F/No. AAI/JVC/Srinagar-Tariff/2023-24/979 Date: -02.08.2023

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

Subject: -Submission of Multi Year Tariff Proposal (MYTP) for 3rd control period (01.04.2021 to 31.03.2026) and True-up of 2nd control period (01.04.2016 to 31.03.2021) in respect of Srinagar Airport.

Reference: -Submission of AAI's comments in response to consultation paper no 04/2023-24 in respect of Srinagar Airport issued by Airport Economic Regulatory Authority of India (AERA).

Sir,

This has reference to AERA's consultation paper no 04/2023-24 dated 05.07.2023 in the matter of determination of Aeronautical tariff in respect of Srinagar Airport for the 3rd control period (01.04.2021 to 31.03.2026).

AAI's response to consultation paper No. 04/2023-24 is enclosed.

This issues with the approval of the Competent Authority.

Thanking You.

Yours faithfully,

2/08/23

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

Encl: -1. Response to Consultation Paper no 04/2023-24
2. Summary of AAI Response to CP

SRINAGAR INTERNATIONAL AIRPORT

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 04/2023-24 dated 05th July 2023 Determination of Aeronautical Tariff for Srinagar International Airport (SXR) for the Third 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. 04/2023-24 on Aeronautical services in respect of Srinagar International Airport (SXR) for Third Control Period (01.04.2021 to 31.03.2026), ('Consultation Paper' or 'CP') on 05th July 2023.

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

2. True- Up the Second Control Period (SCP)

i. Exclusion of FY 2020-21 in True Up [Para 4.10 and 4.11 of CP]

AERA's Contentions

As stated in para 1.2.4, Srinagar International Airport had become a Non-Major Airport in FY 2020-21, as its passenger throughput during FY 2020-21 was lesser than the threshold limit of 3.5 MPPA defined under the AERA Amendment Act, 2019. Therefore, the Authority proposes not to consider the under-recovery for the FY 2020-21 for true up of the Second Control Period, while determining tariff for the Third Control Period.

Simultaneously, the Authority proposes to calculate compounding of Under-recovery for the FY 2016-17 to FY 2019-20 by excluding compounding impact for FY 2020-21 (as the Airport had been a Non-Major Airport during FY 2020-21).

Particular	2016-17	2017-18	2018-19	2019-20	Total
Avg. RAB	89.50	82.99	76.02	76.44	324.95
FROR	14%				
Return on Avg RAB	12.53	11.62	10.64	10.70	45.49
Depreciation	8.58	8.66	10.42	5.64	33.30
O&M Expense	22.84	28.01	36.59	44.85	132.29
Tax	-	-	-	-	-
Under Recover of FCP	177.10	-	-	-	-

Particular	2016-17	2017-18	2018-19	2019-20	Total
30% NAR	2.60	2.61	4.58	8.50	18.29
ARR	218.44	45.68	53.08	52.70	369.89
Actual Aero Revenue	9.87	21.37	51.68	58.24	141.17
Discount Factor at 14%	1.69	1.48	1.30	1.14	
Discounted Aero Revenue	16.67	31.66	67.17	66.39	181.90
Discounted ARR	368.94	67.67	68.98	60.07	565.66
Under/(Over) Recovery	**352.26**	**36.01**	**1.81**	**(6.32)**	**383.76**

- The Authority notes that the Under-recovery of ₹ 383.76 Crores (in NPV terms) of the Second Control Period has not factored the Under-recovery and compounding effect of FY 2020-21, as Srinagar International Airport was a Non-Major Airport during FY 2020-21. The Authority proposes to readjust the above Under-recovery of the Second Control Period in the ARR computation of the Third Control Period.

AAI's Submission

- MoCA vide letter No.AV 20036/9/2017-AD dt. 14th January 2020 has clarified that tariff would continue to be applicable for the 2nd Control Period i.e. Upto 31st March 2021 and the tariff for the next control period would be determined based on the passenger throughput criteria as defined in the AERA Act. It is understood from MOCA's letter that the tariff includes true up of the previous control period (01/04/2016 to 31/03/2021) so that the airport operator need not go through the loss due to change in law on account of AERA act amendment . Whereas AERA vide order 04/2023-24 has considered a the period of only 4 years (from 2016-17 to 2019-20) while truing up the 2nd Control Period leaving a gap of 1 year.
- This has resulted in **under recovery of Rs. 39.58 Cr of FY 2020-21 which AAI will never be able to recover which is as under: .**

As per Table 2 of Consultation Paper 04/2023-24	In INR Crore
Return on Average RAB	11.75
Operating Expenditure	57.25
Depreciation	6.64
Less 30% of NAR	2.32
ARR	73.32
Aeronautical Revenue	38.64
Shortfall	34.72
PV of Shortfall	**39.58**

- In view of the above AERA is requested to consider the entire period of 2nd CP (01.04.16 to 31.03.2021) for true up .

ii. Effect on compounding due to exclusion of FY 2020-21 in True Up [Para 4.10 and 4.11 of CP]

AERA's Contentions

As stated in para 1.2.4, Srinagar International Airport had become a Non-Major Airport in FY 2020-21, as its passenger throughput during FY 2020-21 was lesser than the threshold limit of 3.5 MPPA defined under the AERA Amendment Act, 2019. Therefore, the Authority proposes not to consider the under-recovery for the FY 2020-21 for true up of the Second Control Period, while determining tariff for the Third Control Period.

Simultaneously, the Authority proposes to calculate compounding of Under-recovery for the FY 2016-17 to FY 2019-20 by excluding compounding impact for FY 2020-21 (as the Airport had been a Non-Major Airport during FY 2020-21).

AAI's Submission

- Srinagar was originally major airport during the second control period but due to change in limits of passenger throughput from 1.5 MPPA to 3.5 MPPA, AERA has considered Srinagar for FY 2020-21 as non-major airport and this year was considered outside AERA's regime.
- Irrespective of whether FY 2020-21 is considered as Major/Non major , the shortfall of the previous years of the control period in which AAI was a Major airport should be compounded in FY 2020-21 till the effective date of the revised tariff as per AERA order. This impact due to not compounding in FY 2020-21 has resulted in loss of Rs. 53.73 Cr. to AAI .

- It is also very pertinent to mention that AERA has carried forward a shortfall of Rs. 177.10 Crores in the first control period to the second control period. AAI ought to get the compounding for the entire second control period till the year of implementation of tariff.

