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Consultation Paper No. 27/2018-19



Airports Economic Regulatory Authority of India

**In the matter of determination of aeronautical tariffs in respect of
Devi Ahilya Bai Holkar Airport (IDR), Indore for the first Control
Period (01.04.2018 to 31.03.2023)**

14th January, 2019

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110003.

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1. Introduction

- 1.1 Devi Ahilya Bai Holkar Airport (DABH), located in the city of Indore is the 22nd busiest airport in India by passenger traffic, aircraft movement and cargo handled.
- 1.2 Technical and terminal building details of Indore Airport are provided in the table below:

Table 1: Technical details and terminal building details

| Technical Details of NSCBIA | |
|--|----------------------------------|
| Particulars | Details |
| Total airport area | 729.63 acres |
| Runway orientation and length | 25/07 & 2754 meters |
| No. of taxi tracks | 6 |
| No. of apron bays | 11 |
| Operational hours | 24 hours |
| Terminal building details (domestic plus international) | |
| Particulars | Details |
| Terminal building area | 16,229 sq. meters |
| Immigration counters | 4- departure 10-arrival |
| Customs counters | 2- departure 2-arrival |
| Departure conveyors | 1 |
| Arrival conveyors | 3 |
| Peak hour passenger capacity | 500 (Departure) 300 (Arrival) |
| No. of check-in counters | 16 |
| Total area of car parking | 1800 sq. meters |

- 1.3 In the financial year ending March 31, 2016, Indore Airport crossed annual passenger throughput of 1.5 million to become a Major Airport, as defined in Section 2(i) of Airports Economic Regulatory Authority of India (AERA, the Authority) Act. Accordingly, starting from financial year 2016-17, tariff determination of aeronautical services at the airport is to be undertaken by the Authority.
- 1.4 AAI has accordingly submitted its Multi-Year Tariff Proposal dated 19/09/2018 to the Authority for determination of aeronautical tariffs for the 1st control period.

2. Methodology for tariff determination

- 2.1 The Authority, vide its Order No. 13/2010-11 dated 12/01/2011 ("Airport Order") and Direction No. 5/2010-11 dated 28/02/2011 ("Airport Guidelines"), had issued guidelines to determine tariffs at major airports based on Single Till mechanism. Subsequently, the Authority has amended guidelines vide its Order No. 14, 2016-17 dated 12/01/2017 to determine the future tariffs using Hybrid Till.
- 2.2 The 1st control period for the airport has been decided as FY 2018-19 till FY 2022-23. Because the airport came under the definition of a major airport by FY 2016-17, the Authority decided to true-up the shortfall/surplus of FY 2016-17 and FY 2017-18. The tariff determination process consists of determination of regulatory building blocks for the 1st control period under Hybrid Till.
- 2.3 The Aggregate Revenue Requirement (ARR) under the regulatory framework of the Authority is calculated as under:

$$ARR = \sum_{t=1}^5 ARR_t$$

$$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - \alpha \times NAR_t$$

Where,

- 2.3.1 t is the tariff year in the control period, ranging from 1 to 5
- 2.3.2 ARR_t is the Aggregate Revenue Requirement for tariff year t
- 2.3.3 FRoR is the Fair Rate of Return for the control period
- 2.3.4 RAB_t is the Aeronautical Regulatory Asset Base for tariff year t
- 2.3.5 D_t is the Depreciation corresponding to the Regulatory Asset Base for tariff year t
- 2.3.6 O_t is the Aeronautical Operation and Maintenance expenditure for the tariff year t
- 2.3.7 T_t is the aeronautical taxation expense for the tariff year t
- 2.3.8 α is the cross subsidy factor for revenue from services other than aeronautical services. Under the Hybrid Till methodology followed by the Authority, $\alpha = 30\%$.
- 2.3.9 NAR_t is the Non-Aeronautical Revenue in tariff year t.
- 2.4 Based on ARR, Yield per passenger (Y) is calculated as per the formula given below:

$$\text{Yield per passenger (Y)} = \frac{\sum_{t=1}^5 PV(ARR_t)}{\sum_{t=1}^5 VEt}$$

Where,

2.4.1 $PV (ARR_t)$ is the Present Value of ARR for all the tariff years. All cash flows are assumed to occur at the end of the year. Further, the date considered by the Authority for discounting of cash flows is one year from the start of the control period, i.e., 1st April, 2019.

2.4.2 VE_t is the passenger traffic in year t .

2.5 Further, shortfall/surplus of FY 2016-17 and FY 2017-18 is adjusted for time value of money and added to the ARR as computed above. For this purpose, ARR for FY 2016-17 and FY 2017-18 is computed in a manner similar to para 2.4. This ARR is compared with actual aeronautical revenues of the airport. The future value of this shortfall/surplus is added to the ARR computed for the control period.

