assumed to grow year-on-year at the rate equivalent to the growth rate of total passenger traffic.

15.4. The projected revenue from Aeronautical Services for Vizag Airport has been provided in Table 49.

Table 49: Projected revenue from aeronautical services as furnished by Vizag Airport for first control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Parking & housing charges	1.53	3.65	2.71	2.04	2.32	2.63	2.94
Fuel Throughput charges	103.84	84.71	97.96	111.25	121.58	132.87	142.56
Ground handling charges	119.60	161.95	176.96	193.37	211.31	230.93	247.77
CUTE Charges	214.21	219.16	241.67	266.52	293.95	324.25	351.01
UDF	1,508.96	1,502.01	3,520.39	5,353.95	5,905.05	6,513.62	7,051.32

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
PSF	900.68	970.58	445.59	-	-	-	-
Landing Charges	-	-	-	-	-	-	-
Total	2,848.82	2,942.06	4,485.28	5,927.13	6,534.21	7,204.30	7,795.61

Authority's Examination – Aeronautical Revenues

15.5. The Authority has proposed to recompute revenues from CUTE charges based on actual charges of ₹17.89 for Vizag Airport for the first control period. Further, the Authority has assumed that this charge will be applicable to 50% of the total passenger traffic, considered as embarking passenger traffic.

15.6. Further, since the effective rate for tariff determination has been proposed to be 01.12.2018, the Authority proposes that the bifurcation of revenues for FY 2018-19 should be revised accordingly. As a result, the two periods to be considered for FY 2018-19 are 01.04.2018 to 30.11.2018 constituting eight months and 01.12.2018 to 31.03.2019 constituting four months. Consequently, the previous charges of FY 2017-18 are applied to the eight months period of FY 2018-19 and the escalated charges have been applied to the remaining four months period of FY 2018-19 as applicable.

15.7. Considering the above decisions of the Authority, aeronautical revenues excluding UDF for FY 2018-19 to FY 2022-23 as per the Authority are given in Table 50.

Table 50: Projected revenue from aeronautical services excluding UDF as per the Authority (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Total parking & housing charges	5.51	9.70	11.03	12.53	13.99	
Fuel Throughput charges	95.64	111.25	121.58	132.87	142.56	
Ground handling charges	176.96	193.37	211.31	230.93	247.77	
CUTE Charges	255.15	293.42	337.44	388.05	427.28	
PSF	732.13	-	-	-	-	
Land leases (fuel farm operators & ground handling operations)	27.83	27.83	27.83	27.83	27.83	
Aeronautical revenue (excluding UDF)	1,293.22	635.57	709.19	792.21	859.43	4,289.62

15.8. Revenue from UDF shall be computed at ₹295 per passenger for both domestic and international passengers to reasonably bridge the total revised shortfall as discussed in para 14.3. Accordingly revised revenue from UDF as per the Authority is shown in Table 51.

Table 51: Aeronautical revenues from UDF as per the Authority's examination

Particulars	FY 2018-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Total passenger traffic (international and domestic)	28,52,436	32,80,301	37,72,346	43,38,198	47,76,699	
UDF per pax (in ₹)	295	295	295	295	295	
Aeronautical Revenue from UDF (in ₹ lakhs)	2,751.73	4,838.44	5,564.21	6,398.84	7,045.63	26,598.86

15.9. Total aeronautical revenues including UDF as per the Authority is given in Table 52.

Table 52: Total Aeronautical Revenues of Vizag Airport during the first control period as per the Authority's examination (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Total parking & housing charges	1.53	3.65	5.51	9.70	11.03	12.53	13.99
Fuel Throughput charges	98.90	84.71	95.64	111.25	121.58	132.87	142.56
Ground handling charges	119.60	161.95	176.96	193.37	211.31	230.93	247.77
CUTE Charges	214.21	219.16	255.15	293.42	337.44	388.05	427.28
PSF	900.68	970.58	732.13	-	-	-	-
Land leases (fuel farm operators & ground handling operations)	27.83	27.83	27.83	27.83	27.83	27.83	27.83
UDF	1,508.96	1,502.01	2,751.73	4,838.44	5,564.21	6,398.84	7,045.63
Total	2,871.71	2,969.89	4,044.94	5,474.02	6,273.39	7,191.06	7,905.05

Proposal No. 10 Regarding Aeronautical Revenues

- 10.a. The Authority proposes to consider UDF at ₹295 per passenger for both domestic and international passengers.
- 10.b. The Authority proposes to consider Aeronautical Revenues as given in Table 52
- 10.c. The Authority proposes to true up the Aeronautical Revenues of the first Control Period based on actual Aeronautical Revenues earned at the time of determination of tariff for the next Control Period.

