भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

FNO- No. AAI/CHQ/Tariff/MYTP-R/142 Date:14/07/2021

The Director (Policy and Statistic, Tariff),
Airports Economic Regulatory Authority of India (AERA)
AERA Building, Administrative Complex,
Safdarjung Airport, New Delhi-110003

Sub: - AAI Comments on Consultation Paper No:-08/2021-22 & 09/2021-22 dated 15.06.2021 & 18/06/2021 for determination of Tariff of Cochin Airport for the Third control period (01.04.2021 to 31.03.2026) and for determination of Tariff of Chandigarh Airport-, for the Second Control period. (01.04.2021 - 31.03.2026)

Sir,

Reference is invited to Consultation Paper No:-08/2021-22 & 09/2021-22 dated 15.06.2021 & 18/06/2021 for determination of Tariff of Cochin International Airport for the Third control period (01.04.2021 to 31.03.2026) and for determination of Tariff of Chandigarh International Airport Limited (CHIAL), for the Second Control period. (01.04.2021 - 31.03.2026)

The following are the comments of AAI on the subject Consultation Paper.
Cochin International Airport:

S No.	Para from CIAL - Consultation Paper No. 08/2021-22 dated 15.06.2021	Comments
1.	As per para 15.1.12 of Consultation paper, AERA proposes to consider airline space rentals and land lease rentals from agencies related to Aeronautical services like Ground Handling as Aeronautical revenues and as per para 15.7.2, AERA proposes to consider Airline space rentals as Aeronautical revenue.	In the First Control period as well as in the 2nd control period tariff determination of AAI Airports, AERA has considered it as a non-aeronautical revenue Further, it is noted that that in the recent consultation papers AERA has treated the airline space rentals for DIAL, MIAL, HIAL and BIAL as non-aeronautical revenues In line with the treatment given in the past as also these Airports, AERA is requested to consider space rentals and land lease to Airlines as Non Aeronautical revenue.
2.	As per para 15.4.1. of Consultation paper, AERA proposes to consider cost of equity as 15.16 % for CIAL as recommended by the Study on Determinants of Cost of Capital of CIAL.	AERA may be requested to consider the cost of equity at 16% in line with its previous practice.

3.	As per para 4.4.39 The Airport Operator has computed Financing Allowance on the entire WIP amount whereas the AERA is of the view that such allowance is essentially the IDC for a project and should be provided only on the debt portion of the project fund.	As per para 5.2.7 of Direction 5 (Guidelines) (page No 26 to 28) , Work in Progress Assets (WIPA) are such assets as have not been commissioned during a Tariff Year or Control period, as the case may be. Work in Progress assets shall be accounted for as: WIPAt =WIPAt – 1 +Capital Expenditure + Financing allowance - capital receipts at the nature of contribution from stakeholders-Commissioned Assets. The Financing Allowance shall be calculated as follows Financing Allowance = Rd X {WIPAt - 1 + (Capex - SC - CA)/2} SC are capital receipts of the nature of contribution from stakeholders (including capital grants and subsidies) pertaining to the capital expenditure incurred in Tariff year t. CA are Commissioned Assets which pertain to the accumulated value of the WIPA attributable to all assets that have been put into effective operation during Tariff Year t. While determining tariff of 2nd control period, AERA has allowed Financing allowance to BIAL (page No 88 Table No 21) on Apron Expansion amounting to Rs 23.12 crores & Rs 168.63 cores for Terminal 1 expansion vide BIAL's order No 18/18-19 dated 31st August 2018 for First Control period . Similarly Table 25 and Table 26 (page No 100 to 102) of BIAL's order No 18/18-19 dated 31st August 2018 , Financing allowance has been projected for 2nd control period capex also . Hence, AERA is requested to consider the financing allowance not only on debt portion but also on equity portion for financing the capex .
4	Para 9.2.18 CSR expenses	AAI noted that in the recent consultation paper for Hyderabad Airport and Bangalore Airport, AERA has allowed the CSR expenses as part of the aeronautical operational expenditure. On similar lines, AERA may also consider CIAL's requests and allow the CSR expenses in the aeronautical operational expenditure for the true-up of the second control period and for the computation of ARR for the third control period
5	Para 4.10.12: Treatment of *land lease from Coast Guard and Navy, considered as Non-Aeronautical by CIAL, proposed to be reclassified as Aeronautical revenues*	AERA to consider the land lease rentals from Coast Guard and Navy as non-aeronautical revenues in the ARR computation of the third control period

