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भारतीय विमानपत्तन प्राधिकरण  
AIRPORTS AUTHORITY OF INDIA

प्राप्त  
डायरी नं० 16970  
तारीख 5/09/2022

No. AAI/JVC/Mangalore/2022-23/599

Dated: 05/09/2022

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

**Sub: Submission of AAI's Comments in response to Consultation Paper No.07/2022-23 in the matter of Determination of Aeronautical Tariff for Mangalore International Airport issued by Airports Economics Regulatory Authority of India (AERA)**

Dear Sir,

This has reference to AERA's Consultation Paper No.07/2022-23 in the matter of Determination of Aeronautical Tariff for Mangalore International Airport for the 1<sup>st</sup> Control Period (01.04.2021 to 31.03.2026) & True up for the period 01.04.2016 to COD i.e. 30.10.2020.

AAI's response to Consultation Paper No. 07/2022-23 are enclosed.

This issues with the approval of Competent Authority.

Thanking You.

Yours faithfully,

( V. Vidya )

Executive Director -JVC / Tariff Cell

Enclosures: As above

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# **Airport Authority of India**

## **MANGALORE INTERNATIONAL AIRPORT**

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 07/2022-23 dated August 5, 2022, Determination of Aeronautical Tariff for Mangalore International Airport, Mangalore (MAA) for the First Control Period (01.04.2021 - 31.03.2026).

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## 1 Introduction

Airports Economic Regulatory Authority of India ('AERA') has released Consultation Paper No. 07/2022-23 on Aeronautical services in respect of Mangalore International Airport (MIA) for First Control Period (01.04.2021 to 31.03.2026), ('Consultation Paper' or 'CP') on 5<sup>th</sup> August 2022.

We hereby present our observations, suggestions, and request in respect of determination of Aeronautical Tariffs for MIA for the Tariff Determination for the First Control Period – from 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2026 and True Up of Second Control Period from 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2021.

## 2 TRUE UP OF AAI FOR THE PERIOD FROM FY 2017 TILL COD

### 2.1 Regulatory Asset Base (RAB)

#### 2.1.1 Disallowance of Financing Allowance from RAB- Rs 2.89 crores

##### 2.1.1.1 AERA's Contentions

*"4.3.1.4 Further the Authority as part of its review noted the following with respect to the RAB submitted by AAI:*

*a. The RAB submitted by AAI as on October 30, 2020, is based on the extract of its audited trial balance.*

*b. The RAB as of October 30, 2020, submitted by AAI included Financing Allowance of ₹ 2.52 Crores. Since AAI has not disclosed any borrowings in the True up submission, the Authority proposes not to allow the same for the determination of RAB.*

*c. Certain assets related to ANS activities of ₹ 1.21 crores (such as ATC Tower) had been included in the RAB as per AAI's submission. Since AERA does not determine the regulatory tariff for ANS-related activities, the ANS related assets have been excluded from the Adjusted RAB (as also explained in para 3.5.4 of the Asset Allocation report."*

**Quantum of Disallowance:** Approximately Rs. 2.89 Crores.

##### 2.1.1.2 AAI's Submission

- Direction 5 (Ref. No. 05/2010-11 - **Terms and Conditions for Determination of Tariff for Airport Operators Guidelines, 2011**) of AERA which entails the methodology of aeronautical tariff determination allows Airport operators to be eligible for Financing Allowance as a return on the value invested in construction phase of an asset including the Equity portion, before the Asset is put to use.
- Paragraph 5.2.7 of the Guidelines details the computation of Financing Allowance on the work in Progress Asset. Thus, Para 5.2.7 of the guidelines demonstrates the Authorities intention to allow Financing Allowance on the Work in Progress towards Capital Expenditure incurred which is funded by Equity/Internal accruals and is capitalized as part of Commissioned assets for RAB Computation.

