भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

F.A. AAI/JVC/Lucknow-Tariff/2022-23 Dated 24-03-2023

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

Subject:-Consultation Paper (CP NO 16/2022-23 Dated 20/02/2023) issued in the matter of determination of Aeronautical Tariff of Lucknow International Airport by AERA.-Submission of Comments of AAI-regarding

Dear Sir,

This has reference to AERA's Consultation Paper No. 16/2022-23 dated 20th Feb., 2023 in the matter of determination of Aeronautical tariff for the 3rd Control period (01.04.2021 to 31.03.2026)) along with true up of 2nd Control Period in respect of Lucknow International Airport.

AAI's response to Consultation Paper No. 16/2022-23 is enclosed.

Thanking you,

Your Sincerely,

24/03/23

(V.Vidya)
Executive Director (JVC & PPP)-I

Enclosed: *As Above*

Airport Authority of India

LUCKNOW INTERNATIONAL AIRPORT

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 16/2022-23 dated February 20, 2023, Determination of Aeronautical Tariff for Chaudhary Charan Singh International Airport (CCSIA), Lucknow (LKO) For the Third Control Period (01.04.2021 - 31.03.2026)

Contents

1 Introduction

Airports Economic Regulatory Authority of India ('AERA') has released Consultation Paper No. 16/2022-23 on Aeronautical services in respect of Chaudhary Charan Singh International Airport (CCSIA), Lucknow (LKO) for Third Control Period (01.04.2021 - 31.03.2026), ('Consultation Paper' or 'CP') on 20th February 2023.

We hereby present our observations, suggestions, and requests in respect of determination of Aeronautical Tariff for LKO for True Up from 1st April 2016 till COD.

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

2.1.1.1 AERA's Contentions

"4.5.7 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 November 1, 2020, is based on the extract of its audited trial
balance.
b. The RAB as of November 1, 2020, submitted by AAI included Financing Allowance of ₹ 1.41
Crores. The Authority has given its views on Financing Allowance in para 7.3.13 of this Consultation Paper. In the background of the above facts, the Authority proposes that only IDC
would be provided on the debt borrowings availed for execution of a project and hence it proposes
not to consider Financing allowance claimed by AAI for determination of RAB."

Quantum of Disallowance: Approximately Rs. 1.41 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 trued 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. 1.41 crores, **depreciation thereon and return on RAB accordingly** for true up submitted by AAI.

2.1.2 Disallowance of RAB – CISF Assets allocated to Common.

2.1.2.1 AERA's Contentions

"(i) Staff Quarters:

- *Details of Asset: Construction of assets in staff quarters*

- *Allocation proposed by AAI: Aeronautical/ Common*

- *Observation: The construction of certain assets in the staff quarters has been classified as Aeronautical assets by AAI. As these assets are used by both Aeronautical and ANS staff, these are reclassified as Common assets and have been reallocated using the Staff Quarters ratio (81.58:18.42). Further,* *certain assets had been classified as Common and allocated using different ratios. Such assets have also been reallocated using the Staff Quarters ratio.*

- *Allocation proposed by the Authority: Common*
- *Impact: Reclassifying these assets from Aeronautical to Common increases RAB to the extent of ₹ 0.04 Crores.*
- *Reference: Annexure II-D."*

"(v) Plumbing and Electrical works for Airport:

- *Details of Asset: Assets related to rainwater harvesting, water supply and building for generator room*
- *Allocation proposed by AAI: Aeronautical*
- *Observation: The construction of assets related to rainwater harvesting, water supply and construction of generator room have been classified as Aeronautical assets by AAI. As these assets are used for both Aeronautical and Non-aeronautical activities, these assets are reclassified as Common assets and have been reallocated using the Terminal Building ratio (92.5:7.5).*
- *Allocation proposed by the Authority: Common*
- *Impact: Reclassifying these assets from Aeronautical to Common reduces the RAB to the extent of ₹ 0.12 Crores.*
- *Reference: Annexure II-E."*

2.1.2.2 AAI's Submission

2.1.2.3 AAI has noted that the Authority has reclassified assets related to the Central Industrial Security Force (CISF) as common assets instead of aeronautical assets resulting in an impact of Rs. 1.95 lakhs on RAB. AAI emphasizes that CISF assets are crucial for reserved activities that are necessary or required for the performance of aeronautical services at the airport.

2.1.2.4 CISF is responsible for ensuring security and safety at the airport, which is essential for the smooth operation of aeronautical services. As such, it is imperative to classify these assets as aeronautical assets rather than common assets. This reclassification of assets may impact the allocation of resources, which could have a direct effect on the airport's operations and its ability to provide safe and secure services.

2.1.2.5 The Authority's decision to reclassify the assets was based on a study that did not consider the actual usage of the assets. The assets in question are integral to the functioning of the CISF, which is responsible for ensuring the safety and security of passengers, staff, and aircraft.

2.1.2.6 AAI submits that CISF services are required irrespective of the Airport providing non-Aeronautical services hence it should not be treated as common cost, further AAI submits that the principles of allocation are based the intend of the services rather than allocating cost to all divisions of the Airport.

2.1.2.7 Therefore, AAI humbly requests the Authority to reconsider the allocation of the assets and classify them as aeronautical assets, given their essential role in supporting aeronautical services and ensuring the safety of all airport users.

2.1.3 Disallowance of RAB Assets allocated to Common.

2.1.3.1 AERA's Contentions

"(vi) Furniture:

- *Details of Asset: Furniture at terminal building and administrative offices.*
- *Allocation proposed by AAI: Aeronautical*
- *Observation: The furniture at the terminal building and at administrative offices have been classified as Aeronautical assets by AAI. As these assets are used for both Aeronautical and Non-aeronautical activities, these assets are reclassified as Common assets and have been reallocated using the Terminal Building ratio (92.5:7.5) and the Employee Head Count ratio (96.28:3.72) depending on the nature of such assets.*
- *Allocation proposed by the Authority: Common*
- *Impact: Reclassifying these assets from Aeronautical to Common reduces the RAB to the extent of ₹ 0.05 Crores.*
- *Reference: Annexure II-F."*

2.1.3.2 AAI's Submission

2.1.3.3 AAI has brought to the Authority's attention that assets related to three-seater chairs have been reclassified as common assets, resulting in an impact of Rs. 2.05 lakhs on RAB. AAI believes that three-seater chairs are an essential component of airport infrastructure and directly support aeronautical activities. Therefore, they should be classified as aeronautical assets.