16. ANNUAL TARIFF PROPOSAL SUBMITTED BY VIZAG AIRPORT

16.1. Vizag Airport vide its submission proposed the following tariff (excluding taxes) for FY 2018-19 with effect from 01.09.2018 to 31.03.2019.

16.1.1. Parking and Housing Charges

Weight of the Aircraft	Unit	Parking Charges Rates per Hour	Housing Charges Rates per Hour
Upto 25 MT	₹/ hour/ MT	3.00	6.00
Above 25 MT up to 50 MT	₹/ hour/ MT	75.00 + 4.00 in excess of 25 MT	150.00 + 8.00 in excess of 25 MT
Above 50 MT up to 100	₹/ hour/ MT	175.00 + 8.00 in excess of 50 MT	350.00 + 16.00 in excess of 50 MT
Above 100 MT to 200 MT	₹/ hour/ MT	575.00 + 10.00 in excess of 100 MT	1150.00 + 20.00 in excess of 100 MT
Above 200 MT	₹/ hour/ MT	1575.00 + 11.00 in excess of 200 MT	3150.00 + 22.00 in excess of 200 MT
<p>Notes-</p> <p>1a. 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.</p> <p>1b. For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour.</p> <p>1c. Charges shall be calculated on the basis of nearest MT.</p> <p>1d. Charges for each period parking shall be rounded off to nearest rupee.</p> <p>1e. At the in-contact stands and open stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges.</p> <p>1f. It is proposed to waive off the night parking charges in principle for all domestic scheduled operators at Visakhapatnam Airport if the State Government has brought the rate of tax (VAT) on ATF < 5%. The above waiver of night parking charges (between 2200 hours to 0600 hours) will be made applicable from the date of implementation of < 5% tax on ATF by the State Government. 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.</p> <p>1g. Flight operating under Regional Connectivity Scheme will be completely governed by AIC issued on this subject by DGCA.</p>			

16.1.2. Fuel Throughput Charges

Proposed Rate	Per Kiloliter in ₹	157.39
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16.1.3. UDF/ PSF Charges

Passenger	Proposed rate in ₹ (per embarking passenger)	Proposed rate in USD (per embarking passenger) 1\$=₹67
Domestic	355.00	5.30
International	355.00	5.30
<p>2a. Collection charges: if the payment is made within 15 days of receipt of invoice, then collection charges at ₹ 5.00 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.</p> <p>2b. No collection charges are payable to casual operator/non-scheduled operators.</p> <p>2c. For conversion of USD into ₹ the rate as on the 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.</p> <p>2d. Revised UDF charges will be applicable on tickets issued on or after 01/09/2018.</p> <p>2e. No UDF will be levied for Transit Passengers.</p>		

16.1.4. PSF- Security

- 3a. Vizag Airport has proposed to continue the existing rate of PSF-Security charges;
- 3b. ₹130/- per embarking International/ Domestic passenger.
- 3c. USD 3.25 per passenger in respect of the tickets issued against Dollar Tariff.
- 3d. 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.
- 3e. No PSF (Security) will be levied for Transit Passengers.
- 3f. For conversion of USD into INR 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.

Authority's Examination

- 16.2. The Authority proposes that the tariff for FY 2018-19 be applicable with effect from 01.12.2018 to 31.03.2019.
- 16.3. The Authority has proposed to accept the tariff rates of parking & housing charges and fuel throughput charges as submitted by Vizag Airport.
- 16.4. The Authority in view of the foregoing proposes reduction in UDF proposed by Vizag Airport from ₹355 to ₹295 to bridge the revenue gap to a large extent. Accordingly, the Authority proposes a UDF of ₹295 for both domestic and international embarking passengers. Additionally, the Authority is of the opinion that the UDF rates should be in INR only. For conversion of USD into INR, the rate as on the 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.

16.5. The Authority is of the view that the PSF-Security rates should be applicable as prescribed by Ministry of Civil Aviation (MoCA).

16.6. The Authority opines that Vizag Airport should clearly mention the rates in 13.1.3 as UDF charges and alternatively not call it as PSF charges.