PV of Shortfall as per AAI						
YEAR	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Total**
Short fall	208.57	24.31	1.4	-5.54	0	228.74
Compounding year	5	4	3	2	1	
PV Factor	1.93	1.69	1.48	1.30		6.40
PV of Shortfall *(B)*	401.58	41.06	2.07	-7.20		437.52
Diff in PV of Shortfall *(B-A)*	49.32	5.04	0.25	-0.88	0.00	**53.73**

In view of the above, AERA is requested to consider the effect of compounding in FY 2020-21.

iii. Financing Allowance
[Para 4.4.7 of CP]

AERA's Contentions

- The Authority noted that AAI has claimed Financing Allowance of amount Rs.0.61 Crore on the assets capitalized in the Second Control Period.
- The Authority considers that giving an assured return on the equity investment even on the work-in-progress assets would result in reducing the risks associated with equity investment in capital projects. Further, the airport operator is given a fair rate of return on equity when the capital assets are capitalised.
- Further, the Authority notes that developments at greenfield airports inherently take longer durations to commission and operationalise. Thus, airport operators would have to wait for a considerable duration before getting returns on large capital projects. Keeping this in view, the Authority had earlier provisioned for financing allowance in initial stages to such airports. It may be further noted that the Authority has never provided financing allowance in the case of brownfield airports. The Authority also notes that SXR being one of the older airports in India (being declared a 'Major Airport' back in 2005), would not be eligible for an allowance on the equity portion of new capital projects.

  Also, the Authority notes that Financing allowance is a notional allowance and is different from the actual investment incurred by airport operators which includes interest during construction, amongst other things. Therefore, the provision of financing allowance on the entire capital work in progress would lead to a difference between the projected capitalisation and actual cost incurred, especially when the airport operator funds the projects through a mix of equity and debt.

AAI's Submission

- Direction 5 of 2010-11 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.
- The concept of Financing Allowance, its computation and how the Work in Progress Asset includes the Financing Allowance is provided in Paragraph 5.2.7 of the Direction No.05-2010-11. Extract of the same is provided below: *"5.2.7. Work In Progress assets (a) Work in Progress Assets (WIPA) are such assets as have not been commissioned during a Tariff Year or Control period, as the case may be. Work in Progress assets shall be accounted for as:*

  WIPAt = WIPAt-1 + Capital expenditure + Financing allowance – Capital receipts of the nature of contributions from stakeholders (SC) - Commissioned Assets (CA)

  Where:

  WIPAt = Work in progress Assets at the end of Tariff Year t

  WIPAt-1 = Work in progress Assets at the end of the Tariff Year t-1

  Capital Expenditure= Expenditure on capital projects and capital items made during Tariff Year t.

  The Financing allowance shall be calculated as follows:

$$\text{Financing Allowance} = R_d \times \left(\text{WIPA}_{t-1} + \frac{\text{Capex} - \text{SC} - \text{CA}}{2}\right)$$

  Where

  Rd is the cost of debt determined by AERA according to Clause 5.1.4.

  SC are capital receipts of the nature of contribution from stakeholders (including capital grants and subsidies) pertaining to the capital expenditure incurred in Tariff year t.

  CA are Commissioned Assets which pertain to the accumulated value of the WIPA attributable to all assets that have been put into effective operation during Tariff Year t.

- AERA has further provided an Illustration on Page 28 of the *Guidelines* detailing the working. The extract of the illustration is as follows:

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

Forecast Work in Progress Assets

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

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

- Further, Para 5.2.5 of Direction No. 05 details the forecasting of RAB wherein the commissioned assets (including the Financing Allowance on the assets, when it was in Work in Progress stage) has been added to RAB and forms part of the closing and average RAB workings. The Illustration 4 in Page 23 is given below:

Forecast RAB

		2010-11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening RAB_{t-1}	OR	22,750	20,500	18,826	16,462	13,998	12,277
Commissioned Assets	CA	-	633	-	-	681	-
Depreciation	DR	2,250	2,307	2,364	2,364	2,402	731
Disposals	Di	-	-	-	100	-	-
Incentive Adjustments	IA	-	-	-	-	-	-
Closing RAB_t	CR=OR+CA-DR-DI+IA	20,500	18,826	16,462	13,098	12,277	11,547
RAB for calculating ARR	RA=(OR+CR)/2		19,663	17,644	15,230	13,138	11,912

- The Clause (d) of Para 5.2.6 defines Commissioned Assets as below:
  "Commissioned Assets: Represents investments brought into use during Tariff Year t, consistent with Clause 5.2.7 herein below."

- Thus, from the above clauses it is clear that the Financing Allowance is computed on the Work in Progress balance based on Capital Expenditure incurred which is funded by Equity/Internal accruals and is capitalized as part of Commissioned assets for RAB Computation. In the case of AAI, financing allowance is computed on the equity portion and IDC is computed on the debt portion of the capital spend.

- Thus, Direction 5 provides an explicit, detailed elaboration of Financing allowance. Manner and formulae of computation and addition of the "commissioned assets" into RAB including the Financing allowance are elucidated in detail with examples is contained in the same Direction.
- The regulatory principles laid down by AERA and based on which the tariff orders are determined, provide a fundamental foundation of the regulatory clarity to the stakeholders on the manner in which different components of costs and revenues are treated. Following are the examples and extracts of inclusion of financing allowance in RAB by AERA in various Orders:

- **CIAL 3rd CP 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 Crore in FY 2020-21 as Financing Allowance for true up of 2nd CP. Accordingly, AERA recomputed FA based on actual WIP capitalized and allowed for inclusion in the true up amount.

- **BIAL 3rd CP 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.

- **MIAL and DIAL:** It is further to be noted that MIAL and DIAL are governed by tariff determination principles set forth in SSA and OMDA. SSA and OMDA do not contain the concept of financing allowance. Hence, AAI submits that these 2 airports are not comparable with AAI airports.

AAI's Request

- 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 amounts to contradiction of AERA's own guidelines Further, by treating the Financing Allowance proposed by private airports and AAI airports differently vitiates the services expected to be provided by the airport and violates the principle that allows a level playing field for all airports. Also, AAI airports would be denied of revenues that they are rightfully entitled to.
- **AAI therefore requests AERA to consider the financing allowance of Rs. 0.61 Crore computed for SCP additions.**

iv. Carry Forward of prior period losses (taxation) to TCP [Para 4.8 & 11.2 of CP]

AERA's Contention

AERA has calculated the Prior period losses of 2nd Control Period of Rs. 79.80 Crore. The said amount has been carried forward to the 3rd Control Period which along with the Prior period losses of 1st Control Period of Rs. 15 Crore bringing the total to Rs. 95 crores.