Chandigarh International Airport

S No.	CHIAL - Consultation Paper No. 09/2021-22 dated 18.06.2021	Comment
1.	As per para 14.1.12 & 14.7.4 of Consultation paper, AERA has considered rent from space given to Aeronautical Service Providers as aeronautical in nature and accordingly, consider aeronautical revenue as detailed in Table 8 in the Consultation Paper for true up of the First Control Period.	AERA may be requested to consider space rentals and land lease to Airlines as Non-Aeronautical revenue in line with its previous practice. Airlines also use space for its various activities including administrative work. Previously in the First Control period as well as in the 2nd control period tariff determination of AAI Airports, AERA has considered it as a non-aeronautical revenue. In view of above, we may request AERA to consider it as Non-Aeronautical revenues.
2	Para 14.5 Fair rate of return for the Second Control Period – AERA to consider FRoR at 14% for Second Control Period	AERA may be requested to consider the cost of equity at 16% in line with its previous practice

Thanking you,

Yours faithfully

14/07/21

(V.Vidya)
Executive Director (JVC & Tariff)

Encl: As above

Airports Economic Regulatory Authority of India

Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011

AERA Building
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Safdarjung Airport
New Delhi – 110 003

Date – February 28 2011

Illustration 6: The following example illustrates the approach for calculating roll forward RAB using actuals in latest available audited accounts for the Control period. The numbers in the illustration have been rounded to the nearest integers.

Roll Forward RAB

		2010-11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening RAB_{t-1}	OR	22,750	20,500	18,743	16,429	13,985	12,233
Commissioned Assets	CA	-	550	50	-	650	-
Depreciation	DR	2,250	2,307	2,364	2,364	2,402	731
Disposals	Di	-	-	-	80	-	-
Incentive Adjustments	IA	-	-	-	-	-	-
Closing RAB_t	CR=OR+CA-DR-Di+IA	20,500	18,743	16,429	13,985	12,233	11,502
RAB for calculating ARR	RA=(OR+CR)/2		19,622	17,586	15,207	13,109	11,868

- *The example illustrates that the RAB_{t-1} for the first Tariff Year of the first Control Period is equal to the rolled forward RAB at the end of the financial year 2010-11 and the Initial RAB as calculated in Clause 5.2.4 is used as the opening RAB for 2010-11.*
- *Opening RAB for the first Tariff Year of the second Control period shall be the closing RAB value (i.e. 11,502) of Tariff Year 5 of the first Control Period.*

5.2.7. Work In Progress assets

(a) Work in Progress Assets (WIPA) are such assets as have not been commissioned during a Tariff Year or Control period, as the case may be. Work in Progress assets shall be accounted for as:

$$WIPA_t = WIPA_{t-1}$$
$$+Capital\ Expenditure\ (Capex)$$
$$+Financing\ Allowance$$
$$-Capital\ Receipts\ of\ the\ nature\ of\ contributions\ from\ stakeholders\ (SC)$$

Illustration 7: The following example illustrates this approach for calculation of Work in progress assets, financing allowance and commissioned assets. The numbers in the illustration have been rounded to the nearest integers.

Forecast Work in Progress Assets

		2010 -11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening WIP: $WIPA_{t-1}$	OW	-	-	-	558	638	-
Capital Expenditure	CE	-	833	521	-	-	-
Financing Allowance	$FA=R_d \times (OW+(CE-CA-SC)/2)$	-	-	37	80	43	-
Capital Receipts	SC	-	200	-	-	-	-
Commissioned Assets	CA	-	633	-	-	681	-
Closing WIP: $WIPA_t$	CW = OW + CE + FA - SC – CA	-	-	558	638	-	-

- *The cost of debt, R_d, used for calculation of financing allowance, is the cost of debt determined by the Authority under Clause 5.1.4.*
- *The example illustrates that those assets, which have been acquired or commissioned within the same Tariff Year (i.e. Tariff Year 1), have been included both in Capital Expenditure and Commissioned Assets.*
- *The value of commissioned assets, as calculated, shall be used for forecasting RAB for the Control Period.*

