



भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

F/No. AAI/JVC/Patna -Tariff/2023-24 /1160

Date: -09.02.2024

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 2nd control period (01.04.2023 to 31.03.2028) and True-up of 1st control period (01.04.2018 to 31.03.2023) in respect of Patna Airport.

Reference: -Submission of AAI's comments in response to consultation paper no 23/2023-24 in respect of Patna Airport issued by Airport Economic Regulatory Authority of India (AERA).

Sir,

This has reference to AERA's consultation paper no 23/2023-24 dated 13.01.2024 in the matter of determination of Aeronautical tariff in respect of Patna Airport for the 2nd control period (01.04.2023 to 31.03.2028).

AAI's response to consultation paper No. 23/2023-24 is enclosed.

This issues with the approval of the Competent Authority.

Thanking You.

Yours sincerely,

(V. Vidya)

Executive Director (JVC/Tariff)

Encl: -1. Response to Consultation Paper no 23/2023-24



PATNA INTERNATIONAL AIRPORT

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 23/2023-24 dated 13th January 2024 Determination of Aeronautical Tariff for Patna International Airport (PAT) for the 2nd Control Period (01.04.2023 - 31.03.2028).

Contents

1.Introduction	3
2. True- Up the First Control Period (FCP).....	3
i. Fair Rate of Return.....	3
ii. True up of Administration & General expenses.....	6
iii. Pay & Allowances of CHQ/RHQ.....	7
3. Second Control Period (SCP).....	9
i. Financing Allowance	9
ii. Capital Additions During SCP.....	9
iii. Fair Rate Of Return	11
iv. Payroll Expenses	12
v. CHQ/RHQ Administration and General expenses	13
vi. Reduction in Allocation Ratio.....	14
vii. Expenses towards Utilities and Outsourcing expenses.....	14
viii. Upkeep expenses.....	14
ix. Repair and Maintenance Expense.....	15
x. Non -Aeronautical Revenue for 2nd Control Period.....	18

1. Introduction

Airports Economic Regulatory Authority of India ('AERA') has released Consultation Paper No. 23/2023-24 on Aeronautical services in respect of Patna International Airport (PAT) for 2nd Control Period (01.04.2023 to 31.03.2028), ('Consultation Paper' or 'CP') on 13th January 2024.

We hereby present our observations, suggestions, and request in respect of determination of Aeronautical Tariffs for PAT for the Tariff Determination for the 2nd Control Period – from 1st April 2023 to 31st March 2028 and True Up of 1st Control Period from 1st April 2018 to 31st March 2023.

2. True- Up the First Control Period (FCP)

i. Fair Rate of Return [Para 4.5 of CP]

AERA's Contentions

AERA notes that AAI has claimed 14% as Fair Rate of Return as part of its True up submission for the First control period. Further, AERA notes that the AAI has availed debt of ₹ 60.97 Crores @ 7.93% p.a. from FY 2020-21 to FY 2021-22 and ₹ 54.34 Crores for FY 2022-23 @ 8.25% p.a. (debts totaling to ₹ 115.31 Cr.). Further, the Cost of Equity is proposed by AAI as 16% and Cost of Debt is 7.93% during the First Control period.

AERA observes that the cost of Debt for Patna International Airport varies from 6.75% to 8.25% during the First Control Period, which is higher in comparison to other AAI Airports, such as Bhubaneswar, Goa Pune etc. Further, AAI via email dated December 28, 2023 communicated that such increase is primarily due to the significant rise in benchmark rates of the SBI and Axis Bank term loans availed by AAI in different tranches during FY 2020-21 and FY 2021-22 respectively. Based on the above, AERA considers the average of the Cost of Debt submitted by AAI in First Control Period.

Further, the Authority notes that AAI has availed debts amounting to Rs.179.57 Cr. For the period from FY 2020-21 to FY 2024-25 (Out of which Rs.115.31 Cr. Was availed in the First Control Period and Rs.64.26 Cr. In the Second Control Period.

Particulars	Amount (Rs. Crore)	Remarks
Debts availed by AAI (A)	179.57	
Capital additions proposed by AAI (B)	1041.03	Capital additions of only those years during which debt is availed by AAI has been considered, as it is presumed that debts are availed for execution of capital projects that were initiated in the First Control Period and proposed

Particulars	Amount (Rs. Crore)	Remarks
		to be executed in the Second Control Period
Proportion of debt used for capital addition projects (C)= (A/B%)	17.24%	
Proportion of Equity used for capital addition projects (D) = 1- (C)	82.76%	
Proforma Debt – Equity ratio considered for determination of FRoR	17:83	The debt equity ratio of 17%:83% has been considered by AERA for determining FRoR for the First and the Second Control Period.