3. Multi-Year Tariff Proposal of Indore Airport

- 3.1 AAI made submissions dated 12/09/2018 to the Authority for determination of tariffs for the 1st control period (1/4/18 to 31/3/23) on the basis of Hybrid Till.
- 3.2 AAI provides Air Navigation Services (ANS) in addition to landing, parking and other aeronautical services at Indore Airport. AAI has submitted that the tariff proposal does not consider revenues, expenditure and assets on account of ANS. This consultation paper discusses the determination of tariffs for aeronautical services at the airport excluding ANS.
- 3.3 AAI has further submitted that all cargo operations have been transferred to AAI Cargo Logistics and Allied Services (AAICLAS), its wholly owned subsidiary and the tariff proposal does not consider revenues, expenditure and assets on account of cargo operations. This consultation paper discusses the determination of tariffs for aeronautical services at the airport excluding cargo operations.
- 3.4 AAI has informed that accounts of AAI are audited by C&AG of India as mandated by the AAI Act. The C&AG's resident audit party audits the financial records and statements of AAI airports, regional and field offices. However, the C&AG issues the final audit certificate for the AAI as a whole and only trial balance is available for Indore Airport. The Authority has utilized these documents as submitted by AAI for determination of tariffs.

4. Traffic forecast

4.1 The historical traffic at the airport has been shown in the table below.

Table 2: Historical passenger and ATM traffic at Indore Airport

| Year | Domestic passengers | International passengers | Domestic ATM | International ATM |
|---------------------------|---------------------|--------------------------|--------------|-------------------|
| 2007-08 | 5,48,711 | - | 10,119 | - |
| 2008-09 | 5,99,009 | - | 13,179 | - |
| 2009-10 | 7,01,423 | - | 11,577 | - |
| 2010-11 | 8,77,479 | - | 11,726 | - |
| 2011-12 | 11,10,645 | - | 13,663 | - |
| 2012-13 | 10,79,548 | - | 13,798 | - |
| 2013-14 | 11,09,959 | - | 13,749 | - |
| 2014-15 | 13,50,499 | - | 14,342 | - |
| 2015-16 | 16,89,986 | - | 14,836 | - |
| 2016-17 | 17,82,585 | - | 14,374 | - |
| 2017-18 | 22,66,389 | - | 18,668 | - |
| Past 10 years CAGR | 15.2% | NA | 6.3% | NA |
| Past 5 years CAGR | 16% | NA | 6.2% | NA |

4.2 The traffic growth rates as submitted by AAI for the 1st control period are as follows:

Table 3: Traffic growth rates proposed by AAI as per initial submission

| Year | Passenger | | | ATM | | |
|---------------------|-----------|---------------|-----------|----------|---------------|----------|
| | Domestic | International | Combined | Domestic | International | Combined |
| Growth rates | | | | | | |
| 2018-19 | 10% | NA | 10% | 8% | NA | 8% |
| 2019-20 | 10% | NA | 10% | 8% | NA | 8% |
| 2020-21 | 10% | NA | 10% | 8% | NA | 8% |
| 2021-22 | 10% | NA | 10% | 8% | NA | 8% |
| 2022-23 | 8% | NA | 8% | 7% | NA | 7% |
| Traffic | | | | | | |
| 2018-19 | 2,493,028 | - | 2,493,028 | 20,161 | - | 20,161 |
| 2019-20 | 2,742,331 | - | 2,742,331 | 21,774 | - | 21,774 |
| 2020-21 | 3,016,564 | - | 3,016,564 | 23,516 | - | 23,516 |
| 2021-22 | 3,318,220 | - | 3,318,220 | 25,398 | - | 25,398 |
| 2022-23 | 3,583,678 | - | 3,583,678 | 27,175 | - | 27,175 |

4.3 AAI submitted that the passenger traffic and aircraft movement projections are based on past trends, econometric and regression analysis, and various economic factors including policy framework.

Authority's Examination:

- 4.4 The Authority has duly examined the submissions from AAI. As part of its examination of AAI's forecast of traffic at Indore Airport, the Authority calculated Compounded Annual Growth Rate, or CAGR, for passenger traffic and ATM from FY 2007-08 to FY 2017-18 (10 year CAGR) and FY 2012-13 to FY 2017-18 (5 year CAGR). The details have been provided in the table below:

Table 4: Comparison of traffic growth rates as per AAI's submission and actual CAGR

| Particulars | Growth rates as per AAI | 10 year CAGR | 5 year CAGR |
|--------------------|--------------------------------|---------------------|--------------------|
| Passengers: | | | |
| Domestic | 10% (except for 8% in year 5) | 15.2% | 16% |
| International | NA | NA | NA |
| | | | |
| ATM: | | | |
| Domestic | 8% (except for 7% in year 5) | 6.3% | 6.2% |
| International | NA | NA | NA |