5.3. Depreciation (D)

5.3.1. Depreciation shall be allowed for calculating Aggregate Revenue Requirement on a forecast basis for each Tariff Year in a Control Period, for assets included in the scope of RAB, and shall be calculated using the straight line method of depreciation on the amount of original cost of the existing fixed assets together with forecast additions less disposals of fixed assets:

Explanation: For avoidance of doubt, it is clarified that depreciation shall not be provided on assets funded through pre-funding receipts such as levy of Development Fee and other capital receipts of the

File No.: AERA/20010/MYTP/BIAL/CP-II/2016-17/Vol-V

Order no. 18/2018-19

सत्यमेव जयते

Airports Economic Regulatory Authority of India

In the matter of Determination of tariffs for Aeronautical Services in respect of Kempegowda International Airport, Bengaluru, for the Second Control Period (01.04.2016 to 31.03.2021)

Date of Issue: 31st August, 2018

AERA Building
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New Delhi – 110 003

9 Review of Capital Expenditure

9.1 BIAL's submissions on Capital Expenditure during Second Control Period

9.1.1 Additions to Capital Expenditure as considered in MYTO-CP1 and actual Capital Expenditure as submitted by BIAL was as given below:

Table 21: Additions to RAB as considered by Authority in MYTO-CP1 (Rs. Crores)

Project	Date of Capitalisation	Basic Cost and charges	Financing allowance - Projects	Total Cost to be added to RAB
Apron Expansion	01-Feb-14	121.15	23.12	144.27
Terminal 1 Expansion	01-Feb-14	1,342.30	168.63	1,510.94
Other Projects i.e. Miscellaneous	01-Feb-14	16.39		16.39
Terminal 1 Expansion - Additional	01-Mar-15	80.22		80.22
Other Projects	01-Mar-15	98.32		98.32
Expansion Projects Capitalised (A)				1,850.13
Maintenance Capex Projects	31st March 2012	15.43		15.43
	31st March 2013	22.52		22.52
	31st March 2014	0.00		0.00
	31st March 2015	264.50		264.50
	31st March 2016	61.66		61.66
Maintenance Capital Expenditure (B)				364.11
Total Capitalisation				2,214.24
Maintenance capital expenditure for 2011-12 and 2012-13 given net of disposals				

9.1.2 As against the above, actual amounts added to RAB for the period was as follows:

Table 22: Comparison of Additions to RAB - As considered in MYTO-CP1 and actuals (Rs. Crores)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Addition as per MYTO-CP1	15.43	22.52	1,671.60	443.04	61.66	2,214.25
Actuals as per BIAL Submissions	15.36	23.84	1,637.49	60.21	30.07	1,766.97
Difference (unspent mainly from Maintenance Capex)	0.07	-1.32	34.11	382.83	31.59	447.28

9.1.3 BIAL had stated the following as key reasons for difference between Projections and actuals:

"...The amount capitalized for Apron Extension and Terminal 1 is in line with the projections.

Others includes various works towards Terminal refurbishment & Forecourt expansion, maintenance capital expenditure, minor projects and sustaining capital expenditure. The major difference in other projects is due to deferment of various works to FY 2017 and FY 2018.

Apart from the items discussed above, BIAL could not undertake major expansion projects due to shortage of funds..."

9.1.4 BIAL had projected for a large-scale Capital Expenditure and commissioning of assets in Second Control Period. Further to the MYTP submissions in March 2016, BIAL had updated the business plan considering increase in capacity plan for first Phase of Terminal II Project from 20 mppa to 25 mppa.