2.1.3.4 Three-seater chairs are extensively used in public areas such as arrival and departure lounges, check-in areas, and waiting areas. They are essential for aeronautical services as they enable passengers to wait comfortably for their flights, reducing the risk of congestion and delay. Adequate seating facilities are necessary to ensure that passengers have a comfortable and safe experience while using the airport.

2.1.3.5 Moreover, the provision of three-seater chairs requires significant investment which ensures that passengers have a comfortable and safe experience while using the airport. Therefore, treating these chairs as common assets could compromise the airport's ability to provide adequate seating facilities and negatively impact the passengers' experience.

2.1.3.6 In conclusion, AAI request the Authority to reconsider the classification of assets related to three-seater chairs and classify them as aeronautical assets. These chairs are an essential component of airport infrastructure and directly support aeronautical activities.

2.2 Ratios

2.2.1 Notional Terminal building Ratio

2.2.1.1 AERA's Contentions

"4.5.10 Revision of Terminal Building ratio:

- *The Common assets based on the Independent Study report have been allocated to Aeronautical and Non-aeronautical assets based on the Terminal Building ratio of 7.5% (Non-aeronautical areas as a percentage of total terminal building area), which was approved by the Authority in the Tariff Order for the Second Control Period for CCSIA.*
- *Further, the Authority notes that since there has been no major addition to the Terminal Building in the Second Control Period, its impact on the Terminal Building ratio (92.5%: 7.5% considered in the Tariff Order for the Second Control Period) is NIL.*

"Study on allocation of Assets dated 12th September 2022:

4.4. Terminal Building Ratio

It was observed that AAI, in its True up submission for the period up to November 1, 2020 has considered 6.00% of total terminal building area to be Non-aeronautical area. However, the Airport Operator, based *on a study conducted through its independent consultant - Kanti Karamsey & Co. dated March 22, 2021 (refer Exhibit 4), has considered Non-aeronautical to be only 5.14% of total terminal building area. The Study proposes to consider the Terminal Building ratio of 92.5:7.5 as approved by the Authority in the Tariff Order for the Second Control Period.*

Considering the size and scale of operations (as per the actual traffic data for FY 2019-20 (pre Covid year), the passenger traffic is 5.5 MPPA), it is proposed that the Terminal Building ratio in case of CCSIA should be in the ratio of 90:10 (Aeronautical: Non-aeronautical) for the Third Control Period, which is in line with ratio considered by AERA for other similar airports. This is also consistent with the IMG norms, which has recommended 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 and for airports having passenger traffic greater than 10 MPPA to be up to 20%.

4.5.4. Impact of revised Terminal Building ratio as per the Study

4.5.4.1.The Common assets (based on the Study report) have been allocated to Aeronautical and Non-aeronautical assets based on the Terminal Building ratio of 7.5% (Non-aeronautical areas as a percentage of total terminal building area).

4.5.4.2. The change in the Non-aeronautical proportion of Terminal Building ratio from 5.10% (as considered by AAI) to 7.5% (as determined in the Study report) does not result in any change in the RAB (refer Chapter 6).

The total impact of revised Terminal Building Ratio and the differential Employee Head Count ratio as per Study is ₹ Nil.

6.4 Adjustments due to revised Terminal Building ratio proposed as per the Study

6.4.1. The Terminal Building ratio as on March 31, 2021 has been considered as 92.5:7.5 as against 94.41:5.59 adopted by AAI and 94.86:5.14 adopted by the Airport Operator.

6.4.2. The impact of the revision in the Terminal Building ratio on assets, which have been reclassified has been considered along with such reclassification adjustments. There are no other assets which have been allocated using the Terminal Building ratio and hence, there are no additional adjustments proposed in this Chapter.

6.5. Summary

6.5.1. The Terminal Building ratio as submitted by AAI and the Airport Operator was 94.41:5.59 and 94.86:5.14 respectively.

6.5.2. The Non-aeronautical area in the Terminal Building is considered as 7.5% as against 5.59% and 5.14% proposed by AAI and the Airport Operator respectively. The Terminal Building ratio considered for the purpose of the Study is 92.5:7.5 (Aeronautical : Non-aeronautical)

6.5.3. The revision in the Terminal Building ratio has not resulted in any additional adjustments since the impact of such change in the Terminal Building ratio has been considered along with the reclassification adjustments."

2.2.1.2 AAI's Submission

2.2.1.3 Impact of the Disallowance: Capex disallowance of Rs. 1.47 Crores and cascading effect on depreciation. A&G expenses of Rs. 1.02 Crores and Repairs & Maintenance of Rs. 2.08 Crores – Total Disallowance Rs. 4.57 Crores.

2.2.1.4 AAI noted that Authority has factored Notional Terminal Building Ratio at 7.5% uniformly across the control period without bearing actual area utilized for non-aeronautical.

2.2.1.5 AAI submits to the Authority to consider the Actual terminal building ratio instead of proposed ratio based on a standardized approach for the following reason:

- While there may not have been any major additions to the Terminal Building in the Second Control Period, there was still opportunities to increase non-aeronautical revenues through other means, such as improving existing facilities, introducing new services or amenities, and enhancing the overall customer experience.
- The percentage of non-aeronautical business is dependent on multiple factors such as demand, customer behavior, spending patterns, and per capita income of the region. Therefore, a standardized approach may not accurately reflect the ground reality of non-aeronautical business and may be detrimental to the airport operator.
- Further to be noted that the COVID-19 pandemic has had a significant impact on non-aeronautical business, resulting in the foreclosure of contracts. Therefore, it is essential to consider the actual terminal building ratio, which reflects the current situation accurately.
- AAI requests AERA to consider Non-Aero Space based on the actual utilization as submitted in the MYTP submission and presented below:

Particulars	31-Mar-17	31-Mar-18	31-Mar-19	30-Mar-20	31-Oct-20
Total Non-Aeronautical area (T1+T2)	1,665.49	1,655.77	2,178.70	2,029.80	2,079.90
Total Terminal Building Area	29,815.00	29,815.00	33,693.35	33,693.35	33,693.35
% of Non-Aeronautical area to Terminal Building	5.59%	5.55%	6.47%	6.02%	6.17%

2.2.2 Deemed Employee Head Count considered by the Authority.

2.2.2.1 AERA's Contentions

"4.8.4 Reallocation of 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 recommendations of the Study, while truing up the O&M expenses for the pre-COD period for AAI.