- 4.5 The Authority observed that the traffic grew from 2.39 lakh passengers in FY 2007-08 to 11.33 lakh passengers in FY 2017-18, i.e., a 10 year CAGR of 15.2%. The traffic in FY 2012-13 was 5.39 lakh passengers, which grew at a CAGR of 16% up to FY 2017-18 (5 year CAGR). The Authority has noted the spurt in traffic in the recent past, which causes CAGR for 5 year period to be higher than that for 10 year period. Given this high growth of air traffic in India in the recent years, the Authority is of the view that 10 year CAGR provides more realistic traffic growth rates for future projections of domestic passenger traffic. AAI's proposed domestic passenger growth rate is significantly lower than the 10 year CAGR and the Authority thus proposes a change in the same from 10% to 15%. For last year's projections, AAI has proposed a reduction in growth rate, from 10% to 8%. However, to ensure that CAGR based projections are held constant for the continuity of the control period, the Authority proposes to project the last year's growth rate at 15%, similar to the first four years.
- 4.6 ATM traffic grew from 10,119 movements in FY 2007-08 to 18,668 movements in FY 2017-18, leading to a 10 year CAGR of 6.3%. ATM traffic in FY 2012-13 was 13,798, which grew at a CAGR of 6.2% up to FY 2017-18 (5 year CAGR). For domestic ATMs, AAI submitted that trends in passengers to aircraft movement ratios combined with the load factors were considered. AAI's proposed domestic passenger growth rate is close to 5 and 10 year CAGR. Therefore, the Authority does not propose a change in the same, except for last year's projections, which the Authority proposes to change from 7% to 8%.
- 4.7 There have been no international operations at Indore airport. While there have been a few news reports on airlines expressing interest to

start a few international operations at the airport, the Authority did not find any evidence to support a concrete projection in this regard. Therefore, the Authority does not project any international traffic during the 1st control period. However, in case any international operations begin during the 1st control period, the Authority will consider the same for true-up during tariff determination for the 2nd control period.

- 4.8 The traffic growth rates and the corresponding traffic for passengers and ATM as considered by the Authority for the 1st control period have been given in the table below.

Table 5: Traffic forecast as considered by the Authority

| Year | Passenger | | | ATM | | |
|---------------------|-----------|---------------|-----------|----------|---------------|----------|
| | Domestic | International | Combined | Domestic | International | Combined |
| Growth rates | | | | | | |
| 2018-19 | 15% | NA | 15% | 8% | NA | 8% |
| 2019-20 | 15% | NA | 15% | 8% | NA | 8% |
| 2020-21 | 15% | NA | 15% | 8% | NA | 8% |
| 2021-22 | 15% | NA | 15% | 8% | NA | 8% |
| 2022-23 | 15% | NA | 15% | 8% | NA | 8% |
| Traffic | | | | | | |
| 2018-19 | 2,606,347 | - | 2,606,347 | 20,161 | - | 20,161 |
| 2019-20 | 2,997,299 | - | 2,997,299 | 21,774 | - | 21,774 |
| 2020-21 | 3,446,894 | - | 3,446,894 | 23,516 | - | 23,516 |
| 2021-22 | 3,963,929 | - | 3,963,929 | 25,398 | - | 25,398 |
| 2022-23 | 4,558,518 | - | 4,558,518 | 27,429 | - | 27,429 |

- 4.9 The Authority proposes to true-up the traffic as per actual growth achieved during the 1st control period at the time of determination of tariff for the 2nd control period.

Proposal No. 1: Regarding traffic forecast

- 1.a. The Authority proposes to consider the ATM and passenger traffic for the 1st Control Period for Indore Airport as per Table 5.
- 1.b. The Authority proposes to true-up the traffic volume (ATM and passengers) on the basis of actual traffic in 1st control period while determining tariffs for the 2nd control period.

5. Allocation of assets between aeronautical and non-aeronautical

- 5.1 Under Hybrid Till, only aeronautical assets are included as part of the Regulatory Asset Base (RAB). Therefore, all airport assets need to be segregated between aeronautical and non-aeronautical. Further, projections of capitalizations during the control period with regard to only aeronautical assets need to be considered as part of RAB.
- 5.2 For the purposes of this segregation, AAI has divided its assets into three components – aeronautical, non-aeronautical and common. Common components have been further segregated into aeronautical and non-aeronautical assets by applying one of the following ratios:
- Terminal Area Ratio:** This is a ratio of aeronautical area to non-aeronautical area and is applied for all terminal related common assets.
 - Employee Ratio:** This is a ratio of number of staff providing non-aeronautical services (i.e. commercial and land management) to number of staff providing aeronautical services, excluding ANS and cargo.
 - Quarter ratio:** This is a ratio based on number of non-aeronautical staff to aeronautical staff residing at the residential quarters at the airport. It is applied to assets pertaining to such residential quarters.
- 5.3 The table below provides the details of these ratios used for allocation.