AERA also notes that some major capital projects such as construction of Terminal Building, for which the debts were availed by AAI in the First Control Period, have been shifted to the Second Control Period. In this scenario, the total debts availed by AAI in the First Control Period, appears to be higher than the assets capitalized as part of RAB in the First Control Period.

Based on the above factors, AERA has computed FRoR for the First Control Period by considering average cost of debt as 7.52% (based on cost of debt submitted by AAI for the 5 tariff years) and cost of Equity as 14%

Cost of Debt	A	7.52%
Cost of Equity	B	14.00%
Gearing of Debt	C	17%
Gearing of Equity	D	83%
FRoR	$(C*B)+(1-C)*A$	12.90%

AAI's Submission

AAI had appointed M/s KPMG to carry out a study on Cost of Equity during 2011 the results of which are given below:

Table 3: Beta of comparable airports

Airport / Group	Country	Equity Beta	Tax Rate	Debt (in Billion local currency)	Mkt Cap (in Billion local currency)	Debt /Mcap	Asset Beta
Airports of Thailand PCL	Thailand	1.14	30%	56.2	54.3	1.03	0.66
Beijing Capital International Airport	China	1.03	25%	18.5	14.8	1.25	0.53
Guangzhou Baiyun International Airport	China	0.91	25%	0.0	8.3	0.00	0.91
Shanghai International Airport	China	1.04	25%	2.5	22.0	0.11	0.96
Xiamen International Airport	China	0.95	25%	0.0	4.1	0.00	0.95
Grupo Aeroportuario del Sureste SAB de CV (Group of 9 airports in Mexico)	Mexico	0.94	30%	0.6	21.0	0.03	0.92
Grupo Aeroportuario del Pacifico SAB de CV	Mexico	0.84	30%	1.0	27.2	0.04	0.82
Grupo Aeroportuario Centro Norte, S.A. de C.V.	Mexico	0.99	30%	1.0	9.2	0.10	0.92

The median value of asset beta for the above comparable set is 0.92 which is being used as the asset beta for airport operations business of AAI. This needs to be re-levered as per the expected gearing of AAI in the control period to estimate the equity beta for AAI.

Table 4: Equity Beta for AAI

Estimated asset beta for AAI	0.92
Gearing for AAI	8.84%
Tax rate for AAI	32.45%
Equity beta for AAI	0.98

Equity beta for AAI works out to 0.98.

- For full Report, please refer Consultation Paper No. 16/2012-13.
- 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%. AAI submits that the debt was taken for last three years and hence, requests AERA to consider FRoR of 14% for FCP.
- The Equity estimation can also yield a range of values depending on the assumptions employed.
- Cost of Equity depends on ownership structure, Comparable Airports & Revenue Till
- Asset Beta plays an important role in determination of Equity Beta even if Debt/Equity Ratio is low (low gearing). Cost of Equity depends on both Asset Beta and Equity Beta.
- In 1st Control Period, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98. The cost of Equity submitted by AAI works out to 16.82%

- In MIAL, DIAL, HIAL and CIAL the Cost of Equity has been considered @ 15+%. Thus, AERA is requested to consider the Cost of Equity @ 16% as submitted by AAI.
- **AERA is requested to consider the FRoR@14% as submitted by AAI instead of an Average FRoR @ 12.90% for FCP.**

ii. True up of Administration & General expenses

[Para 4.7.4 of CP]

AERA's Contention

- AERA has noted there is significant variance between the Administration Expenses approved in the Tariff Order of the First Control Period (₹ 14.18 Crores) and actual expense claimed by AAI (₹ 21.17 Crores). AERA notes that that such increase in Administration Expenses is due to awarding of new contract from FY 2018-19 onwards which entailed higher upkeep expenses and also hiring of manpower and increase in travelling expenses due to revised Travel Allowances rates with effect from April 2019.
- Further, AERA has noted that AAI has incurred ₹ 1.19 Crores towards CSR expenses during the First Control Period (i.e., ₹ 0.51 Crores in FY 2018-19, ₹ 0.41 Crores in FY 2019-20 and ₹ 0.28 Crores in FY 2020-21). Therefore, AERA proposes not to consider the CSR expenses claimed by AAI and consider Administration Expenses (other than CHQ/ RHQ) of ₹19.93 Cr. for true up of the First Control Period of PIA

AAI's Submission

CSR expenses:

AERA proposed not to consider the Actual CSR expenses amounting to Rs. 1.19 cr. claimed by AAI.