As per table 56 of the consultation paper, the above mentioned carried forward amount has been offset against the Prior period losses of TCP up to 2023-24.

AAI's Submission

AERA has neither considered the ARR of 2020-21`nor the impact of compounding for the FY 2020-21. However, AERA has offset the loss of Rs.27.09 Crores for the FY 2020-21 in the third control period. It is surprising to observe that while the entire FY 2020-21 has not been considered at all by AERA in the tariff workings, whereas only the loss of FY 2020-21 has been considered to be offset in the TCP.

Hence, AERA is requested to not carry forward the Prior period losses of 2020-21 to TCP and follow a single logical approach.

v. Pay & Allowances of CHQ/RHQ [Para 3.7.19 & 3.7.20 of CP]

AERA's Contentions

With respect to the apportionment of pay and allowance costs incurred at the CHQ, the Authority has the following observations:

Payroll expenses: The Authority notes that the actual total payroll expenses submitted by AAI for Srinagar International Airport (₹ 55.21 crores) is within the expense approved by the Authority in the Tariff Order of the Second Control Period (₹ 65.4 crores). Therefore, the Authority proposes to consider the actual payroll expenses of FY 2016-17 to FY 2020-21 for true up of the Second Control Period.

- The Authority examined the actual **Administration and General expenditure and Repair & Maintenance expenditure** for the Second Control Period and noted the following: o **CHQ/ RHQ allocation** –. The Authority reviewed the basis adopted by AAI for allocation of CHQ and RHQ expenses to Srinagar 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 and has proposed the following views on allocation of CHQ/ RHQ expenses:

a) 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 of 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 is to be excluded towards the following:

i i. Support services to ANS, Cargo and Commercial at CHQ and Airports.

ii ii. Officials of Directorate of Commercial.

Balance 80% of pay and allowances of CHQ have been allocated to the Airports.
Further, the Authority notes that the cost of employees repatriated from Delhi Airport have been included under 'Pay and Allowances' of RHQ. Such employees mainly pertain to Fire and Non-Executive Cadre, who do not provide any services for Srinagar Airport. Also, the Authority understands that a portion of JVC employee costs were to be paid by DIAL as per Operation, Maintenance and Development Agreement (OMDA). However, AAI has not provided facts/details of costs reimbursed by DIAL.
The Authority, based on the above facts does not see any merit for inclusion of such cost relating to JVC cell in the tariff determination process or to provision of aeronautical services at the respective airports. Further, these expenses do not bear any cost-relatedness to the aeronautical services provided at the respective airports.
Therefore, based on the above factors, the Authority has rationalised the pay and allowances of RHQ, towards the following:

i Support services to ANS, Cargo and Commercial at RHQ and Airports.

ii Officials of Directorate of Commercial

iii Inclusion of JVC employee costs.

Accordingly, the balance pay and allowances of RHQ have been allocated to the Airport.

b) 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.

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 allocation of CHQ and RHQ expenses and the same is presented in the table below:

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21	Total
CHQ/ RHQ – Admin & General expenses (allocation done by AAI)	7.41	7.17	17.67	28.61	31.14	92.01
Revised allocation of CHQ/ RHQ expenses by the Authority	4.47	3.99	9.76	18.37	20.84	57.43
Variance	**2.94**	**3.18**	**7.91**	**10.24**	**10.30**	**34.58**

AAI's Submission

- AERA has reduced the allocation of Payroll Allowances of CHQ expenses to AAI by 20% on account of support to ANS, Cargo and Commercial at RHQ and inclusion of JVC employee cost. AAI has been submitting to AERA to reconsider the reduction in allocation from 20% to 5%.
- Further, AERA has reduced the allocation of CHQ/RHQ Administration and General Expenses to the tune of 40% for 2nd control period (FY 2016-17 to FY 2019-20). It is worthwhile to mention here that AAI has already consider 5% reduction while allocating the CHQ/RHQ expenditure and reducing further by 40% by AERA for the 2nd control period is on the higher side. **AAI has engaged the Institute of Cost Accountants (ICMA) (on direction of AERA) to study the methodology CHQ/RHQ allocations. The report will be submitted to AERA soon.**

Apportionment of Admn. & General exp of CHQ/RHQ in 2nd Control Period					
Year	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**TOTAL**
AAI (Table 13) [A]	7.41	7.17	17.67	28.61	60.86
AERA (Table 18)	4.47	3.99	9.76	18.37	36.59

Difference	2.94	3.18	7.91	10.24	24.27
%	40	44	45	36	**40**

- **AERA is requested to relook into the allocation of CHQ/RHQ expenses.**

vi. Repair and Maintenance Expense [Para 4.7.4 of CP]

AERA's Contentions

The Authority notes that the actual repair and maintenance cost for the SCP Rs. 38.20 Crore. On further examination of the actual Repairs & Maintenance expenses, the Authority notes that the same are higher than 6% of Opening Net Block (determined in line with the approach followed by the Authority in other similar airports). Therefore, the Authority proposes to rationalize the same by limiting the Repairs and Maintenance expenses to 6% of Opening RAB (Net Block) for all the 5 tariff years in the SCP.

AAI's Submission

The summary of AAI's and AERA's R&M Expense calculation is as under: -

R&M Expenses in 2nd Control Period					
Year	2016-17	2017-18	2018-19	2019-20	total
AAI (Table 13)	8.16	7.08	7.69	6.32	29.25
AERA (Table 18)	6.1	6.25	5.55	5.28	23.18
Difference	2.06	0.83	2.14	1.04	**6.07**

Disallowing actual expenditures incurred towards R&M defeats the purpose of performing true up. Further it discourages the Airport Operator to spend on R&M to maintain the quality standard and enhance the customer experience. R & M expenses are incurred at an airport based on the operational requirement at the airport. The R & M expenses at an airport would vary based on various factors including the location and other conditions at the airport. Capping the expenditure to 6 % of the opening RAB is not a logical approach as even when considering that the R & M is kept constant, in terms of %age, R& M expenses on Net RAB would keep increasing. (refer table below)

Particulars	Year1	Year2	Year3	Year4	Year5	Year6
Gross Block	100	100	100	100	100	100
Dep rate	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%
Dep CY	12.5	12.5	12.5	12.5	12.5	12.5

Particulars	Year1	Year2	Year3	Year4	Year5	Year6
Accumulated Depreciation	12.5	25	37.5	50	62.5	75
Net block	87.50	75	62.5	50	37.50	25
Fixed R&M	4	4	4	4	4	4
% R&M expenses on Net RAB	**4%**	**4.57%**	**5.33%**	**6.40%**	**8.00%**	**10.67%**

As R&M costs increase with life of assets due to wear and tear, AERA is requested to consider actual R&M instead of restricting it to 6% of opening RAB.