- The guidelines also permit, Interest During Construction (IDC) on the debt portion of the capital borrowings, further The AERA guidelines 05/2010-11, use the word as “**Financing Allowance**” (which in general parlance is notional in nature) rather than “**Finance charge**” (Which relates to **Actual Expenditure**), hence the intention appears to be incentivizing the operator to use funds from equity/internal accruals rather than borrowing debt. The above intention can be seen from the regulators past decisions which are listed below:
  - ❖ **CIAL TCP Order:** Vide para 4.4.52 of CIAL order for third control period, for true up of SCP, AERA noted that, in the tariff order for the SCP, it was decided that FA would be true up based on the final capex. In its MYTP submission, CIAL had proposed an addition of Rs. 11.9 crores in FY 2021 only as Financing Allowance for true up of SCP. Accordingly, AERA recomputed FA based on actual WIP capitalized and allowed for inclusion in the Order.
  - ❖ **BIAL TCP Order:** Vide para 3.3.78 of BIAL Order for the third control period, AERA has agreed to allow the financing allowance for the second control period.
  - ❖ Financing allowance was approved and given by AERA in the First and Second Control period for BIAL and in second control period order of CIAL.
- The AERA Act requires AERA to consider “*timely investment in improvement of airport facilities*”; and “*economic and viable operation of major airports*”. The statement of objects and reasons of the AERA Act requires Authority to encourage investment in airport facilities, create a level playing field and foster healthy competition. The Airports Infrastructure Policy of 1997 and NCAP 2016 also emphasize the need to provide a commercial orientation and encourage private sector participation in the airport sector.
- Financing allowance computation is fully in compliance with Direction 5, affirmed by Authority in its various Orders in the past.
- Based on the above submissions, AAI submits that non-consideration of Financing allowance is unjust and violating AERA’s own guidelines Further, allowing Financing allowance for private airports and not for AAI airports vitiates the principle of laying a level playing field for all airports – public or private in India and AAI airports would unjustly be denied of revenues that they are entitled to.
- AAI therefore requests AERA to reconsider the financing allowance of Rs. 2.89 crores, depreciation thereon and return on RAB accordingly for true up submitted by AAI.

## 2.2 Ratio’s

### 2.2.1 Notional Terminal building Ratio

#### 2.2.1.1 AERA’s Contentions

*“4.3.1.7 Revision of Terminal Building ratio: The Authority noted that AAI, in its submission of True up for the period up to October 30, 2020 has considered the ratio of Non-aeronautical area as 10.42% of the total terminal building area. On further analysis, the Authority noted that AAI had excluded 8,959 Sq.m. of the lower ground floor in its computation of the total Terminal Building area. Including this lower ground floor area resulted in a revised five-year average Terminal*

*Building ratio of 93.33:6.67 (Aeronautical: Non-aeronautical area). It is noted that the Airport Operator has already considered the lower ground floor area in its computation of total terminal building area. The Authority is of the view that MIA being a small airport with a passenger throughput of less than 10 MPPA, its Terminal Building ratio should be 92:8 (Aeronautical: Non-aeronautical), in line with the IMG report, which has recommended that the Non-aeronautical area within the terminal building for airports having passenger traffic less than 10 MPPA to be in the range of 8% to 12% of the total terminal area. The application of the above revised ratio (92:8) for segregating the common assets of AAI within the Terminal Building results in an increase in closing RAB as on October 31, 2020, by ₹ 0.92 crores. The same has been explained in para 4.5.3.2 of the Asset Allocation report."*

**Quantum of Disallowance:** Approximately Rs. 2.65 Crores.

#### **2.2.1.2 AAI's Submission**

- The Authority appears to have relied on the study conducted IMG report issued in 2009 which is recommendatory in nature, and should not be enforced on the Airport Operator, further such higher % of non-aeronautical are only desired and attempted for, however the ground reality of non-aeronautical business is dependent on multiple factors such as demand, customer behavior, spending pattern, per capita income of the region, etc.,
- AAI submits that the Mangalore Airport was constructed much before the IMG reports was published hence such report should not be given retrospective effect. Further, the Airports operator's primary business is to provide infrastructure and facility to its passenger and non-aeronautical business is incidental to the business.
- **The Authority has also taken cognizant in the CP however has ignored while fixing the TB Ratio:**
  - ❖ As per the joint measurement by AAI and AMIAL, terminal building area was noted to be 37,322 Sq. M however AAI has considered only 27, 946 (excluding un-utilized area).
  - ❖ Authority in the CP noted that "Non-Aeronautical area for FY 2020-21 is significantly lower on account of foreclosure of contracts and vacation of commercial space by the concessionaires due to the COVID-19 pandemic"
- AAI submits that such standardization approach of the Authority may be detrimental to the trade and the Airport operator as it has direct impact on the return for the operator, further the Authority has ignored the effect of covid which resulted in foreclosure of non-Aeronautical contracts.
- AAI requests AERA to consider Non-Aero Space based on the actual utilization.