In this regard, it is pertinent to mention that CSR computation based on profit ought to be done for a company as whole and not at station level/standalone basis.

CSR Budget will be utilized for implementing CSR projects approved by the Board on an annual basis. The budget allocation to the CSR Schemes shall be made in the beginning of every financial year after considering the CSR budget for that year.

As per the provisions of Section 135 of the Act, the Companies (CSR Policy) Rules, 2014 and the DPE Guidelines, 2014, two percent of the average net profits (to be calculated in accordance with the provisions of the Act) during the three immediately preceding financial years will be allocated for CSR activities every year.

In View of the above AAI requests AERA to consider CSR expenses.

iii. Pay & Allowances of CHQ/RHQ[Para 4.7.4 of CP]AERA's Contentions

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

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. AERA 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. AERA proposes the following towards allocation of CHQ and 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, AERA is of the view that 20% of pay and allowances of CHQ and RHQ is to be excluded towards the following: i. Support services to ANS, Cargo and Commercial at CHQ, RHQ and Airports. ii. Officials of Directorate of Commercial. Balance 80% of pay and allowances of CHQ and RHQ have been allocated to the Airports. b) Administration & General Expenses of CHQ and RHQ:

AAI has incurred Legal & Arbitration Expenses at both CHQ and RHQ level. AERA is of the view that this expense should be analyzed 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. AERA 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, AERA has derived the revised allocation of CHQ and RHQ expenses and the same is presented in the table below:

Apportionment of Admn. & General exp of CHQ/RHQ in Ist Control Period (In Rs. Crore)						
Year	2018-19	2019-20	2020-21	2021-22	2022-23	TOTAL
AAI (Table 18) [A]	27.74	25.78	31.79	33.38	35.05	153.74
AERA (Table 18)	22.86	21.87	27.37	28.74	30.17	131.01
Difference	4.88	3.91	4.42	4.64	4.88	22.73

AAI's Submission

- AERA has reduced the allocation of CHQ/RHQ Administration and General Expenses to the tune of 15% for 1st control period (FY 2018-19 to FY 2022-23). It is worthwhile to mention here that AAI has already considered 5% reduction while allocating the CHQ/RHQ expenditure and reducing further by Rs.22.73 cr. by AERA for the 1st 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.**
- In view of the above AERA is requested to consider the CHQ/RHQ expenses as submitted in the MYTP for FCP.

Sl. No.	Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
1	CHQ/RHQ Administration and General Expenses	10.00	9.00	8.00	7.00	6.00
2	CHQ/RHQ Capital Expenditure	1.00	1.00	1.00	1.00	1.00
3	CHQ/RHQ Maintenance and Repairs	1.00	1.00	1.00	1.00	1.00
4	CHQ/RHQ Miscellaneous	1.00	1.00	1.00	1.00	1.00
5	CHQ/RHQ Total	13.00	12.00	11.00	10.00	9.00

3. Second Control Period (SCP)**i. Financing Allowance (F.A)****[Para 4.4.7 & 6.2.8 of CP]****AERA's Contentions**

AERA notes that AAI for Patna International Airport has claimed Financing allowance of ₹ 72.13 Crores, as part of CAPEX proposed for the Second Control Period. AERA has examined the AAI's claim towards Financing Allowance in detail and the views of AERA in this regard may be referred to in para no. 4.4.7. Accordingly, the Financing allowance has not been allowed by AERA in respect of CAPEX allowed for the Second 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 between AAI and private airports.

In view of the above AERA is requested to consider the Financing Allowance.

ii. Capital Additions During SCP**[Para 6.2.7 of CP]****a) A1 – Runways, Taxiways & Apron****i. Elevated road with ramps****AERA's Contentions**

AERA observes that this project was part of the project on construction of Terminal Building and was approved in the Tariff Order for the First Control Period for ₹76.28 Crores. AAI has proposed capitalisation of this asset in FY 2023-24. However, this project got delayed on account of delay in completion of the project on construction of Terminal Building. Based on the site visit conducted by the Independent Consultant, AERA observes that this project is in progress and may be considered for capitalisation in FY 2024-25. Therefore, AERA proposes to consider capitalisation of this project for ₹ 76.28 Crores in FY 2024-25.