3.Third control Period (TCP)

i. Traffic for the Third Control Period
[Para 4.2.4,4.2.5, 4.2.6 & 4.2.7 of CP]

AERA's Contentions

- The Authority has taken note of AAI's comment regarding traffic for the Third Control Period. Considering the ongoing Covid-19 pandemic, the Authority has reviewed various reports by international agencies and its own traffic assessment based on discussion with various industry bodies. Based on this, the Authority projected passenger and ATM traffic for the Third Control Period Srinagar International Airport.
- Further, the Authority has also benchmarked the traffic growth rates Srinagar SXR with other comparable airports such as those of BIAL, CIAL and GHIAL. Since the tariff orders of these airports have been issued, a detailed stakeholder discussion has been conducted on the same, thus ensuring that the traffic growth rates at Srinagar SXR are in line with industry expectations.
  - The Authority notes that international passenger traffic at Srinagar Airport is insignificant (8,678 pax in FY 2021-22) and AAI has proposed 'nil' international passenger and ATM traffic from FY 2022-23 to FY 2025-26. The Authority observes that international traffic has been projected as 'nil' by AAI due to stoppage of the Haj movements on account of COVID-19 pandemic, which may vary year on year. The Authority has considered the actual traffic as per the AAI's website, for the FY 2021-22 and FY 2022-23 for deriving traffic forecast for the Third Control Period. The Authority notes that AAI has projected the growth rate of 10% for domestic passenger traffic and 8% for domestic ATM for the FY 2023-24 to FY 2025-26 in its MYTP, which is also in line with the 3-year CAGR, as there has been a growing trend in the passenger traffic and ATM in the recent past at Srinagar Airport. Based on the above factors, the Authority proposes to consider 12% Y-o-Y increase in domestic and international passenger traffic and ATM for FY 2023-24 to FY 2025-26.
- The Authority proposes to use the 3-year CAGR for projecting domestic passenger traffic and ATM for the last 3 tariff years (FY 2023-24 & FY 2025-26), as in the Authority's view the 3-year CAGR represents normalized economic scenarios, weeding out short-term macro-economic fluctuations. For International passenger traffic and ATM for the last 2 tariff years (FY 2024-25 & FY 2025-26), the Authority has considered a growth rate of 3% considering that the actuals in the past do not project any clear trend for estimation.

AAI's Submission

- AAI's projection for Pox and ATM for the F.Y. 2020-21 is almost near to actuals.
- The comparative growth of domestic and international traffic has been tabulated as under: -

	AAI	AERA	AAI	AERA	AAI	AERA	AAI	AERA
	Domestic		International		Total			
YEAR	PAX (in Lacs)	PAX (in Lacs)	PAX (in Lacs)	PAX (in Lacs)	PAX (in Lacs)		% Growth	
2021-22	31.5	31.5	0.09	0.09	31.59	31.59		
2022-23	34.27	43.98	0.00	0.12	34.27	44.1	8%	40%

	AAI	AERA	AAI	AERA	AAI	AERA	AAI	AERA
2023-24	37.69	49.26	0.00	0.13	37.69	49.39	10%	12%
2024-25	41.46	55.17	0.00	0.15	41.46	55.32	10%	12%
2025-26	44.37	61.79	0.00	0.16	44.37	61.95	7%	12%

Similarly, the comparative chart for ATM is as under:

	AAI	AERA	AAI	AERA	AAI	AERA	AAI	AERA
	Domestic		International		Total			
YEAR	ATM (in Thousand)	ATM (in Thousand)	ATM (in Thousand)	ATM (in Thousand)	ATM (in Thousand)		% Growth	
2021-22	24.37	24.37	0.08	0.08	24.45	24.45		
2022-23	24.67	29.82	0	0.15	24.67	29.97	1%	23%
2023-24	26.64	33.4	0	0.17	26.64	33.57	8%	12%
2024-25	28.77	37.4	0	0.19	28.77	37.59	8%	12%
2025-26	30.5	41.89	0	0.22	30.5	42.11	6%	12%

- AAI has projected 18.38 (Million Passenger) in TCP and 135.4 Thousand Aircraft movement whereas AERA has projected 24.2 (million Passenger) and 167.7 Thousand Aircraft movement for the entire TCP. Mainly AERA has projected 5.2 (million) more Domestic passenger.
- Srinagar Airport has achieved approx. 3.15 Million Pax and 24.5 Thousand Aircrafts Movements for the F.Y. 2021-22 which is in line with AERA projections. However, going forward the projections of AERA are on the higher side due to the following reasons:
    - i. Srinagar airport will not be able to handle 6.2MPPA as projected by AERA as the present capacity of TB is 2.5 MPPA and secondly there is limited apron and limited movement due to Srinagar Airport being a Civil Enclave and limited watch hours.
    - ii. In addition, the ATM movement is restricted by IAF to 04 Arrivals and 04 Departures per hour. Further, it is a hyper-sensitive airport, which restricts passenger throughput.
    - iii. The capacity of terminal building is limited and may not be able to cater to the traffic proposed by AERA.
    - iv. Govt. has already announced Rail connectivity from Jammu to Srinagar by end of the year, Passenger will have the option to reach Srinagar by train and it will also impact on growth of PAX & ATM.

It is requested that the revised projections submitted by AAI for the F.Y. 2022-23 to 2025-26 may be considered.

ii. Financing Allowance
[Para 4.4.7 & 6.3.7 of CP]

AERA's Contentions

- The Authority noted that financing allowance and the methodology for computation of the same is detailed by the Authority in the airport guidelines. However, the Airport Operator has computed financing allowance on the entire WIP amount being capitalised, whereas the Authority is of the view that such an allowance is essentially the IDC for a project and should be provided only on the debt portion of the project funds. Accordingly, the Authority has considered IDC to be provided based on revisions in the proposed capital expenditure discussed for the Third Control Period and the notional gearing considered for the Third Control Period.