16.7. Based on above decisions of the Authority, the following tariff card (excluding taxes) for FY 2018-19 with effect from 01.12.2018 to 31.03.2019, is proposed:

16.7.1. Parking and Housing Charges

Weight of the Aircraft	Unit	Parking Charges Rates per Hour	Housing Charges Rates per Hour
Upto 25 MT	₹/ hour/ MT	3.00	6.00
Above 25 MT up to 50 MT	₹/ hour/ MT	75.00 + 4.00 in excess of 25 MT	150.00 + 8.00 in excess of 25 MT
Above 50 MT up to 100	₹/ hour/ MT	175.00 + 8.00 in excess of 50 MT	350.00 + 16.00 in excess of 50 MT
Above 100 MT to 200 MT	₹/ hour/ MT	575.00 + 10.00 in excess of 100 MT	1150.00 + 20.00 in excess of 100 MT
Above 200 MT	₹/ hour/ MT	1575.00 + 11.00 in excess of 200 MT	3150.00 + 22.00 in excess of 200 MT

Note: The Parking and Housing charges shall increase by 4% effective from 01st April every year during the control period.

16.7.2. Fuel Throughput Charges (01.12.2018 to 31.03.2023)

Proposed Rate	Per Kiloliter in ₹	157.39
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16.7.3. UDF Charges (01.12.2018 to 31.03.2023)

Particulars	Proposed rate per embarking passenger in ₹
UDF- Domestic Passenger	295.00
UDF- International Passenger	295.00

16.7.4. PSF-Security charges applicable as prescribed by MoCA

Proposal No. 11 Regarding Annual Tariff Proposal

- 11.a. The Authority proposes that for FY 2018-19 the tariff is effective from 01.12.2018 to 31.03.2019.**
- 11.b. The Authority proposes to accept parking & housing charges and fuel throughput charges as submitted by Vizag Airport.**
- 11.c. The Authority proposes to reduce UDF to ₹295 for both domestic and international passengers. Additionally, Vizag Airport should only specify the UDF in INR denomination and omit USD denominated UDF amount.**
- 11.d. The Authority proposes that PSF-Security charges should be as prescribed by MoCA.**

17. ANNUAL COMPLIANCE STATEMENT

- 17.1. The Airport Guidelines issued by the Authority have laid down the error correction mechanism with reference to the adjustment to the Estimated Maximum Allowed Yield per passenger, calculated using the error correction term of Tariff Year t-2 and the compounding factor. The error correction calculated as per the Airport Guidelines indicated the quantum of over-recovery or under-recovery due to increase or decrease respectively of the Actual Yield per passenger with respect to Actual Maximum Allowed Yield per passenger in the Tariff Year.
- 17.2. Accordingly, any under recovery/ over recovery during the first control period will be accounted for in the second control period.
- 17.3. Further, the Authority has noted that in view of all the corrections/truing up to be carried out at the end of the control period, Vizag Airport may submit Annual Compliance Statements for the tariff years FY 2018-19 to FY 2022-23 of the first control period.

Proposal No. 12 Regarding Annual Compliance

- 12.a. Vizag Airport shall submit the Annual Compliance Statements as per the Guidelines for all the tariff years from FY 2018-19 to FY 2022-23 of the first control period along with the MYTP for the next Control Period.**

18. SUMMARY OF PROPOSALS

Proposal No. 1 Regarding Traffic Forecast 11

- 1.a. The Authority proposes to consider passenger traffic projections, given in Table 6. 11
- 1.b. The Authority proposes to accept ATM traffic projections submitted by Vizag Airport, given in Table 7. 11
- 1.c. The Authority proposes to true up the passenger and the ATM traffic of the first Control Period based on actuals at the time of determination of tariff for the next Control Period. 11

Proposal No. 2 Regarding RAB 26

- 2.a. The Authority has proposed to allocate the expansion area of the terminal building into aeronautical and non-aeronautical assets in the ratio of 93.15 to 6.85. Accordingly, the Authority proposes to consider additions to RAB during the first control period as given in Table 19, depreciation of additions to revised RAB as given in Table 24 and total depreciation as given in Table 25. 26
- 2.b. The Authority proposes to use Average RAB as given in Table 27 for calculation of ARR. 26
- 2.c. The Authority proposes to true up Average RAB of the first Control Period based on actuals at the time of determination of tariff for the next Control Period. 26

Proposal No. 3 Regarding FRoR 27

- 3.a. The Authority proposes to consider the FRoR at 14% for Vizag Airport for the first Control Period. 27
- 3.b. The Authority will undertake a study to determine FRoR for major AAI airports given the low debt structure of AAI as a whole. 27