The Authority has drawn the inference from the Study that the common O&M expenses have been segregated by AAI between Aeronautical and Non-aeronautical expenses based on appropriate 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 16 for basis for allocation of O&M expenses of AAI as per the O&M Study report). 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 O&M Study report regarding the ratios used by the Authority for allocation of common expenses.)*

a) Employee benefit expenses

b) Administrative and other expenses

c) Utility (Operating) expenses

d) Repairs and Maintenance expenses

e) Other Outflows – CSR 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 and Cargo employees have been excluded from the O&M expenses, but the cost of common employees servicing ANS and Cargo have been considered in the O&M expenses. Accordingly, the Authority has excluded the such common employees servicing ANS and Cargo and has re-worked the Employee Head Count ratio as shown in para 4.5.3.2 and Table 19 of the O&M Study report.

Impact: The impact of the reallocation of Employee Benefit expenses based on revised Employee Headcount ratio results in reduction of the aforementioned expenses by ₹ 9.67 Crores for the Pre-COD period.

Reference: Para 4.6.1 of the Study on Efficient Operation and Maintenance Expenses for CCSIA, Lucknow.

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 insurance of vehicles, manpower hiring, printing & stationery, conveyance, employee training etc., are relatable to employees and upkeep expenses are relatable to Terminal Building. AAI has considered the Administrative and other expenses as Aeronautical expenses. However, the Authority proposes to re-allocate the components of the Administrative and other expenses related to the entire Airport in the Gross Fixed Assets ratio, the components related to employees in the revised Employee Head Count ratio and upkeep expenses relatable to Terminal Building in the Terminal Building ratio.

Impact: The impact of the reallocation results in reduction of Administrative and other expenses by ₹ 2.01 Crores for the Pre- COD period.

Reference: Para 4.6.2 of the Study on Efficient Operation and Maintenance Expenses for CCSIA, Lucknow."

"Study on efficient operation and maintenance expenses conducted in September 2022:

4.5.3.2. 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. However, Cargo activities have been transferred from AAI to a separate *entity from April 1, 2017 and hence, the employees pertaining to Cargo department from FY 2017-18 are proposed to be excluded from Aeronautical and have been considered along with ANS employees for the purposes of the Study.*

Further, it was noted that the costs directly pertaining to ANS and Cargo employees have already been excluded for the purpose of analysis of O&M expenses as part of the Study but the Common expenses of ANS and Cargo are included. Accordingly, it is proposed to exclude the Common employees allocated to ANS and Cargo and the corresponding costs, since such costs are not a subject of the Study report. Accordingly, the Employee Head Count ratio for the period FY 2016-17 to COD proposed by the Study is as below:

Table 19: Employee Head Count ratio proposed by the Study for the period FY 2016-17 till COD

Particulars	*FY 2016-17*	*FY 2017-18*	*FY 2018-19*	*FY 2019-20*	*FY 2020-21**
Direct Aeronautical employees	142	159	160	154	141
Direct ANS and Cargo employees	106	107	118	120	120
Direct Non-Aeronautical employees	6	5	7	6	6
Common employees	26	28	25	24	27
Total	**280**	**299**	**310**	**304**	**294**
Common employee's apportionment					
Aeronautical	14	16	14	13	14
ANS and Cargo (deemed Non-aeronautical)	11	11	10	10	12
Non-Aeronautical	1	1	1	1	1
Total	**26**	**28**	**25**	**24**	**27**
Head Count after apportionment of Common employees as per Study					
Total Aeronautical employees	156	175	174	167	155
Total ANS and Cargo employees	106	107	118	120	120
Total Non-Aeronautical employees	18	17	18	17	19
Total employees	**280**	**299**	**310**	**304**	**294**
Employee Head Count ratio (Aeronautical: Non-aeronautical)	89.66:10.34	91.15:8.85	90.63:9.38	90.76:9.24	89.08:10.92
Employee Head Count ratio (Aeronautical: Non-aeronautical: ANS)	55.71:6.43: 37.86	58.53:5.69: 35.79	56.13:5.81: 38.06	54.93:5.59: 39.47	52.72:6.46: 40.82

** Up to the date of COD (November 2, 2020)*

Further, it is observed that, out of 294 existing employees of AAI up to COD, certain employees (excluding ANS, Cargo, Airport Directorate etc.) were deputed to CCSIA as "Select Employees" according to the terms of the Concession Agreement and the department-wise list of such employees as on March 31, 2021 has been shown in the table below:

Table 20: List of Department-wise Employees deputed as "Select employees" as on March 31, 2021

Department	*Classification*	*No. of Employees*
Engineering & Maintenance	*Aeronautical*	61
Finance	*Common*	5
Fire	*Aeronautical*	51
Human Resource & Admin	*Common*	34

Department	Classification	No. of Employees
Non-Aero Commercial	Non-aeronautical	1
Security	Aeronautical	1
Terminal & Operations	Aeronautical	14
Grand Total		**167**

4.6. Reallocation of Common O&M expenses of AAI as per Study

The Study has assessed AAI's allocation of Common O&M expenses along with basis of such allocation and accordingly, the proposed reclassification adjustments are discussed in the following paragraphs.

4.6.1. Employee Benefit Expenses

4.6.1.1. AAI has proposed to allocate the Employee Benefit Expenses into Aeronautical, Non-Aeronautical or Common and reallocate the Common expenses using Employee Head Count ratio. It was noted that the costs pertaining to ANS employees have been accounted separately and have not been included in the Employee Benefit Expenses.

4.6.1.2. AAI has allocated the Common Employee Benefit Expenses based on the Employee Head Count ratio determined by them (refer Table 18). However, as explained in paragraph 4.5.3.2 the Employee Head Count ratio has been revised as per the Study (refer Table 19).

4.6.1.3. Thus, on account of the revision in the Employee Head Count ratio, the Common Employee Benefit Expenses have been reallocated based on the ratio proposed by the Study, thereby reducing the Aeronautical employee benefit expenses by ₹ 9.67 Crores. The impact on account of the proposed reallocation is summarised below:

Table 22: Impact on Aeronautical Employee Benefit Expenses

(Rs. In Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21*	Total
AAI's submission						
Total employee benefit expenses	24.88	34.67	41.42	36.30	22.70	159.97
Aeronautical ratio – AAI (Refer Annexure 1 – Part I)	96.50%	88.84%	95.94%	93.03%	90.00%	
Aeronautical employee benefit expenses (A)	24.01	30.80	39.74	33.77	20.43	**148.75**
Revision as per the Study						
Total employee benefit expenses	24.88	34.67	41.42	36.30	22.70	**159.97**
Revised segregation ratio (Refer Annexure 1 – Part I)	91.04%	83.42%	90.63%	87.60%	80.04%	
Aeronautical employee benefit expenses (B)	22.65	28.92	37.54	31.80	18.17	**139.08**
Downward adjustment in Aeronautical expenses (C = A – B)	**1.36**	**1.88**	**2.20**	**1.97**	**2.26**	**9.67**

2.2.2.2 AAI's Submission

2.2.2.3 AAI noted that Authority has treated all the common employees apportioned to ANS as non-Aero thereby increase the share of Non-Aero expenditure. Impact of the Disallowance: Rs. 14.92 crores (Capex of Rs. 0.40 crores, Emp Cost of Rs. 9.67 Crs, A&G – 0.22 Crs, Other consumables Rs. 0.67 Crs, R&M – 3.96 Crs).