AAI's Submission

- AAI submits that Direction 05 does not state FA is only for greenfield airports. Irrespective of whether it is brownfield or greenfield airports, there is outlay of funds for significant time when developing new terminals/runways/large project works. Even in CIAL and BIAL, FA has been considered till SCP. In this regard, level playing field may be ensured for AAI and private airports.
- There would be huge outlay of funds for 4th control period due to expansion of Terminal Building. We request AERA to refer to the detailed explanations provided in comments of the Second Control Period True up for consideration of FA.

iii. Capital Additions During TCP
[Para 5.2.37,5.2.38,5.2.52,5.2.60 of CP]

AERA's Contentions

[Para 6.3.5 of CP]

Construction of CISF Barracks

The Authority notes that CISF had been deployed at Srinagar Airport on February 26, 2020, as the same is a hypersensitive airport due to its strategic location. Earlier, Security was handled by CRPF who had **their own accommodation.** The Authority also notes that, as per the information provided by AAI, in the meeting chaired by Chairman AAI on September 6 2022, it was decided to prepare an additional concept of Passenger Terminal Building (PTB), including densification of AAI Colony and construction of CISF Barracks.

The constitution of the new PTB is expected to start only in FY 2024-25. Further, as informed by AAI vide email dated April 17, 2023, the land is yet to be handed over by BSF to AAI. Based on the above factors and considering the hypersensitive nature of the Airport, in the background of safety and security of operations, the Authority proposes to consider the above CAPEX on actual incurrence basis, if incurred in this Control Period, at the time of true up of the Third Control Period, while determining tariff for the Fourth Control Period for Srinagar International Airport, subject to reasonableness and efficiency.

AAI's submission:

Earlier it was proposed to construct the CISF barrack on the land proposed to be taken over from BSF. Considering the operational requirement, **it is proposed to construct the CISF barracks on available AAI land only and hence will be constructed by 2025-26.** AERA is requested to consider the same in the third control period.

(Para6.3.5 of CP)

Densification of Residential Colony

The Authority notes that AAI has proposed this project for ₹ 62.29 crores for capitalisation in the FY 2024-25. The Authority notes that there is a small residential colony of 6.45 acres and for better utilisation of this land, AAI had decided to go for multistoried blocks and has prepared a concept plan

However, the Authority notes that in the meeting chaired by Chairman, AAI on September 6, 2022, it was decided to prepare an additional concept of Passenger Terminal Building including densification of AAI Colony and CISF Barracks.

The Authority also notes that the land/ location is yet to be finalized and the A/A & E/S has not yet been granted. Further, as informed by AAI vide email dated April 17, 2023 the above-mentioned project on densification of AAI Colony is proposed to be undertaken along with the project on expansion of Terminal Building. Considering the complex nature and the current status of this project, the Authority proposes to consider the CAPEX for this project, on actual incurrence basis, if incurred in this Control Period, at the time of true up of the Third Control Period, while determining tariff for the Fourth Control Period for Srinagar International Airport, subject to reasonableness and efficiency.

AAI's Submission

- Earlier it was proposed to construct the residential quarters along with Terminal Building, however considering the conditions of existing quarters which are very old **it is proposed to construct the same on available AAI land only and hence will be constructed by 2025-26**. AERA is requested to consider the same in the third control period Srinagar.

iv. Repair and Maintenance Expense
[Para 4.7.4 of CP]

AERA's Contentions

- The Authority notes that AAI has proposed an increase of 10% year- on- year on repair and maintenance
- For Repairs & Maintenance expenses for third control period, the Authority notes that the same are higher than 6% of Opening Net Block (determined in line with the approach followed by the Authority in other similar airports). Therefore, the Authority proposes to rationalize the same by limiting the Repairs and Maintenance expenses to 6% of Opening RAB (Net Block) for all the 5 tariff years in the TCP.

AAI's Submission

The summary of AAI's and AERA's R&M Expense calculation is as under: -

R&M Expenses in 3RD Control Period						
Year	2021-22	2022-23	2023-24	2024-25	2025-26	TOTAL
AAI (Table 45)	9.95	10.95	12.05	13.47	14.79	61.21
AERA (Table 49)	6.34	5.92	5.52	6.78	6.28	30.84
Difference	3.61	5.03	6.53	6.69	8.51	**30.37**

As R&M costs increase with life of assets due to wear and tear, **AERA is requested to consider actual R&M instead of restricting it to 6% of opening RAB. AERA may also refer sl.no vi (page 13) for detailed justifications.**

v. Pay Roll Cost
[Para 9.2.7 of CP]

AERA's Contentions

AAI considered a growth rate of 7% in payroll expenses for the period 2021-22 to 2025-26. However, considering the de-growth in passenger traffic caused by the COVID-19 pandemic and the resultant decrease in Aeronautical revenues, including profitability, and the austerity measures, the Authority proposes to consider a growth rate of 6% year on year in payroll expenses for the Third Control period beginning from FY 2022-23 (considering FY 2021-22 as the base). The above restriction in the growth rate in payroll expenses, is being proposed with the perspective of rationalising the costs of the Airport. The Authority proposes to consider the growth rate of only 6% of payroll expenses other than CHQ and RHQ, for all the 5 years in the Third Control Period.

AAI's Submission

- 7% is the average increase in the payroll due to annual increment of 3% in salary, increase in HRA, quarterly increase in DA and Employer contribution to PF. In all other Airports AERA has considered 7% increase. The figures for the TCP are genuine as submitted by AAI.
- The following illustration clearly shows that there is an average 7% increase in the Payroll expenditure. Therefore, AAI requests AERA to consider the figures for the TCP as submitted by AAI.
- The following illustration clearly shows that there is an average 7% increase in the Payroll expenditure.

Calculation of incremental increase in Salary (in % terms)								
								(In Rs.)
Particulars	**Per Month**	**Salary Year 1**	**Q1**	**Q2**	**Q3**	**Q4**	**Salary Year 2**	**Yearly Incremental**

Basic Pay	10000	120000	30900	30900	30900	30900	123600	3600
DA	1800	21600	6798	7725	8343	8652	31518	9918
HRA	2700	32400	8343	8343	8343	8343	33372	972
PERKS	3500	42000	10815	10815	10815	10815	43260	1260
EPF	1200	14400	3708	3708	3708	3708	14832	432
Total	**19200**	**230400**	**60564**	**61491**	**62109**	**62418**	**246582**	**16182**
Particular	**% Increase**							
DA	18%		22%	25%	27%	28%		
HRA	27%		27%	27%	27%	27%		
Perks	35%		35%	35%	35%	35%		
EPF	12%		12%	12%	12%	12%		

Total Increase (in Rs.)	**16182**
% increase	**7.02**

Assumptions :

- Year 1 Means Previous Year
- Year 2 Means Current Year
- Basic Pay – 3% yearly increase considered.
- Dearness Allowance- Quarterly increase considered.
- HRA, Perks & EPF – Considered Constant
- In the abovementioned example, the Salary expenditure for Year 1 shown as Rs. 230400/- per employee. Whereas, in the year 2 the salary expenditure is shown as Rs. 246582/- per employee. On the basis of above assumptions, the incremental expenditure on the head of salary is Rs. 16182/- per employee which comes out to 7.02% on Year on Year basis.