#### **2.2.2 Deemed Employee Head Count considered by the Authority**

##### **2.2.2.1 AERA's Contentions**

*"4.3.1.8 Changes in Employee Headcount ratio: The Authority proposes to consider the five-year average Employee Head Count Ratio of AAI, i.e., 89.60:10.40 (Aeronautical: Non-aeronautical) for the purpose of allocation of assets during the period from FY 2016-17 up to COD, as the Authority considers the same to be a reasonable basis for allocation of assets. This has resulted in the increase in RAB by ₹ 0.003 Crores and has been explained in para 4.5.4 of the Asset Allocation report"*

#### **4.3.5.2 Reallocation of common O&M expenses by the Authority**

The Authority has commissioned an independent study through the Consultant appointed by AERA to determine efficient Aeronautical Operation and Maintenance costs for the period FY 2016-17 till FY 2020-21 (up to COD) and used the outcome of the study to true up the O&M expenses for the pre-COD period for AAI.

The common O&M expenses have been segregated by AAI between Aeronautical and Non-aeronautical expenses based on a suitable ratio. This ratio has been determined based on the underlying proportion of their expected utilisation for Aeronautical and Non-aeronautical services and activities at the Airport.

The Authority has analysed the submission made by AAI on allocation of Common expenses into Aeronautical and Non-aeronautical on a case-to-case basis and applied appropriate re-classification and re-allocation of the expenses, wherever it noted any discrepancies in the allocation of expenses by AAI (refer Table 6 for basis for allocation of O&M expenses of AAI as per the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport). Accordingly, the following common expenses have been re-allocated by the Authority by using appropriate ratios such as Employee Head Count ratio, Terminal Building ratio, Gross Fixed Assets ratio and Electricity ratio (Refer para 4.5.1 to para 4.5.4 of the Study report on Efficient Operation and Maintenance Expenses for Mangaluru International Airport regarding the ratios used by the Authority for allocation of common expenses.)

- a) Employee benefit expenses
- b) Administrative and other expenses
- c) Operating expenses
- d) Repairs and Maintenance expenses

The re-allocation of each of the above expenses have been explained in the following paragraphs.

##### **a) Employee Benefit expenses**

**Observation:** The Authority noted that in the case of AAI, the costs directly pertaining to ANS employees have been excluded from the O&M expenses, but the ANS employees are considered in the allocation of Common expenses. Accordingly, the Authority has considered the common expenses allocated to ANS employees as deemed Non-aeronautical employees and has re-worked the Employee Head Count ratio as shown in para 4.5.3.2 and Table 9 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

**Impact:** The impact of the reallocation of Employee Benefit expenses based on revised Employee Headcount ratio results in reduction of the aforementioned expenses by ₹ 6.96 Crores for the Pre-COD period.

**Reference:** Para 4.6.2 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

**b) Administrative and other expenses**

**Observation:** The Authority notes that the Administrative and other expenses submitted by AAI include certain expenses such as tender, rent and rates and taxes which directly relate to the airport premises and certain expenses such as meeting and seminar expenses which are relatable to employees. AAI has allocated the entire Administrative and other expenses in the Employee Head Count ratio. However, the Authority proposes to re-allocate the components of the Administrative and other expenses related to the entire airport in the ratio of Gross Fixed Assets and that pertaining to employees in the ratio of Employee Head Count.

**Impact:** The impact of the reallocation results in reduction of Administrative and other expenses by ₹ 0.36 Crores for the Pre- COD period.