Table 6: Ratios used by AAI for allocation of assets into aeronautical and non-aeronautical

| Particulars | Ratio | |
|---------------------|------------|------------|
| | FY 2016-17 | FY 2017-18 |
| Terminal Area Ratio | 5.62% | 5.62% |
| Employee Ratio | 3:83 | 4:81 |
| Quarter ratio | 1:27 | 1:26 |

- 5.4 The allocation of gross block of assets as on 01/04/2016 between aeronautical and non-aeronautical services as submitted by AAI is given in the table below:

Table 7: Allocation of gross block of assets between aeronautical and non-aeronautical

| S. No. | Asset category | Total assets (INR Crores) | Aero assets (INR Crores) | % Aero |
|--------|------------------------------|---------------------------|--------------------------|--------|
| 1. | Freehold Land | 0.23 | 0.23 | 100% |
| 2. | Runways, Aprons and Taxiways | 72.43 | 72.43 | 100% |
| 3. | Road, Bridges & Culverts | 7.21 | 7.18 | 99.69% |

| S. No. | Asset category | Total assets (INR Crores) | Aero assets (INR Crores) | % Aero |
|--------|--|---------------------------|--------------------------|---------------|
| 4. | Building – Terminal | 101.71 | 96.47 | 94.84% |
| 5. | Building – Residential | 1.23 | 1.18 | 95.63% |
| 6. | Boundary Wall – Operational | 1.50 | 1.50 | 100% |
| 7. | Boundary Wall – Residential | - | - | - |
| 8. | Other Buildings | 4.91 | 4.91 | 100% |
| 9. | Computer - End user | 6.03 | 6.03 | 100% |
| 10. | Computer - Servers and networks | 0.36 | 0.36 | 100% |
| 11. | Intangible Assets – Software | 0.29 | 0.29 | 100% |
| 12. | Plant & Machinery | 10.53 | 10.53 | 100% |
| 13. | Tools & Equipment | 2.13 | 2.13 | 100% |
| 14. | Office Furniture | 0.60 | 0.60 | 99.97% |
| 15. | Furniture & Fixtures: Other Than Trolley | 1.27 | 1.27 | 100% |
| 16. | Furniture & Fixtures: Trolley | 0.56 | 0.56 | 100% |
| 17. | Vehicles | 0.20 | 0.20 | 100% |
| 18. | Vehicles - car and jeep | 0.40 | 0.40 | 100% |
| 19. | Electrical Installations | 57.59 | 57.48 | 99.81% |
| 20. | Other Office Equipment | 0.14 | 0.14 | 100% |
| 21. | X Ray Baggage System | 3.77 | 3.77 | 100% |
| 22. | CFT/Fire Fighting Equipment | 3.97 | 3.97 | 100% |
| | Total | 277.06 | 271.63 | 98.04% |

Authority's examination

5.5 The Authority observed the use of various ratios for segregation of common assets into aeronautical and non-aeronautical. These are explained in the table below.

Table 8: Allocation of common assets and its justification

| S. No. | Asset category | Common assets (INR cr.) | Ratio used for allocation of common assets | Remarks |
|--------|----------------------------|-------------------------|--|--|
| 1. | Roads, bridges and culvers | 0.62 | 100% Quarter ratio | These assets pertain to construction of road in residential colony, and widening and re-carpeting of existing road. Therefore, these are allocated on the basis of quarter ratio. |
| 2. | Building – Terminal | 85.13 | 100% Terminal area ratio | All common assets of INR 85.13 crore have been appropriately allocated as per the Terminal area ratio. |
| 3. | Building - Residential | 1.23 | 39%- Terminal area ratio 61%- Quarter ratio | Out of total common assets of INR 1.23 crore, 61% pertains to staff quarters and has been appropriately allocated on the basis of quarter ratio. Remaining 39% comprising construction work pertaining to the terminal area has been allocated on |

| S. No. | Asset category | Common assets (INR cr.) | Ratio used for allocation of common assets | Remarks |
|--------|-------------------------|-------------------------|--|--|
| | | | | the basis of Terminal Area ratio. |
| 4. | Electrical installation | 1.98 | 90%- Terminal area ratio 10% - Employee ratio | Majority of the common assets (90%) pertain to the terminal building, and hence have been appropriately allocated on the basis of terminal area ratio. |

5.6 The Authority observed that there is one asset under the category 'Other Buildings' amounting to INR 30 lakh, which pertains to ANS operations. Therefore, the Authority proposes to remove the same from RAB.