Proposal No. 4 Regarding Operation and Maintenance expenditure..... 29

- 4.a. The Authority proposes to true up the operation and maintenance expenditure of the first Control Period based on the actual expenditure at the time of determination of tariff for the next Control Period. 29

Proposal No. 5 Regarding Non Aeronautical Revenues..... 32

- 5.a. The Authority proposes to consider the Non Aeronautical Revenues as given in Table 33 for determination of aeronautical tariffs for the first control period. 32
- 5.b. The Authority proposes to true-up the Non Aeronautical Revenues of the first Control Period based on actuals at the time of determination of tariff for the next Control Period. based on the actual Non Aeronautical Revenues earned during the Control Period. 32

Proposal No. 6 Regarding Taxation..... 34

- 6.a. The Authority proposes to consider tax computation as given in Table 35. 34
- 6.b. The Authority proposes to true up tax of the first Control Period based on actuals at the time of determination of tariff for the next Control Period. 34

Proposal No. 7 Regarding quality of service 35

- i. Since the ASQ ratings of Vizag Airport have been below the target rating of 4.80, the Authority advises AAI to make all out efforts to improve the Service Quality at Vizag Airport. The Authority is of the view that it will examine ASQ ratings while truing up in the next control period and if by then Vizag Airport is unable to achieve the said target, the Authority will consider imposing penalty on Vizag airport as appropriate.35

Proposal No. 8 Regarding prior period shortfall 37

8.a. The Authority proposes to consider the revised aeronautical revenues for FY 2016-17 and FY 2017-18 as given in Table 38 and accordingly consider prior period shortfall as given in Table 39 for trueing up in the current Control Period. 37

Proposal No. 9 Regarding ARR 39

9.a. The Authority proposes to consider the ARR as provided in Table 42 for determination of aeronautical tariffs for the first Control Period. 39

9.b. The Authority proposes to true up all the building blocks of ARR of the first Control Period based on actuals at the time of determination of tariff for the next Control Period. 40

Proposal No. 10 Regarding Aeronautical Revenues 44

10.a. The Authority proposes to consider UDF at ₹295 per passenger for both domestic and international passengers. 44

10.b. The Authority proposes to consider Aeronautical Revenues as given in Table 52 44

10.c. The Authority proposes to true up the Aeronautical Revenues of the first Control Period based on actual Aeronautical Revenues earned at the time of determination of tariff for the next Control Period. 44

Proposal No. 11 Regarding Annual Tariff Proposal 48

11.a. The Authority proposes that for FY 2018-19 the tariff is effective from 01.12.2018 to 31.03.2019. 48

11.b. The Authority proposes to accept parking & housing charges and fuel throughput charges as submitted by Vizag Airport. 48

11.c. The Authority proposes to reduce UDF to ₹295 for both domestic and international passengers. Additionally, Vizag Airport should only specify the UDF in INR denomination and omit USD denominated UDF amount. 48

11.d. The Authority proposes that PSF-Security charges should be as prescribed by MoCA. 48

Proposal No. 12 Regarding Annual Compliance 49

12.a. Vizag Airport shall submit the Annual Compliance Statements as per the Guidelines for all the tariff years from FY 2018-19 to FY 2022-23 of the first control period along with the MYTP for the next Control Period. 49

19. **STAKEHOLDERS' CONSULTATION TIMELINE**

- 19.1. The Aggregate Revenue Requirement determined by the Authority is being put up for Stakeholder Consultation along with the ATP submitted by Vizag Airport.
- 19.2. In accordance with the provision of Section 13(4) of the AERA Act, 2008, the proposals mentioned in the Section – Summary of proposals (Para 18 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. For removal of Doubts, it is clarified that the contents of this consultation paper may not be construed as any order or Direction of this Authority. The Authority shall pass an order, in the matter, only after considering the submissions of the Stakeholder's in response hereto and by making such decisions fully documented and explained in terms of the provisions of the Act.
- 19.3. The Authority welcomes written evidence- based feedback, comments and suggestions from Stakeholder's on the proposal made in (Para 22 above), latest by **07.12.2018** at the following address.