Further, AERA proposes to re-allocate this asset to Aeronautical activities in the Terminal Building ratio of 90:10 as considered by AAI for apportionment of cost of construction of the project on Terminal Building in the MYTP submitted for the Second Control Period of PIA.

AAI's submission:

AERA has proposed to reallocate the cost of elevated road to aeronautical activities in terms TB ratio of 90:10 for apportionment of costs.

It is submitted that the primary purpose of the elevated road is to link the airport to the city side in order to facilitate movement of passengers and should not be linked with the terminal building and TB ratio

It is requested that AERA considers the total cost of Rs. 76.28 Crore for the asset and include it in RAB of FY 2023-24 .

ii. Link Bridge**AERA's Contentions**

AERA notes that this CAPEX was also part of the Terminal Building project, which was approved for ₹5.40 Crores for capitalization in FY 2022-23 AAI has proposed capitalisation of this asset in FY 2023-24. However, this project got delayed on account of delay in completion of the project on construction of Terminal Building. Based on the site visit conducted by the Independent Consultant, AERA observes that this project is in progress and there may be time lag in the completion and commissioning of the asset. Therefore, based on the above factors, AERA proposes to consider capitalisation of this project for ₹ 5.40 Crores (civil works) in FY 2024-25.

Further, AERA proposes to re-allocate this asset to Aeronautical activities in the Terminal Building ratio of 90:10 as considered by AAI for apportionment of cost of construction of the project on Terminal Building in the MYTP submitted for the Second Control Period of PIA.

AAI's submission:

AERA has proposed to reallocate the cost of link bridge to aeronautical activities in terms TB ratio of 90:10 for apportionment of costs.

It is submitted that the primary purpose of the link bridge is to connect the airport to the city side in order to facilitate movement of passengers and should not be linked with the terminal building and TB ratio

It is requested that AERA considers the total cost of Rs. 5.40 Crore for the asset and include it in RAB of FY 2023-24 .

iii. Fair Rate Of Return

[Para 7.2.1 & 7.3 of CP]

AERA Contention

AERA has considered the Cost of Debt for the Second Control Period to be 8.10%.

AERA has analyzed the cost of equity pertaining to PIA as submitted by AAI for the Second Control Period. AERA acknowledges the debt availed by AAI for PIA in the First and Second Control Period and its impact on FRoR.

However, AERA is of the opinion that the gearing ratio is still suboptimal and does not justify a cost of equity of 16% per annum as submitted by AAI. AERA has drawn reference to the independent studies conducted in the past for PPP airports (such as DIAL, MIAL, GHIAL, BIAL and CIAL through a premier institute, namely IIM Bangalore), wherein an optimal gearing ratio of 48%:52% was considered. The independent study reports had been drawn from the international experience of airports, wherein the median and average Cost of Equity was determined as 15.16% and 15.18%, respectively.

However, AERA notes that the debt-equity ratio for PIA ranges between 9.51% to 19.91% in the Second Control Period, which is not relatable to the above optimal gearing ratio of 48%:52%, thereby AERA does not see any merit in AAI's claim of 16% as Cost of Equity.

Therefore, AERA proposes to consider the Cost of Equity of 14% across the Second Control Period. Based on the above the FRoR has been determined as below: -

Cost of Debt	A	8.10%
Cost of Equity	B	14.00%
Gearing of Debt	C	17%
Gearing of Equity	D	83%
FRoR	$(C*B)+(1-C)*A$	13.00%

AAI's submission:

- The Equity estimation can also yield a range of values depending on the assumptions employed.
- Cost of Equity depends on ownership structure, Comparable Airports & Revenue Till
- Asset Beta plays an important role in determination of Equity Beta even if Debt/Equity Ratio is low (low gearing). Cost of Equity depends on both Asset Beta and Equity Beta.
- In 1st Control Period, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98. The cost of Equity submitted by AAI works out to 16.82%
- In MIAL, DIAL, HIAL and CIAL the Cost of Equity has been considered @ 15+%. Thus AERA is requested to consider the Cost of Equity @ 16% as submitted by AAI.
- In view of the above, AERA is requested to consider the FRoR as submitted instead of an Average FRoR @ 13% for SCP.