5.7 The Authority observed that the allocation for electrical works for new terminal building constructed in 2012 was incomplete. There are assets worth INR 38.47 crores (gross block), which pertain to the electrical works for new terminal building constructed in 2012. These have been considered as 100% aeronautical. The Authority proposes allocating these on the basis of Terminal Area ratio of 5.62%.

5.8 AAI submitted the workings for the calculation of the terminal area ratio, i.e., ratio of non-aeronautical portion to the aeronautical portion of the terminal building. This has been presented in the table below.

Table 9: Terminal area ratio as per AAI's original submission

| S. No. | Category | Area (Sq. meters) |
|--------|--|-------------------|
| 1 | Commercial entities – F&B | 289.57 |
| 2 | Commercial entities – Retail | 69.60 |
| 3 | Commercial entities – Advertising | 325.28 |
| 4 | Regulatory & allied agencies | 9.29 |
| 5 | Airlines | 211.48 |
| | Total non-aeronautical area (1) | 905 |
| | Total area of terminal (2) | 16,119 |
| | Terminal area ratio (1/2) | 5.62% |

5.9 On the basis of the above observations, the Authority proposes the allocation of gross block of assets in accordance with the table below.

Table 10: Allocation of assets proposed by the Authority (gross block) – till 31/03/2019

| S. No. | Asset category | Total assets (INR Crores) | Aero assets (INR Crores) | % Aero |
|--------|------------------------------|---------------------------|--------------------------|--------|
| 1. | Freehold Land | 0.23 | 0.23 | 100% |
| 2. | Runways, Aprons and Taxiways | 72.43 | 72.43 | 100% |
| 3. | Road, Bridges & Culverts | 7.21 | 7.18 | 99.69% |
| 4. | Building – Terminal | 101.65 | 96.47 | 94.84% |
| 5. | Building – Residential | 1.23 | 1.18 | 95.63% |

| S. No. | Asset category | Total assets (INR Crores) | Aero assets (INR Crores) | % Aero |
|--------|--|---------------------------|--------------------------|---------------|
| 6. | Boundary Wall – Operational | 1.50 | 1.50 | 100% |
| 7. | Boundary Wall – Residential | - | - | - |
| 8. | Other Buildings | 4.61 | 4.61 | 100% |
| 9. | Computer - End user | 6.03 | 6.03 | 100% |
| 10. | Computer - Servers and networks | 0.36 | 0.36 | 100% |
| 11. | Intangible Assets – Software | 0.29 | 0.29 | 100% |
| 12. | Plant & Machinery | 10.53 | 10.53 | 100% |
| 13. | Tools & Equipment | 2.13 | 2.13 | 100% |
| 14. | Office Furniture | 0.60 | 0.60 | 99.97% |
| 15. | Furniture & Fixtures: Other Than Trolley | 1.27 | 1.27 | 100% |
| 16. | Furniture & Fixtures: Trolley | 0.56 | 0.56 | 100% |
| 17. | Vehicles | 0.20 | 0.20 | 100% |
| 18. | Vehicles - car and jeep | 0.40 | 0.40 | 100% |
| 19. | Electrical Installations | 57.59 | 55.32 | 96.06% |
| 20. | Other Office Equipment | 0.14 | 0.14 | 100% |
| 21. | X Ray Baggage System | 3.77 | 3.77 | 100% |
| 22. | CFT/Fire Fighting Equipment | 3.97 | 3.97 | 100% |
| | Total | 276.76 | 269.17 | 97.26% |

5.10 The Authority observed that the proportion of non-aeronautical area is on a lesser side when compared to other AAI airports of similar nature. AAI submitted that it has recently awarded new master concessions for retail and food & beverages, leading to much better utilization of the terminal building for non-aeronautical activities. The details of these new concessions have been discussed in Chapter 11 of this paper. The Authority sought from AAI a revised calculation for the terminal area ratio on the basis of the new master concessions. AAI provided this revised calculation, given below.

Table 11: Revised terminal area ratio

| S. No. | Category | Area (Sq. meters) |
|--------|--|-------------------|
| 1 | Commercial entities – F&B | 843.74 |
| 2 | Commercial entities – Retail | 69.60 |
| 3 | Commercial entities – Advertising | 325.28 |
| 4 | Regulatory & allied agencies | 9.29 |
| 5 | Airlines | 321.64 |
| | Total non-aeronautical area (1) | 1569.55 |
| | Total area of terminal (2) | 16,119 |
| | Terminal area ratio (1/2) | 9.74% |

Further, the Authority verified that the new concessions were awarded with effect from 01/04/2018. Considering that the new retail and F&B stores will take some time to reach their full potential, the Authority proposes to use the new terminal area ratio with effect from

01/04/2019. Due to this, the allocation of assets between aeronautical and non-aeronautical activities will change with effect from 01/04/2019. This revised allocation has been presented in the table below.