Table 23: Overview of Capital Expenditure and addition to RAB for second control period as submitted by BIAL (Rs. Crores)

Project	Year of Captin.	Infra Cost	Financing allowance	Interest during Construction	Total addition to RAB	RAB - Aero	RAB - Non-Aero	Total Captin. in books	Captin - Aero	Captin Non-Aero	Category	Aero Ratio
Site preparation & Earthworks to Runway 2, Taxiway & Apron	2018	908.32	66.49	47.04	974.82	974.82	0.00	955.36	955.36	0.00	Buildings2-RW/TW	100%
Runway 2, Taxiway & Apron - Phase Ia	2020	1655.60	279.70	159.95	1935.29	1935.29	0.00	1815.54	1815.54	0.00	Buildings2-RW/TW	100%
Runway 2, Taxiway & Apron - Phase II	2021	847.67	208.58	112.63	1056.25	1056.25	0.00	960.30	960.30	0.00	Buildings1-T,B,R	100%
Second Terminal - Phase I	2021	3757.52	825.66	398.08	4583.18	4170.70	412.49	4155.60	3781.60	374.00	Buildings1-T,B,R	91%
Forecourt roadways & landside development - Phase Ia	2021	460.04	89.87	40.76	549.91	500.42	49.49	500.80	455.73	45.07	Buildings1-T,B,R	91%
Rescue & Fire Fighting	2019	12.45	0.81	0.44	13.27	13.27	0.00	12.89	12.89	0.00	PM3-Safety	100%
Airport Offices - Phase I	2018	71.39	0.00	0.74	71.39	64.96	6.42	72.12	65.63	6.49	Buildings1-T,B,R	91%
Utilities - Phase Ia	2020	118.59	15.94	9.09	134.53	122.43	12.11	127.68	116.19	11.49	Buildings3-WMS	91%
Existing runway / taxiway improvements - Phase 1a	2018	69.30	0.98	1.40	70.28	70.28	0.00	70.70	70.70	0.00	Buildings2-RW/TW	100%
Forecourt roadways & landside development - Phase Ib	2020	649.41	82.73	62.81	732.14	666.25	65.89	712.22	648.12	64.10	Buildings1-T,B,R	91%
Forecourt roadways & landside development - Phase Ic	2019	258.88	15.27	8.77	274.14	249.47	24.67	267.65	243.56	24.09	Buildings1-T,B,R	91%
Existing runway / taxiway improvements - Phase Ib	2021	103.33	0.00	0.00	103.33	103.33	0.00	103.33	103.33	0.00	Buildings2-RW/TW	100%
Terminal refurbishment	2017	79.99	4.59	0.01	84.58	76.97	7.61	80.00	72.80	7.20	Buildings1-T,B,R	91%
Forecourts	2017	79.73	3.02	0.44	82.75	75.31	7.45	80.17	72.95	7.22	Buildings1-T,B,R	91%
Sustaining capex - I	2017	65.12	2.98	0.43	68.10	61.97	6.13	65.54	59.65	5.90	Buildings1-T,B,R	91%
Sustaining capex - II	2018	85.44	10.10	10.13	95.54	86.94	8.60	95.57	86.97	8.60	Buildings1-T,B,R	91%
Second Terminal -	2021	209.38	45.66	22.06	255.04	232.08	22.95	231.44	210.61	20.83	ICT - Blended	91%

Project	Year of Captln.	Infra Cost	Financing allowance	Interest during Construction	Total addition to RAB	RAB - Aero	RAB – Non-Aero	Total Captln. in books	Captln - Aero	Captln - Non-Aero	Category	Aero Ratio
Phase I												
Second terminal- Phase II	2027	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	ICT - Blended	91%
Special Repairs, Refresh Capitalisation		779.00	0.00	4.52	779.00	735.29	43.70	783.51	739.52	43.99		0%
TOTAL		10211.16	1652.38	879.29	11863.54	11196.02	667.52	11090.45	10471.46	618.99		

9.2.13 Based on the above analysis, the Authority had, keeping RITES report as the base and giving effect to the savings submitted by BIAL in the letter dated 21st November 2017 and subsequently, considered the following costs against the block estimates for consideration in the MYTP for the second control period.