iv. Payroll Expenses(Para 9.2.9 of CP)AERA Contention

AAI considered a growth rate of 7% in payroll expenses for the period 2023-24 to 2027-28. Further, an additional 19% increase has been proposed by AAI due to additional Staff Cost in FY 2024-25 as the New Terminal Building will be operationalized w.e.f. March 2024. Furthermore, AAI has proposed the growth rate 25% in the last tariff year considering the implementation of 8th Pay commission.

However, considering the de-growth in passenger traffic caused by the COVID-19 pandemic and the resultant decrease in Aeronautical revenues, including profitability, AERA proposes to consider a growth rate of 6% year on year from FY 2023-24 to FY 2026-27 in the payroll expenses (other than CHQ and RHQ). For FY 2024-25, AERA takes cognizance of the fact that the construction of the new terminal building may be completed by October, 2024. On this basis, an additional 10% increase of payroll has been considered for 6 months in FY 2024-25 and a 25% increase in the last tariff year i.e. FY 2027-28. The above restriction in the growth rate in payroll expenses, is being proposed with the perspective of rationalizing the costs of the Airport.

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 the recent past orders of AAI Major Airports, AERA has considered 7% increase.
- The following illustration clearly shows that there is an average 7.71% increase in the Payroll expenditure. AAI requests AERA to consider the figures for the SCP as submitted by AAI.

Calculation of incremental increase in salary (in % Terms)											
Particulars (Rs.)	Year 1				Year 2				Total		Difference
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Year1	Year 2	
BASIC	30000	30000	30000	30000	30900	30900	30900	30900	120000	123600	3600
DA	5520	6960	8160	8820	9270	10042.5	10753.2	11494.8	29460	41560	12100
HRA	8100	8100	8100	8100	8343	8343	8343	8343	32400	33372	972
PERKS	10500	10500	10500	10500	10815	10815	10815	10815	42000	43260	1260
EPF	3600	3600	3600	3600	3708	3708	3708	3708	14400	14832	432
Total									238260	256624	18364

Particulars	% Increase							
	18.40%	23.20%	27.20%	29.40%	30.00%	32.50%	34.80%	37.20%
DA	18.40%	23.20%	27.20%	29.40%	30.00%	32.50%	34.80%	37.20%
HRA	27%	27%	27%	27%	27%	27%	27%	27%
PERKS	35%	35%	35%	35%	35%	35%	35%	35%
EPF	12%	12%	12%	12%	12%	12%	12%	12%

Total Increase (in Rs.)	18364
--------------------------------	--------------

% increase	7.71
-------------------	-------------

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. 238260/- per employee. Whereas, in the year 2 the salary expenditure is shown as Rs. 256624/- per employee. On the basis of above assumptions, the incremental expenditure on the head of salary is Rs. 18364/- per employee which comes out to 7.71% on Year on Year basis.
- AERA has reduced additional increase of 19% to 10% in 2024-25 on account of additional staff requirement for NTB for operationalization in October 2024. The net effect is further reduced to 5% for 2024-25 as only six months of the fiscal year has been considered.
- Also, AERA has proposed to reduce growth rate of Payroll expenses from 7% y-o-y to 6% y-o-y for the FY 2023-24 to FY 2026-27 resulting in reduction of payroll expenditure by Rs. 21.60 Cr..
- **Based on the above facts, AERA is requested to consider 7% y-o-y increase in Payroll expense instead of an increase of 6% y-o-y in Second Control Period of PAT. Also, AERA is requested to consider the complete amount of Rs. 161.59 Crore towards payroll expense.**

v. CHQ/RHQ Administration and General expenses**[Para 9.2.10 of CP]****AERA's Contentions**

AERA reviewed the basis for allocation of CHQ and RHQ expenses to Patna Airport for the Second Control Period. Based on the methodology and justification explained under para 4.7.3 (a) and (b) of this Consultation Paper, AERA has rationalized the CHQ and RHQ- Administration and General Expenses, projected by AAI for PIA for the Second Control Period. The same is presented in Table 55.