AAI requests AERA to consider 7% increase on Year on Year basis for the Third Control Period on the basis of above calculations.

vi. Reduction in Allocation Ratio
[Para 8.2. of CP]

AERA's Contentions

Upkeep expenses (included under Administrative and General Expenses) and Repairs & Maintenance (Civil and Electrical) have been apportioned in the ratio of Terminal Building by AAI which is 93.47%: 6.53% However, the Authority proposes to re-allocate the above expenses in the Terminal Building ratio of 90%:10%, as detailed in para 6.3.10 of the consultation paper.

AAI's Submission

AAI has calculated the ratio of 93.47: 6.53 based on actual allocations in Second Control Period and projections for Third Control Period whereas R&M expenses (Civil and Electrical) has been allocated by Authority based on the notional ratio of 90:10. By reallocating to a notional ratio AAI will be losing on two counts, one by allocation in 90:10 ratios instead of actual ratio and by further restricting the R& M expenses to 6% of RAB.

AAI requests AERA to consider Allocation ratio of expenses as per submitted in MYTP for TCP.

vii. Pay & Allowances of CHQ/RHQ and Administration & General Exps. [Para 3.7.19 & 3.7.20 of CP]

AERA's Contentions

With respect to the apportionment of pay and allowance costs incurred at the CHQ, the Authority has the following observations:

Payroll expenses: The Authority notes that the total payroll expenses submitted by AAI for Srinagar International Airport is Rs. 8.44 crores of which AERA has accepted an amount of Rs. 1.62 crores. Therefore, the Authority proposes to consider the payroll expenses of FY 2021-22 to FY 2025-26 for Third Control Period.

- The Authority examined the actual **Administration and General expenditure and Repair & Maintenance expenditure** for the Second Control Period and noted the following: o **CHQ/ RHQ allocation** –. The Authority reviewed the basis adopted by AAI for allocation of CHQ and RHQ expenses to Srinagar 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 2021-22 to FY 2025-26 submitted by AAI and has proposed the following views on allocation of CHQ/ RHQ expenses:

a) 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 of 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 is to be excluded towards the following:

i Support services to ANS, Cargo and Commercial at CHQ and Airports.

ii Officials of Directorate of Commercial.

Balance 80% of pay and allowances of CHQ have been allocated to the Airports.
Further, the Authority notes that the cost of employees repatriated from Delhi Airport have been included under 'Pay and Allowances' of RHQ. Such employees mainly pertain to Fire and Non-Executive Cadre, who do not provide any services for Srinagar Airport. Also, the Authority understands that a portion of JVC employee costs were to be paid by DIAL as per Operation, Maintenance and Development Agreement (OMDA). However, AAI has not provided facts/details of costs reimbursed by DIAL.

The Authority, based on the above facts does not see any merit for inclusion of such cost relating to JVC cell in the tariff determination process or to provision of aeronautical services at the respective airports. Further, these expenses do not bear any cost-relatedness to the aeronautical services provided at the respective airports.
Therefore, based on the above factors, the Authority has rationalised the pay and allowances of RHQ, towards the following:

i Support services to ANS, Cargo and Commercial at RHQ and Airports.

ii Officials of Directorate of Commercial

iii Inclusion of JVC employee costs.

b) Administration & General Expenses of CHQ and RHQ:

Accordingly, the balance pay and allowances of RHQ have been allocated to the Airport.
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.

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

AAI's Submission

AERA has reduced the allocation of Payroll Allowances of CHQ expenses to AAI by 20% on account of support to ANS, Cargo and Commercial at RHQ and inclusion of JVC employee cost. AAI has been submitting to AERA to reconsider the reduction in allocation from 20% to 5%.
AERA vide **para 4.7.4 of CP 04/2023-24** has stated that a portion of JVC employees costs were to be paid by DIAL as per OMDA whose facts/details have not been provided by AAI .

Further, AERA has reduced the allocation of CHQ/RHQ Administration and General expenses to the tune of 33% for the 3rd control period. (FY 2021-22 to FY 2025-26). It is worthwhile to mention here that AAI has already consider 5% reduction while allocating the CHQ/RHQ expenditure and reducing further 33% by AERA for the 3rd control period respectively is on the higher side. **AAI has engaged the Institute of Cost Accountants (ICMA) (on direction of AERA) to study the methodology CHQ/RHQ allocations .The report will be submitted to AERA soon.**

Apportionment of Admn. & General exp of CHQ/RHQ in 3rd Control Period						
Year	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**TOTAL**
AAI (Table 45) [A]	32.70	34.33	36.05	37.85	39.74	180.67
AERA (Table 49)	21.88	22.98	24.12	25.33	26.60	120.91
Difference	10.82	11.35	11.93	12.52	13.14	59.76
%	33	33	33	33	33	**33**

AERA is requested to relook into the allocation of CHQ/RHQ expenses.

viii. Aggregate Revenue Requirement (ARR) for TCP

AERA's Contentions

- AERA has proposed shortfall to Rs.78.95 (Cr).
- The Revised Tariff commencement date is set to be 1st October 2023

AAI's Submission

- AAI submits to AERA to kindly recomputed the IDC, expenses capitalization, interest on working capital/Term Loan, non-aeronautical revenues, R&M and upkeep and other all other building blocks in which there would be consequential changes/impact based on the points submitted in this document for tariff determination.

AAI requests AERA to implement the Airport Charges w.e.f 01.10.2023 after incorporating the submission of AAI in the full recovery model as proposed in TCP.

ix. Normative Cost of Apron for TCP

AERA's Contentions

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.

AAI's Submission

Based on the above statement, it is assumed that the unit rate for Base Year, i.e. 2016-17, of amount Rs. 4700/- is inclusive of VAT at 12.5%. However, AAI has calculated the normative cost based on the methodology approved by AERA vide its tariff order 40 of 2022-23.