Table 12: Allocation of assets proposed by the Authority (gross block) – beyond 31/03/2019

| S. No. | Asset category | % Aero |
|---------------|--|---------------|
| 1. | Freehold Land | 100% |
| 2. | Runways, Aprons and Taxiways | 100% |
| 3. | Road, Bridges & Culverts | 99.69% |
| 4. | Building – Terminal | 90.75% |
| 5. | Building – Residential | 95.63% |
| 6. | Boundary Wall – Operational | 100% |
| 7. | Boundary Wall – Residential | - |
| 8. | Other Buildings | 100% |
| 9. | Computer - End user | 100% |
| 10. | Computer - Servers and networks | 100% |
| 11. | Intangible Assets – Software | 100% |
| 12. | Plant & Machinery | 100% |
| 13. | Tools & Equipment | 100% |
| 14. | Office Furniture | 99.97% |
| 15. | Furniture & Fixtures: Other Than Trolley | 100% |
| 16. | Furniture & Fixtures: Trolley | 100% |
| 17. | Vehicles | 100% |
| 18. | Vehicles - car and jeep | 100% |
| 19. | Electrical Installations | 96.06% |
| 20. | Other Office Equipment | 100% |
| 21. | X Ray Baggage System | 100% |
| 22. | CFT/Fire Fighting Equipment | 100% |
| | Total | 96.0% |

Proposal No. 2: Regarding allocation of assets

- 2.a. The Authority proposes the allocation of gross block of assets for the period 01/04/2016 to 31/03/2019 between aeronautical and non-aeronautical assets as per Table 10.
- 2.b. The Authority proposes the allocation of gross block of assets for the period 01/04/2019 to 31/03/2013 between aeronautical and non-aeronautical assets as per Table 12.

6. Initial Regulatory Asset Base

6.1 As per AAI's submission, the Initial RAB as on 31/03/16 amounted to INR 93.39 crores. AAI submitted the following working for the computation of initial RAB.

Table 13: Initial RAB as per AAI's submission (figures in INR crores)

| Asset category | Opening gross block | Accumulated depreciation | Opening net block |
|--|---------------------|--------------------------|-------------------|
| Runways, Aprons and Taxiways | 72.43 | 66.50 | 5.93 |
| Road, Bridges & Culverts | 7.18 | 5.30 | 1.88 |
| Building – Terminal | 96.47 | 44.59 | 51.87 |
| Building – Residential | 1.18 | 0.53 | 0.65 |
| Boundary Wall – Operational | 1.50 | 0.65 | 0.85 |
| Boundary Wall – Residential | 0.00 | 0.00 | 0.00 |
| Other Buildings | 4.91 | 0.46 | 4.45 |
| Computer - End user | 6.03 | 2.60 | 3.42 |
| Computer - Servers and networks | 0.36 | 0.36 | 0.00 |
| Intangible Assets – Software | 0.29 | 0.29 | 0.00 |
| Plant & Machinery | 10.53 | 8.30 | 2.23 |
| Tools & Equipment | 2.13 | 1.78 | 0.35 |
| Office Furniture | 0.60 | 0.58 | 0.02 |
| Furniture & Fixtures: Other Than Trolley | 1.27 | 1.25 | 0.02 |
| Furniture & Fixtures: Trolley | 0.56 | 0.49 | 0.08 |
| Vehicles | 0.20 | 0.20 | 0.00 |
| Vehicles - car and jeep | 0.40 | 0.35 | 0.05 |
| Electrical Installations | 57.48 | 36.23 | 21.25 |
| Other Office Equipment | 0.14 | 0.14 | 0.00 |
| X Ray Baggage System | 3.77 | 3.48 | 0.29 |
| CFT/Fire Fighting Equipment | 3.97 | 3.93 | 0.04 |
| Total | 271.40 | 178.02 | 93.39 |

Authority's examination:

6.2 The Authority observed that there is one asset under the category 'Other Buildings' amounting to INR 30 lakh, which pertains to ANS operations. Therefore, the Authority proposes to remove the same from RAB.

6.3 The Authority observed that the allocation for electrical works for new terminal building constructed in 2012 was incomplete. There are assets worth INR 38.47 crores (gross block), which pertain to the electrical works for new terminal building constructed in 2012. These have been considered as 100% aeronautical. The Authority proposes allocating these on the basis of Terminal Area ratio of 5.62%.