**Reference:** Para 4.6.3 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

**c) Operating expenses**

**Observation:** The Authority notes that expenses such as license fees are relatable to the airport premises, upkeep expenses are relatable to the terminal building and vehicle fuel are relatable to all employees. AAI has considered the above expenses as Aeronautical. The Authority proposes to reallocate such expenses in the ratio of Gross Fixed Assets / Terminal Building/ Employee Head Count ratio depending on the nature of each expense.

**Impact:** The impact of the reallocation results in reduction of Operating expenses by ₹ 0.82 Crores for the Pre- COD period.

**Reference:** Para 4.6.4 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

**d) Repairs and Maintenance expenses**

**Observation:** The Authority notes that certain repair expenses such as repairs for vehicles are relatable to employees, expenses such as electrical installation are relatable to the terminal building and certain other expenses which are relatable to the airport premises. AAI has considered such expenses as Aeronautical. The Authority proposes to reallocate such expenses in the ratio of Gross Fixed Assets / Terminal Building/ Employee Head Count ratio depending on the nature of each expense, subject to the allowable limit of 6% of opening RAB (net block) of each FY.

**Impact:** The impact of the reallocation results in reduction of Repairs and Maintenance expenses by ₹ 2.35 Crores for the period FY 2016-17 till COD.

**Reference:** Para 4.6.5 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport. Impact of the above re-allocation of O&M expenses have been summarised in the following table:

**Table 13:** Impact of re-allocation of O&M expenses submitted by AAI for True up of Pre-COD Period (Refer table 13 of the CP)



4.3.5.3 Based on the above reclassification and change in allocation ratio, the Authority has proposed the following revised Aeronautical O&M expenses (prior to rationalisation) for the Pre-COD period:

**Table 14:** Revised Aeronautical O&M expenses of AAI for the Pre-COD period post reclassification and re-allocation (Refer table 14 of the CP)"

**Quantum of Disallowance:** Approximately Rs. 7.45 Crores.

#### 2.2.2.2 AAI's Submission

- AAI noted that authority has treated all the common employees apportioned to ANS as non-aero thereby increase the share of non-Aero expenditure.
  
- **The Authority has also taken cognizant of the following:** Authority in the CP noted that "The Study evaluated the basis for computing the Employee Head Count ratio as submitted by AAI and observed the classification to be generally appropriate and in line with the approach of the Authority in other airports"
  
- Employees relating to HR and A/c's are common resources that that are allocated to all the divisions and treating common employee to only Non-Aero (instead of ANS) may be incorrect approach. AAI submits to the Authority to revisit the allocation.

### 2.3 Expenses

#### 2.3.1 Allocation of Expenditure based on Gross Asset value

##### 2.3.1.1 AERA's Contentions

##### *"4.10.2. Gross Fixed Assets ratio*

4.10.2.1. Based on the outcome of the Asset Allocation Study, the average gross fixed assets ratio for Mangaluru International Airport Limited has been considered as 99.20:0.80. The Aeronautical portion of the Gross Fixed Assets ratio as on March 31, 2021 is significantly higher (99.20%) as compared to AAI (96.79%) on account of the following:

(i) The Non-aeronautical assets (Net block) of AAI as on COD was only 0.80% (₹ 1.00 Crore) of the total assets. Such Net Block value is considered to be the deemed Gross Block for the Airport Operator.

(ii) Further, the Airport Operator has not developed any Non-aeronautical asset/ facility during the period from COD to March 31, 2021."

**Quantum of Disallowance:** Approximately Rs. 0.42 Crores.

### 2.3.1.2 AAI's Submission

- AAI had extensively performed review and excluded the portion of Non-Aero Expenditure while submitting the Opex Cost, further disallowance of expenditure based on GAV results in arbitrary disallowance.
- AAI submits that the disallowance of Advertisement Tender and Arbitration Expenditure based on the gross value of the asset may not be accurate representative of the cost driver, further considering AAI has already excluded the relevant cost towards non-Aero, further adjustments are not warranted.
- Note 3: AAI submits to the Authority that Civil R&M relates to the maintenance of the Airports and does not benefit non-Aero and does not increase of Non-Aero Facility or capacity, hence allocation of R&M towards Non-Aero may be inappropriate.