AAI's Submission

- AERA has reduced the allocation of CHQ/RHQ Administration and General Expenses to the tune of 13.90% for 2nd control period (FY 2023-24 to FY 2027-28). It is worthwhile to mention here that AAI has already considered 5% reduction while allocating the CHQ/RHQ expenditure and reducing further by 13.90% 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.**
- **In view of the above AERA is requested to consider the CHQ/RHQ expenses as submitted in the MYTP.**

vi. **Reduction in Allocation Ratio**
[Para 9.2.5 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 93.16%: 6.84%. However, AERA proposes to re-allocate the above expenses in the Terminal Building ratio of 90%:10%, as detailed in para 6.2.10 of the consultation paper.

AAI's Submission

AAI has calculated the ratio of 92.47:7.53 based on actual allocations in 1st Control Period and projections for 2nd 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 by allocating in 90:10 ratios instead of actual ratio.

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

vii. **Expenses towards Utilities and Outsourcing expenses**

AERA's Contentions

AERA examined the expenses towards utilities and noted the following: Power expenses: AAI has projected the power costs, after netting off the recoveries made from the Concessionaires (which is assumed to be 10% of the total power costs). AERA notes that the power recovery percentage is significantly lower than that of comparable airports. AERA is of the view that with the gradual increase in the Non-aeronautical operations, AAI should increase the power recovery from the Concessionaires. Accordingly, AERA proposes to consider power recoveries at a notional rate of 25%, while determining tariff for the next Control Period. AERA invites stakeholder comments on the same and proposes to analyse this further in the Tariff Order for the Second Control Period.

AERA notes that AAI has increased the net power costs of FY 2022-23 by 3% year-on-year for the Second Control Period, which AERA proposes to consider for determining O&M expenses for the Second Control Period.

AAI's Submission

It is submitted that the electricity charges are recovered from the concessionaires based on the actual Electricity consumption and AAI cannot charge any mark-up over and above the actual consumption.

viii. **Upkeep expenses**

[Para 9.2.15 of CP]

AERA's Contentions

AERA observes that for upkeep expenses, AAI has proposed 10% increase year-on-year for the Second Control Period. AERA notes that these are contractual expenses, wherein the rates have been finalized for the entire contract period (which is 3 years), and it includes the cost of materials and labour (including

statutory benefits such as PF, ESI, Bonus etc). Further, there is no escalation clause mentioned in the Contract/ Letter of Award, with respect to revision of the contracted rates.

AAI has proposed a one-time increase in upkeep expenses in FY 2024-25 due to operationalisation of New Terminal Building which will increase the area of terminal building from 9,795 sq.m to 45,600 Sq. m. AERA feels that the increase in the expenses may not be directly proportional to the increase in the Terminal Building area, due to the technological innovation, advancements and economies to scale. Hence, AERA proposes to consider 2/3rd (i.e., 66.67%) of the escalation rates claimed by the AAI (412 %) for expenses for Upkeep expenses in FY 2024-25 (as terminal building project is expected to be substantially completed by October 2024). Based on the above factors, AERA proposes to consider 2/3rd for Upkeep expenses in FY 2024-25 and only the inflationary effect (refer Table 49) on Upkeep expenses year-on-year across the Second Control Period, as followed in other similar airports.

AAI's Submission

AAI submits the following with regards to Upkeep Expense: -

(in Rs. Crore)							
Particular	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
AERA Methodology (As per Table 55 & 56 of CP)		1.21	3.91	4.06	4.21	4.37	17.69
		0.30%	223.09%	3.80%	3.80%	3.80%	
AAI Methodology (As per Clause 9.2.16 of CP)	1.24	1.24	4.66	4.84	5.02	5.21	22.21
		0.30%	274.67%	3.80%	3.80%	3.80%	

- i) It is to be mentioned that AERA has reduced the base year amount for F.Y 2022-23 from Rs.1.24 Cr. to Rs.1.21 Cr. While projecting the amount for the second control period.
- ii) In view of above, one-time escalation for FY 2024-25 determined as per AERA's methodology of considering 2/3rd of 412% as per Clause 9.2.16 of the CP which should be 274.67% instead of 223.09%.

AERA has reduced upkeep expenses by Rs. 16.19 Cr. as AERA has considered inflation rate whereas AAI has proposed for 10% increase YOY for the 2nd control period. In this regard AAI submits that the 10% increase in considering 5-10% increase in contractual obligations including increase in minimum wages.