6.4 The revised Initial RAB after the above changes has been presented below.

Table 14: Initial RAB as proposed by Authority (figures in INR crores)

| Asset category | Opening gross block | Accumulated depreciation | Opening net block |
|--|----------------------------|---------------------------------|--------------------------|
| Runways, Aprons and Taxiways | 72.43 | 66.50 | 5.93 |
| Road, Bridges & Culverts | 7.18 | 5.30 | 1.88 |
| Building – Terminal | 96.47 | 44.59 | 51.87 |
| Building – Residential | 1.18 | 0.53 | 0.65 |
| Boundary Wall – Operational | 1.50 | 0.65 | 0.85 |
| Boundary Wall – Residential | - | - | - |
| Other Buildings | 4.61 | 0.44 | 4.17 |
| Computer - End user | 6.03 | 2.60 | 3.42 |
| Computer - Servers and networks | 0.36 | 0.36 | 0.00 |
| Intangible Assets – Software | 0.29 | 0.29 | 0.00 |
| Plant & Machinery | 10.53 | 8.30 | 2.23 |
| Tools & Equipment | 2.13 | 1.78 | 0.35 |
| Office Furniture | 0.60 | 0.58 | 0.02 |
| Furniture & Fixtures: Other Than Trolley | 1.27 | 1.25 | 0.02 |
| Furniture & Fixtures: Trolley | 0.56 | 0.49 | 0.08 |
| Vehicles | 0.20 | 0.20 | 0.00 |
| Vehicles - car and jeep | 0.40 | 0.35 | 0.05 |
| Electrical Installations | 55.32 | 35.04 | 20.28 |
| Other Office Equipment | 0.14 | 0.14 | 0.00 |
| X Ray Baggage System | 3.77 | 3.48 | 0.29 |
| CFT/Fire Fighting Equipment | 3.97 | 3.93 | 0.04 |
| Total | 268.94 | 176.81 | 92.13 |

Proposal No. 3: Regarding Initial RAB

- 3.a. The Authority proposes to consider the initial regulatory asset base for the 1st Control Period for Indore Airport as INR 92.13 crores in accordance with Table 14.

7. Capital Expenditure for the 1st control period

7.1 AAI has proposed aeronautical capital expenditure of INR 114.43 crores for the 1st control period. This has been shown in the table below.

Table 15: Capital expenditures proposed by AAI (figures in INR crores)

| Asset category | FY 2018-19 | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 | Total |
|-----------------------------|--------------|--------------|------------|-------------|------------|---------------|
| Road, Bridges & Culverts | 7.51 | 62.95 | - | - | - | 70.46 |
| Building – Residential | 5.96 | - | - | 0.40 | - | 6.36 |
| Boundary Wall – Operational | 4.00 | - | - | - | - | 4.00 |
| Other Buildings | - | - | - | 0.45 | - | 0.45 |
| Plant & Machinery | 19.82 | - | - | - | - | 19.82 |
| Tools & Equipment | 4.49 | 0.01 | - | - | - | 4.50 |
| Electrical Installations | 4.81 | - | - | - | - | 4.81 |
| CFT/Fire Fighting Equipment | 4.03 | - | - | - | - | 4.03 |
| Total | 50.62 | 62.96 | - | 0.85 | - | 114.43 |

Authority's Examination

7.2 The Authority observed the following in respect of the proposed capital expenditures.

7.2.1 Development of 15 no. parking bays, parallel taxi track and other associated work- INR 62.95 crores

The existing apron at Indore airport has a capacity to support 11 aircraft (6 aircraft of A320/A321 type, 4 ATR 72 and 1 DH8D). Recently, it was decided to make Indore airport a 24-hour operational facility, with effect from 25th March 2018. The reasons for the same were to decongest other major airports, and to provide night parking facility to scheduled airlines. Post this development, AAI has received requests from airlines for 9 night parking stands. Considering a capacity of only 11 aircraft at the existing apron, only 2 stands would be left over for occasional diversionary flights to the airport. In view of this, AAI has proposed extension of the existing apron to accommodate 15 more aircraft (10 aircraft of A320/A321 and 5 ATR-72). This would further involve associated Ground Support Equipment and new line taxi tracks.

Currently, the runway at Indore airport is not supported by a parallel taxi track. Therefore, to improve the airside capacity at the airport, AAI has also planned a parallel taxi track.

The Authority examined the rationale behind the proposed capital expenditure, along with its status. Further, the Authority sought and observed a detailed break-up of the expected costs for this capital

expenditure. The Authority found the amounts and the expected timelines to be appropriate.

The Authority further considered a normative cost of these assets. As per Authority's Order No. 7/2016-17, a normative cost of INR 4,700 per square meter may be considered for construction of pavement (Aprons, taxiways and runways) up to code E aircraft. This cost should be taken as on April 2016. Considering that no international operations are projected at Indore Airport over the first control period, and most of the domestic operations in India are through A320 and B737 families of aircraft (code C) and other regional aircraft (code B and C), the Authority found the normative cost approach to be appropriate. As per details received from AAI, the planned assets will spread across an area of 167,180 square meters. The Authority found that the cost proposed by AAI (INR 62.95 crores) was within the normative cost calculated according to the above mentioned order. Therefore, the Authority accepts the cost proposed by AAI of INR 62.95 crores.