### 2.3.2 Disallowance of CHQ and RhQ Cost

#### 2.3.2.1 AERA's Contentions

##### *"4.3.5.4 Rationalisation of Aeronautical O&M expenses*

*Based on the Internal benchmarking analysis performed for O&M expenses through the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport, the Authority proposes to rationalise the following expenses for the period FY 2017 to FY 2021 (up to October 30, 2020).*

*a. CHQ/RHQ expense allocation (included under Administrative and other expenses)*

*b. Repairs and Maintenance expenses*

*a. CHQ/RHQ expense allocation (included under Administrative and other expenses)*

• *The Authority reviewed the basis adopted by AAI for allocation of CHQ and RHQ expenses to Mangaluru International Airport and other airports and noted the following:*

- *All expenses incurred by CHQ and RHQ (like staff costs, Admin and Gen. expenses, Repairs and Maintenance, utilities, outsourcing expenses etc.) is allocated to all the AAI airports, in the ratio of revenues earned by each Airport.*
- *Expenses such as legal costs, interest/ penalties are related to some specific airports. However, these have been allocated to the common pool and apportioned to all the AAI airports. The Authority is of the view that the above process followed by AAI for allocating the expenses is not transparent and necessitates adoption of a scientific/ rational approach for justifiable allocation of expenses to the Airports. Towards this objective, the Authority has examined the major expense components of CHQ and RHQ for the FY 2016-17, FY 2017-18, FY 2018-19, FY 2019-20 and FY 2020-21 submitted by AAI in November 2021 and December 2021 and has proposed the following views on allocation of CHQ/RHQ expenses:*

*i. Pay and Allowances of CHQ and RHQ:*

- AAI has considered pay and allowances of Commercial department at CHQ and RHQ as Aeronautical expenses, whereas such expenses are Non-aeronautical in nature.
- AAI has excluded pay and allowances of employees involved in ATM, CNS and Cargo departments at CHQ and RHQ while working out the allocation to the airport. However, no exclusion has been done for support services of the departments relating to HR, Finance, Civil, Terminal Management (Housekeeping), etc.
- Manpower of CHQ and RHQ also provide services to Non-aeronautical activities, ATC, and CNS cadres at respective airports. Hence, pay and allowances need to be adjusted accordingly.

Considering all the facts and figures as stated above, the Authority is of the view that 20% of pay and allowances of CHQ and RHQ is to be excluded towards the following:

- Support services to ANS, Cargo and Commercial at CHQ, RHQ and Airports
- Officials of Directorate and Commercial

Balance 80% of pay and allowances of CHQ and RHQ can be allocated to Airports.

ii. Administration & General Expenses of CHQ and RHQ:

- AAI has incurred Legal & Arbitration Expenses at both CHQ and RHQ level. The Authority is of the view that this expense should be analysed and distributed to stations on a case-to-case basis. As the above details have not been provided by AAI, the same has not been allocated to the stations. Further, the Authority is of the view that considering the present scenario where the COVID-19 pandemic has significantly impacted the Aviation sector, it is imperative for the Airport Operators to rationalise their costs and plan the operations in an efficient manner.
- AAI has paid interest/penalties to Government of India at both CHQ and RHQ levels. The Authority is of the view that the stakeholders should not be burdened with interest/penalties paid to Government of India, due to various lapses/delays on the part of the Airport Operator. Hence such expenses have not been allocated to the airports.

Based on the above methodology, the Authority has derived the revised CHQ and RHQ expenses for the Pre-COD period, which is proposed to be allocated to Mangaluru International Airport, as part of True up of the Pre-COD period.