2.2.2.4 AAI has scientifically calculated the employee head count ration, .i.e. common Employees have been allocated to Aero, Non Aero and ANS based on the existing employee strength of respective divisions, details of the working is listed below:

Particulars	2016-2017	(2017-18)	(2018-19)	(2019-20)	(2020-21)
No. of Resources					
ANS	106	101	112	114	114
Aero	142	165	166	160	147
Non-Aero	6	5	7	6	6
Common	26	28	25	24	27
Total	**280**	**299**	**310**	**304**	**294**
Reallocation of Common Resources					
ANS	11	10	10	10	11
Aero	14	17	14	14	15
Non-Aero	1	1	1	0	1
Total	**26**	**28**	**25**	**24**	**27**
Employees Count after Reallocation of Common Resources					
Aero	156	182.	180	174	162
Non-Aero	7	6	8	6	7
ANS	117	111	122	124	125
Total	**280**	299	310	**304**	294
Employee Ratio (Aero: Non-Aero: ANS)	55.91:2.36: 41.73	60.89:1.85: 37.27	58.25:2.46: 39.30	57.14:2.14: 40.71	55.06:2.25: 42.70
Employee Ratio for (AERO: Non-Aero)	95.95:4.05	97.06:2.94	95.95:4.05	96.39:3.61	96.08:3.92

2.2.2.5 AAI noted that the Authority has treated all the common employees apportioned to ANS as non-aero thereby increasing the share of non-aero expenditure.

2.2.2.6 AAI submits that it may not be appropriate to consider Common employees as deemed Non-aero, when common resources services such as HR/Accounts/Admin work are used across the organization. This classification would result in lower recovery of aeronautical costs, as the load of air navigation services (ANS) common employees, which is only related to ANS, would be treated as part of non-aeronautical costs. This would lower the aeronautical portion that users need to pay for the services they receive, and it is not consistent with the principles of the Authority and the International Civil Aviation Organization (ICAO).

"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'."

2.2.2.7 ANS is a separate activity for which the tariff determination is done on a standalone basis. The revenues and costs arising out of this activity is thus to be ring-fenced from the tariff determination for airports. Hence, AAI has removed the costs pertaining to ANS even from ratios and headcount, etc. It is reiterated that treating ANS as non-aeronautical services highly skews the ratios.

2.2.2.8 Employees relating to HR and Finance are common resources that that are allocated to all the divisions and treating common employee to Non-Aero may be incorrect approach. AAI submits to the Authority to revisit the allocation.

2.3 Expenses

2.3.1 Capping of R&M Cost

2.3.1.1 AERA's Contentions

"4.8.3 On comparing the actual expenses incurred by AAI for the pre-COD period with the expenses approved in the Tariff Order for the Second Control Period, the Authority notes the following:

Repairs and Maintenance (R&M): The Authority notes that the total Repairs & Maintenance expenses of ₹ 81.54 Crores (including amortization of runway recarpeting expenses of ₹ 22.10 Crores) claimed by AAI for the pre-COD period, are higher than the amount ₹ 60.50 Crores approved in the tariff order for the Second Control Period. Further, the Authority notes that as per the tariff order of the Second Control Period, it had allowed additional amount of ₹ 16.00 Crores in FY 2017-18 and ₹ 10.20 Crores in FY 2018-19 towards R&M Civil cost due to proposed runway recarpeting expenditure submitted by AAI (refer Para 14.13 of the tariff order for the Second Control Period). As against this approved amount of ₹ 26.20 Crores, AAI has incurred ₹ 22.10 Crores which is being allowed to be amortized over a period of 5 years commencing from FY 2016-17 (i.e., ₹ 4.42 Crores in each FY).

However, even after excluding such expense, the Repairs & Maintenance expenses are much higher than the amount approved in the tariff order for all the FY's. On further examination of the actual Repairs & Maintenance expenses, the Authority notes that the same are higher than 6% of Opening RAB (determined in line with the approach of the Authority in other similar airports) for all the FY's except for FY 2016-17 and hence the same needs to be rationalized, which is explained in para 4.8.6 of this Consultation Paper.

4.8.6 Rationalization of Aeronautical O&M expenses

Based on the Internal and External benchmarking analysis performed for O&M expenses through the O&M Study report, the Authority proposes to amortization the following expenses for the period FY 2017 to FY 2021 (up to November 1, 2020).

b. Repairs and Maintenance expenses

i. The Authority noted that Repairs and Maintenance expenses submitted by AAI for True up of the Pre-COD (excluding the amortization of runway recarpeting expenses), was higher than 6% of the Opening RAB as approved in AERA tariff orders of other airports, in all the Fys of the Second Control Period except for FY 2016-17.

ii. The Authority notes that Repairs and Maintenance expenses include amortization of runway recarpeting expenses of ₹ 4.42 Crores starting from FY 2016-17 for all the FY's of the Second Control Period totaling to ₹ 22.10 Crores, which the Authority proposes to allow for the Second Control Period and further it considers the allocation of amortization of Runway recarpeting expenses as Aeronautical by AAI to be appropriate.

iii. The Authority has re-computed repairs and maintenance expenses, which it proposes to consider for true up of the Second Control Period and the same is explained as follows:

Table 23: Adjusted Repairs and Maintenance expense proposed by the Authority for True up of the Pre-COD period"

(Rs in Crores)