Secretary

Airports Economic Regulatory Authority of India

AERA Building, Administrative Complex

Safdarjung Airport

New Delhi -110003

Email: puja.jindal@nic.in

Tel: 011-24695040, Fax: 011-24695039

(S. Machendranathan)

Chairperson

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No. AAI/CHQ/AERA/MYTP-VISA/2017/396

The Secretary,
Airports Economic Regulatory Authority of India,
AERA Building,
Administrative Complex,
Safdarjung Airport
New Delhi-110003

Sub:- Submission of revised Multi Year Tariff proposal (MYTP) in respect of Visakhapatnam Airport

Madam,

Reference is invited to this office letter dated 12/09/2017, letter dated 25/06/2017 received from AERA and letter of this office dated 29/06/2018 on the subject noted above.

Based on the meeting held in the office of Chairman AERA on the shifting of control period from 2016-2021 to 2018 – 2023, the revised proposal of MYTP of Vishakhapatnam for the Control Period 2018-2023 considering the shortfall of FY 2016-17 and FY 2017-18.

The salient points of the MYTP are given below:-

- A. As per Hybrid till, Regulatory Asset Base as on 01.04.2016 has been bifurcated into a) Aeronautical Assets b) Non-Aeronautical Assets and c) Common Assets.
- B. The expenses appearing in the Trial Balance for the F.Y.2015-16, 2016-17 & 2017-18 have been bifurcated into a) Aeronautical Expenses b) Non-Aeronautical expenses and c) Common Expenses.
- C. The effective date of new Tariff has been considered as 01.09.2018.
- D. The Traffic data has been updated up to the F.Y. 2017-18 and projected for FY 2018-23 as per data received from Dte of CP&MS.
- E. The space of earmarked for non aero activities in the Terminal building is 6.85% of total area of the Terminal Building.
- F. The actual data for expenses, income and assets have been trued up for the F.Y.2015-16,2016-17 and 2017-18.

- G. The calculation of Depreciation has been done as per AAI's depreciation rate upto FY 2015-16 and depreciation on Regulatory Assets base and addition to fixed asset FY 2016-17 and FY 2017-18 have been calculated as per Companies Act 2013 . From FY 2018-19 onwards depreciation has been worked out as per rates prescribed by AERA. Half yearly rate of depreciation has been calculated for additions in Assets in form 10 (a) for Ist year of capitalization.
- H. The Income tax calculation has been worked out on the basis of rates of depreciation as per Income Tax Act.
- I. An increase of 37.16% has been proposed for wage revision for non-executive staff (40% of total strength) in FY 2018-19 and 7% increase on Year on year basis from FY 2019-20 in respect of staff cost (Executive/non- Executive)
- J. Provisions for retirement benefit made at CHQ has been allocated for FY 2016-17 & FY 2017-18 on the basis of actuals allocations done in FY 2015-16 with 7% increase on year on year basis.
- K. Apportionment of Pay and allowance for CNS staff have been bifurcated based on utilization of staff for CNS activities as the ATC services are being extended by Navy.
- L. Apportionment of CHQ/RHQ overheads has been allocated for FY 2016-17 & FY 2017-18 on the basis of actuals allocations done in FY 2015-16 with 5% increase on year on year basis. Further 95% of CHQ/RHQ overhead expenses have been considered as Aeronautical activities. (5% considered for Non-Aeronautical activities).
- M. The capex amounting to Rs 81.80 crs has been taken in MYTP, the details of major capex are as under
- a) Linear expansion of Terminal Building –Rs 57 crs in FY 2019-20
 - b) Extension of apron for additional 06 nos parking bays- Rs 31 crs(Rs 21 crs in FY 2017-18 and Rs 10 crs in FY 2018-19)
 - c) Construction of Boundary Wall –Rs 0.93 crs(Fy 2018-19)
 - d) Baggage Trolleys-Rs 0.80 crs (FY 2018-19)

An amount of Rs 5.62 crs has been charged off in the FY 2017-18 towards cost of runway not reimbursed by State Govt.

- N. Amount of Rs 1.92 crs has been received from Insurance company towards claim of Hud Hud Cyclone for which expenditure was incurred in FY 2015-16. This amount of claim received in FY 2017-18 which ought to be set off against the expenditure incurred in (FY 2015-16) is shown as prior period income and not considered in Tariff proposal.
- O. As per MYTP, the present value of Aggregate Revenue Requirement (ARR) for the control period on Hybrid Till basis (FY 2018-2023) has been worked out to Rs. 242.26 crores which includes shortfall of Rs 18.04 crs (compounded @ 14%)for the FY 2016-17 & FY 2017-18 leaving balance of Rs 0.35 crs as on 31.03.2023 which shall be recovered in next control period.