**Table 15: Adjusted CHQ/RHQ - Admin and Gen expenses proposed by the Authority as part of True up of O&M expenses (Refer Table 15 of the CP)**

**Reference:** Para 6.2 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport. The Authority is of the view that the users should pay only for the services availed by them. Further, in line with section 13 of the AERA Act, 2008 the Authority has a scope of determining tariff in respect of Aeronautical services provided/ capital expenditure incurred only by that particular airport. This view is also consistent with ICAO's principle of 'Cost-relatedness'. Based on the above principles,

*the Authority had tried to rationalise the CHQ/RHQ expenses being allocated to Mangaluru International Airport. The Authority feels that the allocation of CHQ & RHQ expenses by AAI on the basis of revenue is non-transparent and an inefficient method, as it brings large variation in such expenses Year on Year, due to change in revenue and is against the basic principle of cost relatedness in tariff determination. Further, as the revenue from these airports goes up due to higher tariffs, it further leads to higher allocation of CHQ/RHQ expenses with chain of cascading effect. The Authority, therefore, expects AAI to examine these issues in detail and devise an effective and efficient method for allocation of CHQ & RHQ expenses on priority.*

*Further, the Authority feels that AAI should exploit the potential of its non-traffic avenues fully so that 30% of the same, by cross subsidisation can be used to cover Aeronautical expenses."*

**Quantum of Disallowance: Approximately Rs. 10.97 Crores.**

#### **2.3.2.2 AAI's Submission**

- AAI noted the concern raised by the Authority does not contribute to significant disallowance however the authority has disallowed 50% during the Covid period and 23% of the overall expenditure incurred.
- AAI submits to the Authority that it has robust internal controls systems, and each order are processed diligently considering cost as prime factor, further AAI also submits that cost incurred are scrutinized by AAI employees, its books are subject to CAG Audit which are subsequently placed in the parliament. AAI reiterates that cost are genuinely incurred by the AAI and AAI also submits that it is underway in performing and submitting independent study on CHQ/RHQ cost allocation for all Airports.

#### **2.3.3 Caping on R&M Cost**

##### **2.3.3.1 AERA's Contentions**

###### *"b. Repairs and Maintenance expenses*

- *The Authority noted that Repairs and Maintenance expenses submitted by AAI for True up of the Pre-COD period are in the range of 8% for each tariff year and 14% in the FY 2019-20, which is on account of incurrence of one-time expense towards construction of storm water drains around the airport premises for ₹ 6.75 crores in the FY 2019-20.*
- *The Authority is of the view that during the period FY 2016-17 to FY 2019-20, Mangaluru International Airport has made significant capital expenditure of ₹ 136 Crores. These newly constructed and installed assets are generally covered under warranty clauses and hence, their Repairs and Maintenance expenses are expected to be minimal. Accordingly, the Authority proposes to consider the Repairs and maintenance expenses for the Pre-COD period to the extent of 6% of the opening RAB (net block) of each tariff year (as shown in Table 8).*

- Further, the Authority notes that the one-time expense incurred towards construction of storm water drain around the airport premises for ₹ 6.75 crores relates to a specific one-time project and hence, is an allowable expense, over and above the allowable expense of 6% of opening RAB (net block) of FY 2019-20.

**Reference:** Para 6.3 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

**Table 16:** Adjusted Repairs and Maintenance expense proposed by the Authority for True up of the Pre-COD period (Refer Table no. 16 from the CP)

4.3.5.5 Based on the above analysis, the Authority proposes to consider the following Aeronautical O&M expenses for True up of the Pre-COD period.

**Table 17:** Aeronautical O&M expenses proposed to be considered by the Authority for True up of the Pre-COD period (Refer Table no. 17 from the CP)

**Quantum of Disallowance:** Approximately Rs. 9.11 Crores.

### 2.3.3.2 AAI's Submission

- Disallowing actual expenditure incurred towards R&M defeats the purpose of performing true up. Further discourages the Airport operator to spend on the R&M to maintain the quality standard and enhance the customer experience.
- AAI reiterate that the expenditure towards Repairs and Maintenance has been incurred, further AAI follows rigorous process of awarding contracts.
- The approach adopted by the Authority appears to not factored parity while dealing with issues, AAI submits that that while allocating cost towards Non-Aero share of expenditure the Authority has considered Gross value of Assets (GVA) and while capping the expenditure on R&M, Net block of Asset has been considered.
- Further AAI, Submits that since the Authority has considering net block which even if the expenditure is fixed would appear to be higher, the following tables illustrate the reason for higher % noted by the Authority