In view of the above AERA is requested to consider 10% increase in upkeep expenses YoY basis as submitted by AAI.

ix. Repair and Maintenance Expense

AERA's Contentions

AERA notes that AAI has proposed an increase of 10% year- on- year on repair and maintenance expenditure for the Second Control Period. AERA observes that PIA has incurred cost of Runway Recarpeting (as mentioned in para 4.7.34 (iii)) in FY 2022-23, which has been written off yearly (i.e., ₹ 6.70 Crores per annum from FY 2023-24 to FY 2026-27) in the Second Control Period.

AERA notes that AAI has claimed the total Repairs & Maintenance expenses of ₹ 92.11 Crores (including amortization of runway recarpeting expenses of ₹ 26.79 Crores) for the Second Control Period. AAI has incurred ₹ 26.79 Crores which is being allowed to be amortized over a period of 4 years commencing from

FY 2023-24 (i.e., ₹ 6.70 Crores in each FY). However, even after excluding such expense, the Repairs & Maintenance expenses are much higher. On further examination of the projected Repairs & Maintenance expenses, AERA notes that the same are higher than 6% of Opening RAB (determined in line with the approach of AERA in other similar airports) for some tariff years and therefore the same has been rationalised as shown in the table below:

(in Crore)

Particular	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
Expenses Claimed by AAI (Other than Runway Resurfacing) (A)	10.79	11.75	12.92	14.22	15.64	65.32
Runway Resurfacing (B)	6.70	6.70	6.70	6.70	0.00	26.79
Total (C= A+B)	17.49	18.45	19.62	20.92	15.64	92.11
Opening RAB (D)	87.88	94.62	955.24	954.00	887.06	
6% of Opening RAB (E= D*6%)	5.27	5.68	57.31	57.24	53.22	
Allowable expenses (F= 6% of Opening RAB or A, whichever is lesser)	5.27	5.68	12.92	14.22	15.64	53.73
Total R&M Expenses allowed by the Authority (G= F + B)	11.97	12.37	19.62	20.91	15.64	80.52
Difference (H= A-G)	5.52	6.07	-	-	-	11.59

AAI's Submission

- There are various heads of R&M expenses which are incurred for operational requirements & regular maint. of the airport operator infrastructure and equipment at the airport
- Applying a ratio on the depreciation WDV will further reduce the cost where as the reality is that the costs will increase to make good the wear and tear over the years
- R&M expense varies based on various factors s incl. location and other conditions
- Even if buildings are new it is not justifiable reason to reduce the recovery of expenses to a percentage of opening RAB
- Restricting R&M expense to 6% of Opening RAB discourages Airport Operator to spend on R&M to maintain the quality standard and enhance customer.
- To highlight the effect of restricting R&M to 6% of opening RAB, actual values of two assets (Grass cut cum collecting machine and tractor) along with their AMC costs have been shown below. Total value of assets is Rs. 31.54 Lakhs (Rs.17.00 Lakhs + Rs.14.54 Lakhs).

Year	Capitalisation	1st	2nd	3rd	4th	5th	6th
Opening RAB	31.54	27.60	23.66	19.71	15.77	11.83	7.89
Depreciation	3.94	3.94	3.94	3.94	3.94	3.94	3.94
Net RAB	27.60	23.66	19.71	15.77	11.83	7.89	3.94

Year	Cap.	1st	2nd	3rd	4th	5th	6th
AMC Cost		5.33	5.70	11.88	12.71	13.38	14.33
% of AMC on Net RAB		23%	29%	75%	107%	170%	364%
6% of Net RAB		1.42	1.18	0.95	0.71	0.47	0.24
Net loss to AAI (Diff.)		-3.91	-4.52	-10.94	-12.00	-12.91	-14.10

AAI would like to highlight that even in the first year the R&M costs of the assets exceeds the cap of 6% of opening RAB.

- Hence, AERA is requested consider total expense of Rs. 92.11 Crore projected by AAI

x. Non -Aeronautical Revenue for 2nd Control Period**AERA's Contentions**

AERA has considered the actual Non-aeronautical revenues for FY 2022-23 as a basis for projecting Non-aeronautical revenues for the Second Control Period. AERA reviewed sample contracts executed with the Concessionaires by AAI during FY 2022-23, to assess the Non-aeronautical Authority has considered the non-aero revenue of Rs. 242.53 crores against the AAI submission of 183.55 crores revenue projected by AAI for the Second Control Period.