Particulars	Ref.	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21*	Total
Total Aeronautical Repairs & Maintenance expenses including Amortization of runway recarpeting expenses (refer Table 21)	A	10.61	14.10	17.24	16.74	16.19	**74.88**
Amortization of Runway recarpeting expenses	B	4.42	4.42	4.42	4.42	4.42	**22.10**
Net Aeronautical Repairs & Maintenance expenses excluding amortization of runway recarpeting expenses	C	6.19	9.68	12.82	12.32	11.77	**52.78**
Opening RAB (refer Table 15)	D	151.73	177.42	173.72	200.20	207.46	
Repairs & Maintenance expenses calculated at 6% on Opening RAB	E	9.10	10.65	10.42	12.01	7.26	**49.45**
Amount proposed to be allowed (C or E whichever is lower)	F	6.19	9.68	10.42	12.01	**7.26**	**45.56**
Amount proposed not to be allowed (C – F)	G	**0.00**	**0.00**	2.40	0.31	4.51	7.22
Total Aeronautical	**H**	**10.61**	**14.10**	**14.84**	**16.43**	**11.68**	**67.66**

Repairs & Maintenance expenses - post rationalization (A – G)								

2.3.1.2 **AAI's Submission**

2.3.1.3 The Repairs and Maintenance expenses incurred by AAI was based on the specific needs of the airport and the level of service provided to the customers. The maintenance and upkeep of the airport's infrastructure is critical to ensure the safety and efficiency of airport operations, and thus the expenses related to repairs and maintenance should be viewed as necessary investments in the long-term viability of the airport.

2.3.1.4 Furthermore, the 6% threshold set by the Authority may not be appropriate in all cases, and that it should be evaluated in the context of the specific airport and its operational needs. Factors such as the age and condition of infrastructure and equipment, the size and complexity of the airport, and other operational considerations may all impact the appropriate level of Repairs and Maintenance expenses.

2.3.1.5 AAI reiterates that the expenditure towards Repairs and Maintenance has been incurred and that AAI follows rigorous process of awarding contracts on competitive tender basis. The bids received are evaluated carefully and the most suitable vendor technically and financially is ultimately chosen. The entire process is also approved at various levels depending on the delegation of the Authority.

2.3.1.6 Every station of AAI is subject to C&AG audit on a yearly basis. Hence, the costs captured by the airports in their respective trial balances are based on the actual spend. To determine the costs, there are detailed tendering mechanisms for every contract. Hence, no costs in addition to what is incurred is accounted for in stations.

2.3.1.7 The approach adopted by the Authority appears to not have 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 caping the expenditure on R&M, net block of Asset has been considered.

2.3.1.8 Further AAI submits that since the Authority has considered net block which even if the expenditure is fixed would appear to be higher, the tabulation is self explanatory:

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Gross Block	100	88.9	77.8	66.7	55.6	44.4	33.3	22.2	11.1
Dep Rate	11%	11%	11%	11%	11%	11%	11%	11%	11%
Dep	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1
Net Block	88.9	77.8	66.7	55.6	44.4	33.3	22.2	11.1	0
Fixed R&M	4	4	4	4	4	4	4	4	4
% of R&M Exp on Net RAB	5%	5%	6%	7%	9%	12%	18%	36%	

2.3.1.9 Hence, we submit to AERA not to cap Actual expenditure incurred by AAI and to consider the costs on an actual basis.

2.4 Disallowance of CHQ and RHQ Cost

2.4.1.1 **AERA's Contentions**

"4.8.6 Rationalisation of Aeronautical O&M expenses

Based on the Internal and External benchmarking analysis performed for O&M expenses through the O&M Study report, the Authority proposes to rationalise the following expenses for the period FY 2017 to FY 2021 (up to November 1, 2020).

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 CCSIA, Lucknow 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 2021and 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 CCSIA, Lucknow, as part of True up of the Pre-COD period.

Table 22: Adjusted CHQ/ RHQ – Admin and Gen expenses proposed by the Authority as part of True up of O&M expenses

(Rs. In Crores)

Particulars	*FY 2016-17*	*FY 2017-18*	*FY 2018-19*	*FY 2019-20*	*FY 2020-21 up to Nov 1, 2020*	*Total*
CHQ/ RHQ expenses approved in the Tariff Order of the Second Control Period	*13.00*	*13.50*	*14.20*	*14.90*	*15.60*	***71.20***
*CHQ/ RHQ – Admin & General expenses (allocation done by AAI) **(A)***	*52.47*	*55.77*	*50.47*	*65.10*	*33.63*	***257.44***
*Revised allocation of CHQ/ RHQ expenses by the Authority **(B)***	*42.88*	*43.89*	*40.09*	*54.15*	*17.06*	***198.07***
*Variance **(A-B)***	*9.59*	*11.88*	*10.38*	*10.95*	*16.57*	*59.37*

Reference: Para 7.2 of the Study on Efficient Operation and Maintenance Expenses for CCSIA, Lucknow.

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 CCSIA, Lucknow. 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."

2.4.1.2 AAI's Submission

2.4.1.3 It is important to note that the pay and allowances of employees involved in ATM, CNS, and Cargo departments at CHQ and RHQ are essential for the efficient operation of airports. Thus, excluding support services of the departments relating to HR, Finance, Civil, Terminal Management (Housekeeping), etc. for pay and allowances allocation is unfair as these services also support the airport's operations.

2.4.1.4 Regarding Legal & Arbitration Expenses, the Authority should consider allocating these expenses to the stations based on a fair and transparent analysis rather than a case-to-case basis.

2.4.1.5 While it is important to rationalize costs and operate efficiently, the Authority should ensure that the allocation of expenses is fair, transparent, and reflects the actual costs incurred by each airport. Therefore, we request the Authority to revisit the methodology used to derive the revised CHQ and RHQ expenses for the Pre-COD period and consider a fair and transparent allocation of expenses to each airport.

2.4.1.6 In this regard, AAI wish to highlight that AAI is an entity that has been established by an Act of Parliament, and after the audit by the Comptroller and Auditor General (C&AG), its accounts are presented before the Parliament. This indicates that AAI is a government-owned organization that is accountable to the Parliament of India.

2.4.1.7 AAI has been consistently following a particular methodology/formula for the allocation of CHQ and RHQ expenses to all profit centers. This methodology has also been adopted while finalizing and submitting the tariff proposals for AERA in the past. As per this approach, CHQ expenses (net off of revenue) are allocated to all profit centers of AAI based on revenue earned. Similarly, RHQ expenses (net off of revenue) are allocated to all profit centers under the respective region on the basis of revenue earned. Finally, CHQ and RHQ expenses are allocated to profit centers based on this methodology.

2.4.1.8 AERA has considered the above approach in the past while determining tariffs for Amritsar, Raipur, Trichy, Pune, Chennai and Varanasi airports. However, for determining tariffs for Lucknow Airport, a change in approach has been proposed. The proposal suggests that AERA may consider the lower of actual/approved apportionment expenses as per the Second Control Period Order.