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Gross Block	100	100	100	100	100	100	100	100
Dep Rate for Vehicles-Freehold	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%
Dep for CY	125	125	125	125	125	125	125	125
Accumulated Dep	125	25	37.5	50	62.5	75	87.5	100
<b>Net Block</b>	<b>88.89</b>	<b>77.78</b>	<b>66.67</b>	<b>55.56</b>	<b>44.44</b>	<b>33.33</b>	<b>22.22</b>	<b>11.11</b>
Fixed R&M	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
<b>% of R&amp;M Exp on Net RAB</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>	<b>6%</b>	<b>8%</b>	<b>11%</b>	<b>16%</b>	<b>32%</b>

- AAI also submits most of the R&M cost relates to manpower cost which minimum wages are applicable hence such expenditure cannot be capped. AAI desires to restrict the R&M to certain extent however considering the age, terrain, and safety of the passengers such cost can be only restricted and cannot be capped, hence AAI submit to AERA not to cap actual expenditure.

## **2.4 Return on Land**

### **2.4.1 Disallowance on return of Land**

#### **2.4.1.1 AERA's Contentions**

##### ***"4.3.6 True up of Return on Land***

*4.3.6.1 The Authority notes that AAI has claimed return on land for ₹ 2.38 crores as part of its true up submission for the Pre-COD Period. The Authority would like to draw reference to the following clauses prescribed in its Order No. 42/ 2018-19 dated March 5, 2019, regarding determination of FRoR on the Cost of Land:*

- *As per para 4.1.1 of the aforementioned order, the Authority decides that in case the land is provided to the airport free of cost, no return shall be given on the land.*
- *As per para 4.1.2, the Authority states that return on land shall be provided on the cost if (provided it is not free of cost) it is used for aeronautical purposes only.*
- *As per clause 4.1.8. of the aforementioned order, return on land may be allowed on a prospective basis only.*

*4.3.6.2 As return on land should be sought prospectively and not retrospectively (as per clause 4.1.8 of the aforementioned Order), the Authority is of the opinion that return on land will not be included in the true up calculation. Hence, the Authority proposes not to allow Return on Land claimed by AAI as part of True up of the Pre-COD period.*

##### ***4.3.7 True up of Unamortised value of Land***

*4.3.7.1 The Authority notes that AAI has invested in the Land of Mangaluru International Airport for ₹ 4.05 crores during the period FY 2003-04 to FY 2009-10. This includes cost of land acquired for Secondary Runway (₹ 0.50 crores) and cost incurred (₹ 3.51 crores) towards improvement of the land at Northeast corner of NITB, which includes Grading, Concrete and Stone pitching of the land area. AAI has claimed the balance cost of Land (which is ₹ 3.94 crores) after deducting EMIs towards principal cost of Land (computed as per the methodology prescribed under Order No.42/ 2018-19 dated March 5, 2019) for the Pre-COD period. The Authority notes that the Land has not been transferred by AAI to the Airport Operator. The Authority would like to highlight the following clauses in the Order No. 42/2018-19 dated March 5, 2019:*

*"4.1.4 In case land is purchased by the airport operating company either from private parties or from government, the compensation shall be in the form of equated annual instalments computed at actual cost of debt or SBI, base rate plus 2% whichever is lower over a period of thirty years.*

*4.1.8 This order of the Authority will take effect from the next control period."*

*4.3.7.2 From the perusal of the above Order, it is evident that the benefit of compensation is available to the Airport Operator (AAI)*

*(i) over a period of thirty years; and*

*(ii) from the Control Period subsequent to the date of the Order i.e. March 5, 2019.*

*Further, the Order envisages return on land over a period of thirty years and it does not contemplate providing cumulative return on land as proposed by AAI in its submission for true*

*up of Pre-COD period. Hence, the Authority proposes not to consider the amortization of the balance cost of Land claimed by AAI (₹ 3.94 crores), as part of its true up submission for the pre-COD period."*

**Quantum of Disallowance:** Approximately Rs. 14.25 Crores.

**2.4.1.2 AAI's Submission**

- AAI being the landowner is entitled to return on land from 1<sup>st</sup> April 2022 as per Order No. 42/ 2018-19 dated March 5, 2019, since the Airport has been transferred to AMIAL, AAI submits to the Authority the entitlement of the return on land shall be given to AAI.

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