Table 25: Cost estimates proposed to be considered by the Authority as detailed in Consultation Paper 05/ 2018-19 (Rs. Crores)

Particulars	Block estimate (A)	Loading 25% as per BIAL (B)	Total cost – BIAL April 17 submission (A+B)	RITES analysis as against Column A	Base value to consider	Cost incl. apportion	Rationale for the base value considered
New south airfield development works	2,304	576	2,880	1,910	1,910	2123	Base value of BIAL reworked (Rs. 2010 crores) is higher than the Base value considered by RITES (Rs. 1910 crores). Hence, RITES value considered.
T2 Apron 1	678	170	848	640	414	460	Base value as per RITES is Rs. 640 crores and BIAL value is Rs. 271 crores plus Rs. 143 crores. BIAL base value considered
Second Terminal Phase 1	3,174	794	3,968	3,077	3,077	3420	As per RITES analysis and reduction. BIAL revised base value is with 6.6% increase due to GST, not considered
Second Terminal ICT				257	257	286	
Forecourts, roadways and landside development	1,256	314	1,570	1,124	1,124	1249	As per RITES analysis and reduction. BIAL revised base value is with 6.6% increase due to GST, not considered
Aircraft maintenance and Airport maintenance	132	33	165	130	130	145	As per RITES analysis. BIAL revised base value is with 6.6% increase due to GST, not considered
Rescue and Fire Fighting	10	3	13	10	7	8	BIAL revised analysis lower and hence considered
Fuel storage & Distribution - Phase 1	1	0	1	1	-	0	Not available in Business Plan. Not considered
Airport and Administration offices	57	14	71	57	57	63	As per RITES analysis. BIAL revised base value is with 6.6% increase due to GST, not considered
Utilities Phase 1	98	25	123	98	98	109	As per RITES analysis. BIAL revised base value is with 6.6% increase due to GST, not considered
Existing Runway, Taxiway improvements	320	80	400	275	275	306	As per RITES analysis and reduction. BIAL revised base value is with 6.6% increase due to GST, not considered
Site Preliminaries				76	72		1% of above costs

Table 26: Overview of Capital Expenditure and addition to RAB for second control period as recomputed by the Authority detailed in Consultation Paper 05/ 2018-19 (Rs. Crores)

Project	Year of Capitalisation	Infra Cost	Financing allowance	Total addition to RAB	RAB - Aero	RAB - Non-Aero	Category
Site preparation & Earthworks to Runway 2, Taxiway & Apron	2018	670.00	43.57	713.57	713.57	0.00	Buildings2-RW/TW
Runway 2, Taxiway & Apron - Phase Ia	2020	1,228.14	183.67	1,411.81	1,411.81	0.00	Buildings2-RW/TW
Runway 2, Taxiway & Apron - Phase II	2021	460.21	99.92	560.13	560.13	0.00	Buildings1-T,B,R
Forecourt roadways & landside development - Phase Ia	2021	372.33	64.20	436.54	397.25	39.29	Buildings1-T,B,R
Rescue & Fire Fighting	2019	7.93	0.46	8.39	8.39	0.00	PM3-Safety
Airport Offices - Phase I	2018	63.05	0.00	63.05	57.37	5.67	Buildings1-T,B,R
Utilities - Phase Ia	2020	105.40	12.55	117.95	107.33	10.62	Buildings3-WMS
Existing runway / taxiway improvements - Phase 1a	2018	58.23	0.73	58.96	58.96	0.00	Buildings2-RW/TW
Forecourt roadways & landside development - Phase Ib	2020	442.51	49.98	492.49	448.16	44.32	Buildings1-T,B,R
Forecourt roadways & landside development - Phase Ic	2019	258.88	13.56	272.44	247.92	24.52	Buildings1-T,B,R
Existing runway / taxiway improvements - Phase Ib	2021	80.46	0.00	80.46	80.46	0.00	Buildings2-RW/TW
Terminal refurbishment	2017	79.99	4.09	84.08	76.51	7.57	Buildings1-T,B,R
Forecourts	2017	79.73	2.70	82.43	75.01	7.42	Buildings1-T,B,R
Sustaining capex - I	2017	65.12	2.66	67.78	61.68	6.10	Buildings1-T,B,R
Sustaining capex - II	2018	85.44	8.97	94.41	85.91	8.50	Buildings1-T,B,R
Total Infra Capitalisation		4,057.42	487.06	4,544.48	4,390.47	154.00	
Special Repairs and Refresh Capitalisation	2018 - 2021	781.75	0.00	781.75	693.57	88.18	
TOTAL		4,839.17	487.06	5,326.23	5,084.05	242.18	