AERA Methodology Unit Rate as per CP 04/2023-24 (2025-26)	**AAI Methodology** : Unit Rate as per Table 244 of Tariff Order 40/2022-23	Area of Apron (m2) (C)
6649.07	7695.46	
Unit Rate excl. VAT (A)	Unit Rate excl. VAT (B)	
5910.28	6840.41	
Total Normative Cost		
(A)*(C)	(B)*(C)	24,000
141846869.8	164169797.3	
Normative Cost incl. GST at 18%		
193720360.8	193720360.8	
5% Over Normative Cost (For Hard Station)		
175748271.7	**203406378.9**	

AAI requests AERA to kindly allow the full amount as per AAI methodology.

x. Effect of Compounding on TCP

AERA's Contentions

AERA vide table 59 (ARR Proposed to be considered by the Authority for Third Control Period.) has considered the discounting factor as 1 in **FY 2021-22**

AAI's Submission

AAI states that compounding factor should be considered as 1 in FY 2023-24 from year of implementation of proposed AERA Order and the total additional impact amounting to Rs. 21.60 Cr. to be considered is given as under: -

FY	2021-22	2022-23	2023-24	2024-25	2025-26	Total
ARR	446.77	62.76	75.85	123.07	135.64	844.09
AERO Revenue	66.9	92.68	149.28	274.5	316.73	900.09
FROR	12.88%					
Discount Factor as per AERA	1.00	0.89	0.78	0.70	0.62	
Discount Factor as per AAI	1.27	1.13	1.00	0.89	0.78	

FY	2021-22	2022-23	2023-24	2024-25	2025-26	Total
PV of Shortfall as per AERA	379.87	-26.51	-57.63	-105.28	-111.54	78.95
PV of Shortfall as per AAI	484.03	-33.77	-73.43	-134.15	-142.12	100.55
Difference	**-104.16**	**7.27**	**15.80**	**28.87**	**30.58**	**21.60**

xi. Non -Aeronautical Revenue for 3rd Control Period

AERA's Contentions

Authority has considered the non-aero revenue of Rs. 76.22 crores against the AAI submission of 56.33 crores. Authority has considered the base of non-aero revenue of financial year 2021-22 & FY 2022-23 (up to Feb-23) and thereafter considering the growth rate of 15 % on year on year basis from 2023-24 onwards except for building (non -residential) which is 7.5%.

AAI's Submission

AAI has considered 10% growth for all the segment of Non-Aero revenue from FY 2023-24 to FY 2025-26. except for building Non-residential wherein growth rate of 7.5% YoY basis. Total Non-Aero revenue has been projected by AAI for 3rd control period amounting to Rs.56.33 crores keeping the annual escalation and other factors into consideration.

In view of above, AERA is requested to consider the growth rate 10% instead of 15% to make the Target more realistic since all the existing Non-Aero Revenue contracts are on fixed license fees and not based on passenger throughput.

xii. Tariff Card

AAI's Submission

AAI had proposed to increase UDF more in Domestic Flight Considering the passenger Ratio of passenger more than 99 percentage with Total Passenger. However AERA has considered higher increase in UDF for

International passenger and reduced the UDF rates of domestic passengers. AERA is requested to consider maximum increase in Domestic UDF than International UDF.
The proposed increase by AERA vis. a vis AAI as under: -

As Submitted by AAI					
Particular	**Existing**	01/10/22 to 31/03/23	01/04/23 to 31/03/24	01/04/24 to 31/03/25	01/04/25 to 31/03/26
Domestic	Rs.394	Rs.788	Rs.1150	Rs.1680	Rs.2447
International	Rs.787	Rs.866	Rs.909	Rs.954	Rs.1002

As Considered by AERA				
Particular	Existing	01/10/23 to 31/03/24	01/04/24 to 31/03/25	01/04/25 to 31/03/26
Domestic	Rs.394	Rs.750	Rs. 960	Rs. 990
International	Rs.787	Rs. 1200	Rs.1300	Rs.1400

Abbreviations

Abbreviations	Expansion
AAI	Airports Authority of India
Airport Economic Regulatory Authority	Airports Economic Regulatory Authority of India
ARR	Aggregate Revenue Requirement
C&AG	Comptroller and Auditor General of India
CA	Commissioned Assets
CCEA	The Cabinet Committee of Economic Affairs
CHQ	Corporate Head Quarter
CCJ	Calicut International Airport
CCU	Netaji Subhash Chandra Bose International Airport
CP	Consultation Paper
CWIP	Capital Work In Progress
DFMD	Door Frame Metal Detector
DIAL	Delhi International Airport Limited
DPR	Detailed Project Report
EQTR	Employee Quarter Ratio
ETD	Estimated Time of Travel
FRoR	Fair Rate of Return
FY	Financial Year
HHMD	Handheld Metal Detectors
IATA	International Air Transport Association
IDC	Interest During Construction
IMG	Inter-Ministerial Group
INR	Indian Rupee
KIAL	Kannur International Airport Limited
MIAL	Mumbai International Airport Limited
MOCA	Ministry of Civil Aviation
MYTO	Multi Year Tariff Order
MYTP	Multi Year Tariff Proposal
NCAP	National Civil Aviation Policy
NITB	New Integrated Terminal Building
OMDA	Operations, Management and Development and Agreement
PCN	Pavement Classification Number
PIB	Pre-flight Information Bulletin
PMC	Project Management Contract
PPP	Public Private Partnership
RAB	Regulatory Asset Base

Abbreviations	Expansion
RET	Rapid Exit Taxiways
RHQ	Regional Head Quarters
SSA	State Support Agreement
STP	Sewage Treatment Plant
SXR	Srinagar International Airport
TBLR	Terminal Building Ratio
UDF	User Development Fee
WIPA	Work in Progress Assets
XBIS	X-ray Baggage Inspection System

Summary of AAI's response to AERA's Consultation Paper No. 04/2023-24 dated 05th July 2023 for Determination of Aeronautical Tariff for Srinagar International Airport (SXR) for the 3rd Control Period (01.04.2021 - 31.03.2026)