2.4.1.9 As the policy is uniform for AAI as a whole, a change in approach or methodology between airports during the control period would result in under-recovery of CHQ/RHQ apportioned expenses at Lucknow Airport. This means that if AERA adopts a different approach for determining tariffs for Lucknow Airport, the CHQ/RHQ apportioned expenses at Lucknow Airport would remain under-recovered. Therefore, it is being suggested that AERA should maintain consistency in its approach and methodology while determining tariffs for different airports.

2.5 Return on Land

2.5.1 Disallowance of unamortized portion of Land

2.5.1.1 AERA's Contentions

"4.10 True up of Unamortized value of Land

4.10.1 The Authority notes that AAI has invested in the Land of CCSIA, Lucknow for ₹ 16.81 Crores during the period FY 2009-10 to FY 2012-13. This includes cost of acquisition of freehold land of 26.85 acres. AAI has claimed the balance cost of Land (which is ₹ 16.28 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 (In the matter of determination of Fair Rate of Return (FRoR) to be provided on the Cost of Land incurred by various Airport Operators in India) 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."

4.10.2 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 (₹ 16.28 Crores), as part of its true up submission for the pre-COD period."

2.5.1.2 AAI's Submission

2.5.1.3 In Order No. 42/2018-19 dated March 5, 2019 specifies that

"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."

2.5.1.4 AAI is the Airport Owner and Asset has been given to the Airport operator (AO), Order no. 42 of the regulator is silent on the amortization of the balance cost of land, in case of land is used by the AO. Furthermore, it is important to note that the land has not been transferred by AAI to the Airport Operator, and therefore, it is reasonable for AAI to expect compensation for the cost of land incurred during the pre-COD period.

2.5.1.5 In conclusion, AAI has invested a significant amount in the land of CCSIA, Lucknow, and it is reasonable for AAI to expect compensation for the cost of land incurred during the pre-COD period. Therefore, the Authority should consider the amortization of the balance cost of land claimed by AAI as part of its true up submission for the pre-COD period.

2.6 Opening RAB

2.6.1 Reclassification of Opening RAB

2.6.1.1 AERA's Contentions

"As per Study conducted on allocation of assets dated 12th September 2022

4.5.1. The Study proposes to review the classification of assets capitalised prior to March 31, 2016 (as per the Tariff Order for the Second Control Period) in order to ensure consistency with the classification of the asset additions during the Second Control Period."

2.6.1.2 **AAI's Submission**

2.6.1.3 The Study should consider the reasons for any changes in classification between the assets capitalized prior to March 31, 2016, and those added during the Second Control Period. Citing consistency as the basis and proposing to review the classification prior to March 31, 2016, without getting into the details, in the view of AAI may lead to inaccurate financial reporting.

2.6.1.4 It is imperative that the Study conducts a thorough review of asset classification with a comprehensive analysis of all relevant information available.

2.6.1.5 Ultimately, the Study should prioritize accuracy and consistency in financial reporting over expediency, and ensure that any modifications made to asset classification are made with due diligence and care.

2.7 Return on Equity

2.7.1.1 **AERA's Contentions**

"4.7 True up of Fair Rate of Return (FRoR)

4.7.1 The Authority notes that AAI had not availed any debt during the Pre-COD period. At the time of determination of tariff for the Second Control Period, the Authority had decided to consider FRoR for CCSIA as 14%. In line with its decision, the Authority proposes to consider the FRoR at 14% for true up of the Pre-COD period."

2.7.1.2 **AAI's Submission:**

2.7.1.2.1 AAI noted that AERA has considered average cost of Equity as 15.18% per Annum for the Airport operator, extracts from Consultation paper as follows:

"Authority's Examination of FRoR for the Third Control Period - **Cost of equity**

8.2.1. The Authority had commissioned independent studies for the evaluation of cost of capital separately, in case of each PPP Airport, namely DIAL, MIAL, GHIAL, BIAL and CIAL through a premier institute, namely IIM Bangalore and proposes to use these study reports as a basis, to the extent applicable and relevant, to ascertain the Cost of equity of CCSIA for the Third Control Period.

8.2.2. The independent study reports have drawn from the international experience of airports and their conclusions have been evaluated to the extent comparable with CCSIA in terms of hybrid till, ownership structure, size, scale of operations and regulatory framework. The median and average Cost of equity arrived at by the independent study reports are 15.16% and 15.18%, respectively, as shown in the table below:

Table 88: Computation of Cost of equity as per IIM Bangalore independent study reports

Particulars	CIAL	MIAL	BIAL	DIAL	GHIAL	Average
Risk-free rate (A)	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%
Equity beta (B)	0.9427	0.9391	0.9732	0.9296	0.9442	0.94576
Equity risk premium I	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%
Cost of equity $A + B * C$	15.16%	15.13%	15.40%	15.05%	15.17%	15.18%
Average Cost of equity						15.18%

2.7.1.2.2 Cost of equity considered for AAI is **14%** PA, AAI submits that the underlying the asset, risk profile, risk premium of the Airport, etc., are similar across different airports comparable to the Private airports.

2.7.1.2.3 The contention of AERA is that AAI doesn't have an optimum debt equity ratio.However no norms have been fixed by AERA

2.7.1.2.4 Further cost of Equity considered by AERA for this airport is 14% Pre-COD and 15.18% post-COD. It is requested that AERA may Revisit the Cost of Equity as there cannot be different cost of Equity for the same airport.Hence AAI requests the Authority to provide for CoE at 15.18 % in line with other airports, and accordingly an FRoR of 15.18%.

2.8 Normative Cost

AERA's Contentions

v. **Determination of allowable project costs of T3 by the Authority**

- **The Normative cost approved by the Authority vide its Order No. 07 / 2016-17dated June 6, 2016 for Terminal Buildings is ₹ 65,000/- per Sq.m. The cost of following items of specification have been considered for analysis of the prescribed rate per Sq.m.- cost of terminal building, air conditioning, fire-fighting system, water supply, sanitary, substation equipment for power supply including stand by system, passenger facilities viz FIDS, Furniture, Signages and Security surveillance, airlines related services viz Check-in, CUTE, CUSS and Baggage Reconciliation System, In-line X ray screening, Standalone screening , BHS for arrival and departure, Escalators, Elevators, Travelators and PBB are included. However, the cost of Elevated and other roads connected with the Terminal Building is not part of the Normative rate and has been considered separately. The cost of other items, required for the Terminal Building, but which are not covered in the aforementioned list, will be derived separately and added to the overall cost of the project.**
- **In this respect, the Authority notes that it has considered a normative cost of ₹100,000 per Sq.m in some of the recent tariff orders, based on the superior specifications, processes and the architectural features of modern Terminal Buildings. Further, the Authority feels that as the work on new Terminal Building projected by the Airport Operator would be carried out over the first 4 FYs of the Third Control Period, it would be reasonable and justifiable to derive the project cost based on inflation-adjusted normative cost up to FY 2025-26 (using WPI inflation index) to address the time value of money.**