Further, AERA notes that the projections towards Operation and Maintenance expenses for the Second Control Period have increased substantially, as compared to the Non-aeronautical revenues. The Authority would like the stakeholders to comment on the above aspect.

Revenue from Passenger related services

AERA has taken cognizance of the fact that the passenger traffic at PIA nosedived due to COVID-19 pandemic, whereby the traffic of pre-pandemic period (FY 2019-20) could not be achieved in FY 2022-23. However, considering the positive outlook of the GDP growth predicted by the GoI, increase in the consumer spending pattern and the growth of the passenger traffic, AERA proposes to increase the revenue of passenger related services in accordance with the growth rate in domestic passenger traffic for the tariff years (FY 2023-24, FY 2025-26 to FY 2027-28) as shown in Table 28. AERA proposes to consider a growth rate of 30% for Passenger related revenue (Trading Concessions and other miscellaneous income) for FY 2024-25 as projected by AAI, taking into consideration the operationalization of the new Terminal Building.

Other revenue – Rent and Services

The Authority has examined the Revenue from other services proposed by AAI as follows:-

- i. Revenue from Building (residential): The Authority notes that AAI has assumed 5% Y-O-Y increase in revenue from Building (residential) and proposes to consider the same
- ii. Land Lease: AAI has proposed nil growth for FY 2023-24 and FY 2024-25 as the land rental rates are revised after the period of 3 years. The last revision was done in FY 2022-23 as per the land management Circular No. 22 dated June 4, 2022. Further, the Authority proposes to consider the land lease rate growth of 15% in FY 2025-26 as projected by AAI.
- iii. Building (Non Residential) : AAI has projected increase of 10% increase has been shown for first tariff year (FY 2023-24). Subsequently, a 30% increase is projected for FY 2024-25 followed by a 10% increase from FY 2025-26 to FY 2027-28. The Authority observes that AAI has projected a higher growth i.e., 30% for FY 2024-25 for Building (Non- Residential) due to operationalisation of the New Terminal Building.

In view of the above, the Authority proposes to consider the AAI's projection for determining NAR for Other revenue for the Second Control Period.

AAI's Submission

AERA has linked the **Growth of revenue** from TR stall, Car Rental, Car parking, hoarding and display, Admission Tickets and Other Misc. Income to that of **passenger Growth rate**. In this regard it is submitted that major contracts at airports are based on fixed license fees and the License Fees will not be changed due to any increase in the increase in the consumer spending pattern and the growth of the passenger traffic.

AAI has considered 10% growth for Restaurant/snack bars, TR stall, Car Rental, Car Parking, Hoarding Display & Admission Tickets for FY 2023-24. For FY 2024-25 Restaurant/snack bars, TR stall, Car Rental, Hoarding Display & Admission Tickets grow T 30% y-o-y while Car Parking grows at 20% y-o-y. Thereafter, all the aforementioned revenue streams grow at 10% y-o-y till FY 2027-28. For Other misc. Income 5% YOY growth is projected for the FY 2024-25 to FY2027-28.

AERA has proposed to link growth rate of Other Misc. Income with passenger growth rate against AAI's proposal of 5% growth yoy. The PAX growth rate considered by AERA is as follows: -

Year	2023-24	2024-25	2025-26	2026-27	2027-28
% Growth	22%	30%	14%	14%	12%

Other Misc. Income consists transfer of overdue EMD/SD, sale of scrap etc. which is not consistent and not in the regular course of business and may not be linked with passenger growth for the same may not be considered.

It is also submitted that AERA has considered a period of 12 months of 2024-25, while determining NAR because of New Terminal Building however AERA has stated that the New Terminal Building will be operationalized from October 2024 only. This is resulting in a lower ARR in 2024-25. Further, it is also having a cascading effect for subsequent years

Hence, it is submitted to AERA that total Non-Aero revenue has been projected by AAI for 2nd control period amounting to Rs.77.44 crores keeping the annual escalation and other factors into consideration.

In view of above, AERA is requested to consider the above points for projecting Non-Aero Revenue for 2nd control period.

xi. **Tariff Card**

Please insert the clause for applicability of UDF Rates in the Tariff Card: -

"Revised UDF Rates of the respective year shall be applicable on the ticket issued on or after 01.04.2024".