<table>
<tr><th>S. No.</th><th>Subject</th><th>Treatment by AERA</th><th>AAI's Response</th><th>Financial Impact</th></tr>
<tr><td colspan="5">True Up of 2nd CP</td></tr>
<tr><td>1.</td><td>Non Consideration of FY 2020-21 for True Up</td><td>Not considered the under-recovery for the FY 2020-21 as SXR had become a Non-Major Airport</td><td>MoCA vide letter No.AV 20036/9/2017-AD dt. 14th January 2020 had decided that the tariff for the next CP would be determined based on the passenger throughput criteria as defined in the AERA Act. Therefore, under-recovery for the FY 2020-21 shall also be included.</td><td>39.58 Cr</td></tr>
<tr><td>2.</td><td>Non Consideration of FY 2020-21 for Compounding Factor</td><td>AERA has used following factors
<table><tr><th></th><th>2016-17</th><th>2017-18</th><th>2018-19</th><th>2019-20</th></tr><tr><td>Discount Factor</td><td>1.69</td><td>1.48</td><td>1.30</td><td>1.14</td></tr></table></td><td>Instead the following shall be used
<table><tr><th></th><th>2016-17</th><th>2017-18</th><th>2018-19</th><th>2019-20</th></tr><tr><td>Discount Factor</td><td>1.93</td><td>1.69</td><td>1.48</td><td>1.30</td></tr></table></td><td>53.73 Cr.</td></tr>
<tr><td>3.</td><td>Financing Allowance</td><td>Not allowed Financing Allowance.</td><td>FA computation is in compliance with Direction 5, affirmed by Authority in its various Orders in the past.</td><td>0.61 Cr.</td></tr>
<tr><td>4.</td><td>Set Off / Carry Forward of PBT of FY 20-21</td><td>AERA has considered PBT for FY 20-21 for offsetting PBT for 3rd CP</td><td>Considering PBT for FY 20-21 for offsetting PBT for 3rd CP, is unfair as Authority has not considered ARR for FY20-21</td><td>27.09 Cr.</td></tr>
<tr><td>5.</td><td>Rationalizing of pay and allowance and Admin Exps of CHQ/RHQ</td><td>The Authority has rationalised the CHQ/ RHQ Exp by 40% (2016-17 to 2019-20)</td><td>Reduction shall be capped to 5% as proposed by AAI</td><td>24.27 Cr.</td></tr>
<tr><td>6.</td><td>Reduction in Repair & Maintenance Cost</td><td>Authority is limiting the Repairs and Maintenance expenses to 6% of Opening RAB</td><td>AERA is requested to consider actual R&M as disallowing actual R&M expense defeats the purpose of performing true up and discourages the Airport Operator to spend on R&M</td><td>6.07</td></tr>
<tr><td colspan="5">3rd Control Period</td></tr>
<tr><td>7.</td><td>Traffic Projections</td><td>AERA suggests use of 3-year CAGR for projecting domestic passenger traffic and ATM for the last 3 tariff years (FY 2023-24 & FY 2025-26)

For International passenger traffic and ATM for the last 2 tariff years (FY 2024-25 & FY 2025-26), the Authority has considered a</td><td>Authority shall consider some additional factors
Srinagar airport will not be able to handle 6.2MPPA as projected by AERA as the present capacity of TB is 2.5 MPPA and secondly there is limited apron and limited movement due to Srinagar Airport being a Civil Enclave and limited watch hours.</td><td></td></tr>
</table>

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<tr><td></td><td></td><td>growth rate of 3% considering that the actuals in the past do not project any clear trend for estimation.</td><td>In addition, the ATM movement is restricted by IAF to 04 Arrivals and 04 Departures per hour. Further, it is a hyper-sensitive airport, which restricts passenger throughput.
The capacity of terminal building may not be able to cater to the traffic proposed by AERA.
AAI requests that the revised projections submitted by AAI for the F.Y. 2022-23 to 2025-26 may be considered</td><td></td></tr>
<tr><td>8.</td><td>Financing Allowance</td><td>Not allowed Financing Allowance.</td><td>FA computation is in compliance with Direction 5, affirmed by Authority in its various Orders in the past.</td><td>8.51 Cr.</td></tr>
<tr><td>9.</td><td>Construction of CISF Barracks</td><td rowspan="2">Authority proposes to consider the above CAPEX on actual incurrence basis</td><td rowspan="2">Considering the operational requirement, it is proposed to construct the CISF barracks on available AAI land only and hence will be constructed by 2025-26. AERA is requested to consider the same in the third control period.</td><td>44.38 Cr.</td></tr>
<tr><td>10</td><td>Densification of Residential Colony</td><td>62.29 Cr.</td></tr>
<tr><td>11</td><td>FRoR</td><td>Authority notes that the FRoR working submitted by AAI does not consider all the projects envisaged to be capitalised in the Third Control Period and has considered FRoR for TCP at 12.88%.</td><td>Based on the above report, AAI submitted during SCP consultation that the CoE was 16%. AERA in the SCP order had also considered CoE of 16% and since there was low debt, the FRoR was determined to be 14%.</td><td></td></tr>
<tr><td>12</td><td>Reduction in Repair & Maintenance Cost</td><td>Authority is limiting the Repairs and Maintenance expenses to 6% of Opening RAB (Net Block)</td><td>AERA is requested to consider actual R&M as disallowing actual R&M expense defeats the purpose of performing true up and discourages the Airport Operator to spend on R&M</td><td>30.37</td></tr>
<tr><td>13</td><td>Growth in Payroll Expenses</td><td>Authority has considered a growth rate of 6% for the Third Control period</td><td>Salary revision is undertaken based on annual increase in basic salary, perks and PF by 3% and quarterly Revision of DA as per actual variation in Consumer Price Index
AAI requests AERA to consider 7% YoY increase.</td><td>9.72 Cr.</td></tr>
<tr><td>14</td><td>Rationalizing of pay and allowance and Admin Exps of CHQ/RHQ</td><td>The Authority has rationalised the CHQ/ RHQ Exp by 33%</td><td>Reduction shall be capped to 5% as proposed by AAI</td><td>60 Cr.</td></tr>
<tr><td>15</td><td>Effect of Compounding</td><td><table><tr><td></td><td>2021-22</td><td>2022-23</td><td>2023-24</td><td>2024-25</td><td>2025-26</td></tr><tr><td>Discount Factor</td><td>1.00</td><td>0.89</td><td>0.78</td><td>0.70</td><td>0.62</td></tr></table></td><td><table><tr><td></td><td>2021-22</td><td>2022-23</td><td>2023-24</td><td>2024-25</td><td>2025-26</td></tr><tr><td>Discount Factor</td><td>1.27</td><td>1.13</td><td>1</td><td>0.89</td><td>0.78</td></tr></table>Compounding to be considered up to the year of Tariff Implementation.</td><td>21.60 Cr.</td></tr>
<tr><td>16</td><td>Non Aero Revenue</td><td>Aera has considered revenue of 76 Cr. considering growth of 15% YoY against AAI</td><td>AAI has requested to consider growth of 10% only as all the existing concessionaires are paying fixed license fee and not on the basis of passenger throughput.</td><td>20 Cr.</td></tr>
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