Inflation-adjusted Normative cost of T3 project

- **The Authority has derived the inflation adjusted normative rates for Terminal Building for the current Control Period by considering the rate of inflation as follows:**
- **FY 2021-22 –The Authority observes that FY 2021-22 was an exceptional year due to COVID -19 pandemic, wherein the inflation rate was 12.97%. However, during the period FY 2016-17 to FY 2020-21, the rate of inflation was in the range of 1.31% to 4.26%. Considering this extraordinary situation, the Authority feels that the inflation rate of FY 2021-22 needs to be rationalized. Hence, instead of considering the inflation rate of 12.97% for FY 2021-22 (as per press release dated April 18, 2022 by Dept. for Promotion of Industry and Internal Trade, Government of India), the Authority has considered the average rate of**

inflation of FY 2020-21 (1.29%)[9] and of FY 2021-22 (12.97%), which works out to 7.14%. The Authority has considered this average rate of inflation for FY 2021-22, in order to smoothen out the volatility in commodity price caused by COVID-19 pandemic and the supply side disruptions.

- **FY 2022-23 – 10.40% (considered as per 79th Round of Survey of Professional Forecasters on macroeconomic indicators) and**
- **FY 2023-24 to FY 2025-26 – 5.0% (considered as per 79th Round of Survey of Professional Forecasters on macroeconomic indicators). The inflation adjusted normative costs, thus derived is presented in the below table:**

Table 64: Details of Inflation-adjusted Normative rates derived by the Authority

Particulars	Inflation adjusted normative rates (in ₹)
FY 2021-22	1,07,140.00
FY 2022-23	1,18,283.00
FY 2023-24	1,24,197.00
FY 2024-25	1,30,407.00
FY 2025-26	1,36,927.00

- **The built-up area in Phase 1 of the Terminal Building is 1,17,674.69 sqm, and the additional area in Phase 2 is 33,529.88 as per drawings provided by the AO.**
- **Based on the above details, the normative cost of the Terminal Building derived by the Authority is as follows:**

Phase 1 of the T3 project (Expected to be completed by end of FY 2023-24 and capitalized in the First Quarter of FY 2024-25):

- **Inflation adjusted normative cost for FY 2023-24* (A) = ₹ 1,24,197.00 per sqm**
- **Add GST @ 6% (refer Note below) (B) = ₹ 7,452 per sqm**
- **Normative cost including GST (C = A+B) = ₹ 1,31,649.00 per sqm**
- **Cost of terminal building = 1,17,674.69 sqm (terminal area) x ₹ 1,31,649.00 (normative rate per sqm) = ₹ 1,549.18 Crores.**

Normative costs including applicable taxes such as GST (Phase 1) = ₹ 1,549.18 Crores.

** The Authority has applied the Normative rate of FY 2023-24 for determining the Normative cost of the Phase 1 of T3 project, as the Authority feels that construction of the Phase 1 of the project (civil, electrical works etc) would be substantially completed by the end of FY 2023-24 (as stated in para 7.3.4 A2 (iv) above). The Authority requests the stakeholders to provide their comments on the same, which the Authority would examine and address at the time of finalization of Tariff Order for CCSIA, Lucknow Airport.*

Note: In the Order No.7/2016-17 dated June 13, 2016 on "In the matter of Normative Approach to Building blocks in Economic Regulation of Major Airports- Capital costs Regarding", the ceiling cost mentioned is inclusive of taxes applicable at that time, which is 12%. Subsequently, GST has been introduced wherein the GST rate is 18%. Hence, on the inflation adjusted normative cost worked out above, differential tax @ 6% will be paid extra.

te of inflation considered as per press release dated April 18, 2022 by Dept. for Promotion of Industry and Internal Trade, rnment of India.

The above derived normative costs are exclusive of the cost of elevated and other roads, cost of PMC, Pre-operatives & other contingencies and the costs of certain additional airport requirements such as i) Art Work and ii) Landscaping costs.

Considering the above factors, the Authority proposes to include the cost of art work, landscaping and elevated and other roads associated with T3 to derive the allowable cost of Phase I of new Terminal Building T3, as shown below:

Table 65: Details of Normative cost of Phase I of T3 derived by the Authority

Particulars	Ref.	Amount (₹ Crores)
Normative costs of the Terminal Building derived by the Authority (Phase 1 of the Project)	A	1,549.18
Add: cost of Art Work (refer Note (i) below)	B	10.00
Add: Landscaping costs (refer Note (ii) below)	C	5.00
Add: Elevated and other roads associated with T3 (refer para A7 (b))	D	345.00
Total allowable costs of Terminal Building – T3 of CCSIA (Sum A:D)		**1,909.18**
Allowable Aeronautical costs – determined based on revised Terminal Building ratio of 90:10		**1,628.26**

3.8.1.1 AAI's Submission:

AAI noted that AERA has considered normative cost of Rs 100000 per sqmt for Terminal Building in the FY 2020-21 and further inflated as per table 64 . AERA has followed inconsistent approach in calculating normative cost of Terminal Building as can be seen that in AAI major airports the amount of Rs 100000/- per sqmt has been considered in the FY 2022-23 and FY 2023-24 without considering the inflationary effect as per table given below

Sl no	Airport	Order No	Page	Year
1	Amritsar	56/2020-21	45& 46	2022-23
2	Varanasi	59/2020-21	42	2023-24
3	Patna	13/2019-20	34-35	2022-23
4	Trichy	55/2020-21	42-43	2022-23
5	Bhubaneshwar	46/2018-19	37&45	2022-23

AERA is requested to adopt uniform approach while considering normative cost for all major airports. Further it is also requested to consider the differential GST cost @ 6% and cost of Art work,Landscaping etc as considered in the Lucknow airport while calculating normative cost of Terminal Building of AAI major airports.