The following revenue streams are available to recover the ARR:

1. Parking & Housing Charges
2. Fuel Throughput Charges
3. UDF

The following charges have been proposed:

1. **Parking & Housing** - Parking & Housing is proposed to increase by 114% from the existing charges w.e.f. 01.09.2018 till 31.03.2019. An increase of 4% thereafter on year on year basis from 2019-20 onwards is proposed.
2. **Fuel Throughput Charges** – 10% increase is proposed for FY 2018-19 year w.e.f. 01.09.2018. No increase is proposed for subsequent financial years.
3. PSF(Facilitation) charges of Rs 77/- charged presently for both Domestic and International passenger is withdrawn.

4. **UDF** –

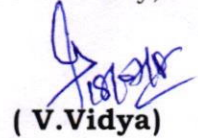
- UDF collected from domestic passenger is proposed to be increased from Rs 150 to Rs 355 per pax from FY 2018-19(w.e.f 01/09/2018)
- No UDF is charged at present in respect of international passenger. It is proposed to charge Rs 355 per pax in respect of international passenger from FY 2018-19(w.e.f 01/09/2018)

No increase in UDF is proposed for the subsequent Years.

The up-dated MYTP along with the Annual Tariff Proposals is enclosed for your consideration and approval.

Thanking you,

Yours faithfully,



(V.Vidya)

General Manager(JVC& Tariff)

Encl:- a.a.

AIRPORTS AUTHORITY OF INDIA

VISAKHAPATNAM AIRPORT - PROPOSED RATE CARD FOR AERONAUTICAL SERVICES

FOR F.Y. 2018-19

EFFECTIVE FROM 1st SEPTEMBER, 2018 TO 31 MARCH, 2019

I) PARKING AND HOUSING CHARGES

Proposed Rates (In INR)		
Weight of the Aircraft	Parking Charges Rates per Hour	Housing Charges Rates per Hour
Upto 25 MT	3.00 Per Hour Per MT	6.00 Per Hour Per MT
Above 25 MT up to 50 MT	75.00+4.00 per Hour per MT in excess of 25 MT	150.00+8.00 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	175.00+8.00 per MT per Hour in excess of 50 MT	350.00+16.00 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	575.00+10.00 per MT per Hours in excess of 100 MT	1150.00+20.00 per MT per Hours in excess of 100 MT
Above 200 MT	1575.00+11.00 per MT per Hours in excess of 200 MT	3150.00+22.00 per MT per Hours in excess of 200 MT

Notes-

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 taxiing 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 period parking shall be rounded off to nearest rupee.
5. At the in-contact stands and open stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges.

6. It is proposed to waive off the night parking charges in principle for all domestic scheduled operators at VISAKHAPATNAM Airport if the State Government has brought the rate of tax (VAT) on ATF < 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.
7. .Flight operating under Regional Connectivity Scheme will be completely governed by AIC issued on this subject by DGCA.

III) THROUGHPUT CHARGES

Proposed Rate Per KL (IN INR)
Rs. 157.39

IV) USER DEVELOPMENT FEES(UDF)/PSF

Passenger	Proposed rate in INR (per embarking passenger)	Proposed rate in US \$ (per embarking passenger)1\$=Rs.67
Domestic	Rs. 355.00	\$ 5.30
International Passenger	Rs. 355.00	\$ 5.30

Notes:-

- Collection charges: if the payment is made within 15 days of receipt of invoice, then collection charges at INR 5.00 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.
- No collection charges are payable to casual operator/non-scheduled operators.
- For conversion of US\$ into INR the rate as on the 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.
- Revised UDF charges will be applicable on tickets issued on or after 01/09/2018.
- No UDF will be levied for Transit Passengers.

V) PASSENGER SERVICE FEE (PSF) – SECURITY : Existing Rate will continue.

- a) **Rs. 130/-** per embarking International/ Domestic passenger.
- b) **US \$ 3.25 (US \$ Three and twenty five cents only)** per passenger in respect of the tickets issued against Dollar Tariff.
- c) **Collection charges:** if the payment is made within 15 days of receipt of invoice, then collection charges at INR 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.
- d) No PSF (Security) will be levied for Transit Passengers.
- e) For conversion of US \$ into INR 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.

VI Exemption from levy and collection from UDF/PSF 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.

- (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:

All the above Charges are excluding GST. GST at the applicable rates are payable in addition to above charges.