4 Annexures

Annexure II D: Staff Quarters

Asset Class Name	Asset	Classification	Asset Description	Aero %	Net Asset value as on November 1, 2020	RAB as on November 1, 2020	Reclassification	Aero %	Revised RAB as on November 1, 2020	Impact on RAB
Building Freehold	50008253	Common	M/S Rakesh Tradersconst. of Car Garrage	39%	19,051	7,348	Common	81.58%	15,541	-8,193
Building Freehold	50008266	Common	M/S Sh. A.K.Tripathiconst. of Scooter Garage	39%	4,88,016	1,88,235	Common	81.58%	3,98,124	-2,09,889
Building Freehold	50008267	Common	M/S A.K.Tripathiconst. of Residential Qtrs	39%	3,77,121	1,45,461	Common	81.58%	3,07,655	-1,62,194
Building Freehold	50008470	Common	M/S Rakesh Tradersc/O New Community Hall	48%	7,94,001	3,82,822	Common	81.58%	6,47,746	-2,64,924
Building Freehold	50008316	Common	Scooter Garagem/S Rakesh Traders	39%	3,26,870	1,26,079	Common	81.58%	2,66,661	-1,40,582
Building Freehold	50008524	Aero	Shivam Enterprises - C/O Septic Tank For Cisf being	100%	7,92,829	7,92,829	Common	81.58%	6,46,790	1,46,039
Building Freehold	50010375	Aero	Footpath Around Aai Colony	100%	13,37,616	13,37,616	Common	81.58%	10,91,227	2,46,389
Total						29,80,390			33,73,745	-3,93,355

Annexure II E: Plumbing and Electrical works for Airport

Asset Class Name	Asset	Classification	Asset Description	Aero %	Net Asset value as on November 1, 2020	RAB as on November 1, 2020	Reclassification	Aero %	Revised RAB as on November 1, 2020	Impact on RAB
Building Freehold	50007235	Aero	Const. of Overhead Tank Of 5000 Gallonsconst.	100%	-	-	Common	92.50%	-	-
Building Freehold	50008203	Aero	Water Supply in Residential Building water Supply I	100%	-	-	Common	92.50%	-	-
Building Freehold	50007263	Aero	Storage Tank at Term Build. Storage Tank At Term Bu	100%	-	-	Common	92.50%	-	-
Building Freehold	50007533	Aero	M/S Sharaf Aliconstruction Of Ccr & Dg Set Room	100%	6,17,159	6,17,159	Common	92.50%	5,70,872	46,287
Building Freehold	50007716	Aero	U.P.Jal Nigam construction of Tube Well In	100%	2,63,956	2,63,956	Common	92.50%	2,44,159	19,797

Asset Class Name	Asset	Classification	Asset Description	Aero %	Net Asset value as on November 1, 2020	RAB as on November 1, 2020	Reclassification	Aero %	Revised RAB as on November 1, 2020	Impact on RAB
Building Freehold	50007158	Aero	Capitalization made by Forrain Water Harvesting	100%	1,28,52,053	1,28,52,053	Common	92.50%	1,18,88,149	9,63,904
Building Freehold	50007783	Aero	Tub Well in Terminal Building CISF Barrack, Termina	100%	2,05,860	2,05,860	Common	92.50%	1,90,421	15,440
Building Freehold	50008342	Aero	Tub Well in Resi. Colony CISF Barrack, Terminal build	100%	4,45,301	4,45,301	Common	92.50%	4,11,903	33,398
Building Freehold	50010347	Aero	Drainage & Rain Water Harvesting System	100%	10,17,555	10,17,555	Common	92.50%	9,41,239	76,317
Total						1,54,01,885			1,42,46,744	11,55,141

Annexure II-F: Furniture

Asset Class Name	Asset	Classification	Asset Description	Aero %	Net Asset value as on November 1, 2020	RAB as on November 1, 2020	Reclassification	Aero %	Revised RAB as on November 1, 2020	Impact on RAB
Furniture & Fixtures	110011163	Aero	Regency Chair High Back	100%	1,71,883	1,71,883	Common	96.28%	1,65,489	6,394
Furniture & Fixtures	110011164	Aero	Four Door Book Case	100%	76,398	76,398	Common	96.28%	73,556	2,842
Furniture & Fixtures	110011165	Aero	Regency Visitor Chair	100%	-	-	Common	96.28%	-	-
Furniture & Fixtures	110011166	Aero	Revolving Chair	100%	-	-	Common	96.28%	-	-
Furniture & Fixtures	110011162	Aero	Almirah Godrej Store well	100%	38,347	38,347	Common	96.28%	36,920	1,426
Furniture & Fixtures	110011160	Aero	Table With Eru	100%	23,077	23,077	Common	96.28%	22,219	858
Furniture & Fixtures	110011161	Aero	Godrej Interio Computer Table	100%	-	-	Common	96.28%	-	-
Furniture & Fixtures	110008701	Aero	Mahadevi Furnishers supply of Godrej Furnishers Bil	100%	35,253	35,253	Common	96.28%	33,942	1,311
Furniture & Fixtures	110008738	Aero	Metal Beauty supply Of Screen Bill No. 17 Dt 07.02.	100%	5,890	5,890	Common	96.28%	5,671	219
Furniture & Fixtures	110009758	Aero	Zoeftig Bradyssupply Of Chairs (Dr/Cr Note From Rh	100%	5,151	5,151	Common	96.28%	4,959	192
Furniture & Fixtures	110012952	Aero	Integrated Office Complex - Misc Works - Blinds	100%	5,08,906	5,08,906	Common	96.28%	4,89,975	18,931
Furniture & Fixtures	110012953	Aero	Intgd Off Complex - Sun Control And Translucent Fi	100%	2,90,388	2,90,388	Common	96.28%	2,79,585	10,802
Furniture & Fixtures	110013069	Aero	Intgd Off Comp - Furniture	100%	58,44,790	58,44,790	Common	96.28%	56,27,364	2,17,426
Furniture & Fixtures	110015140	Aero	Furniture For Meeting Hall, Cip Lounge & Check In	100%	7,78,937	7,78,937	Common	96.28%	7,49,961	28,976
Furniture & Fixtures	110016462	Aero	Three Seater Chairs	100%	14,45,827	14,45,827	Common	92.50%	13,37,390	1,08,437
Furniture & Fixtures	110015132	Aero	Decorative Furniture For Terminal T-2	100%	2,46,849	2,46,849	Common	92.50%	2,28,336	18,514
Furniture & Fixtures	110016463	Aero	Three Seater Chairs	100%	12,89,627	12,89,627	Common	92.50%	11,92,905	96,722
Furniture & Fixtures	110017252	Aero	Stainless Steel Chair in city side area	100%	7,98,402	7,98,402	Common	96.28%	7,68,702	29,701
Total						1,15,59,725			1,10,16,972	5,42,753