The Authority observed that AAI classified these assets under 'Roads, bridges and culverts'. Considering the nature of these assets, the Authority proposes to reclassify these assets under 'Runways, Aprons and Taxiways'. While this reclassification did not have an impact on the allocation of assets between aeronautical and non-aeronautical (because of the aeronautical nature of these assets), it had an impact on rate of depreciation to be considered for these assets. As detailed later in Chapter 8 – Depreciation, the rate of depreciation for the category 'Roads, bridges and culverts' is proposed to be 10%, whereas the rate of depreciation for the category 'Runways, Aprons and Taxiways' is proposed to be 3.33%. This reclassification resulted in a lesser depreciation allowance to AAI.

The proposed date of completion of these assets is 31st March 2020. Considering the current status, the Authority has found this to be reasonable. The Authority notes that should AAI fail to commission the same by 31st March 2020, in addition to the normal true-up with carrying cost, 1% additional penalty, by way of reduction of the said value from ARR, will be imposed on AAI.

7.2.2 Supply of inline baggage scanning system – INR 12.50 crore

AAI has planned to install a new CT-EDS in-line baggage screening system (already available at their Chennai, Kolkata and Ahmedabad airports) at airports in Bhubaneswar, Calicut, Indore, Amritsar and Mangalore. The Authority observed the administrative approvals for the same and has found them as appropriate. Further, AAI has provided the proposed date of completion of this asset as 31st October 2019. Considering the current status, the Authority has found this to be reasonable.

7.2.3 Others:

Other than the above mentioned assets, AAI has proposed 28 other assets of smaller nature amounting to a total of INR 38.98 crores. The prominent ones among these include the following.

- a) Development of Pucca Drain in air side in tariff year 1 amounting to INR 4.94 crores.
- b) Construction of staff quarters (total 18 units) including electrical works in tariff year 1 amounting to INR 5.58 crores.
- c) Supply, Installation, Testing and Commissioning of two passenger boarding bridges along with advanced visual docking guidance system (A-VDGS) in tariff year 1 amounting to INR 4.13 crores.
- d) Establishment of ground mounted solar power plant amounting to INR 4.03 crores.

For these assets, the Authority verified the administrative approvals and award letters, and discussed the rationale with AAI for proposing them.

- 7.5 In accordance with above, the Authority proposes the capital expenditure as per the table below.

Table 16: Capital expenditure as proposed by the Authority (figures in INR crores)

| Asset category | FY 2018-19 | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 | Total |
|------------------------------|--------------|--------------|------------|-------------|------------|---------------|
| Runways, Aprons and Taxiways | - | 62.95 | - | - | - | 62.95 |
| Road, Bridges & Culverts | 7.51 | - | - | - | - | 7.51 |
| Building – Residential | 5.96 | - | - | 0.40 | - | 6.36 |
| Boundary Wall – Operational | 4.00 | - | - | - | - | 4.00 |
| Other Buildings | - | - | - | 0.45 | - | 0.45 |
| Plant & Machinery | 19.82 | - | - | - | - | 19.82 |
| Tools & Equipment | 4.49 | 0.01 | - | - | - | 4.50 |
| Electrical Installations | 4.81 | - | - | - | - | 4.81 |
| CFT/Fire Fighting Equipment | 4.03 | - | - | - | - | 4.03 |
| Total | 50.62 | 62.96 | - | 0.85 | - | 114.43 |

Proposal No. 4: Regarding capital expenditures

- 4.a. The Authority proposes to adopt the capital expenditures for the 1st control period in accordance with Table 16.
- 4.b. Regarding the proposed capital expenditure worth INR 62.95 crores pertaining to development of 15 no. parking bays, parallel taxi track and other associated work, the Authority proposes that should AAI fail to commission the same by 31st March 2020, in addition to the normal true-up with carrying cost, 1% additional penalty, by way of reduction of the said value from ARR, will be imposed on AAI.

Depreciation

- 8.1 AAI follows its own set of rates of depreciation for different asset classes, which are approved by its Board. While submitting the Multi-Year Tariff proposal for the first control period, AAI has taken cognizance of the rates of depreciation approved by the Authority in previous tariff orders. Accordingly, AAI has proposed three different sets of rates. These are based on three different periods – up to FY 2015-16, from 01/04/16 to 31/03/18, and beyond 01/04/18.
- 8.2 In the first period, i.e., up to FY 2015-16, the airport was not under the definition of a Major Airport as per Section 2(i) of Airports Economic Regulatory Authority of India Act. Therefore, the depreciation rates for this period has been proposed by AAI to be as per AAI’s accounting policy. For the second period, i.e., from 01/04/16 to 31/03/18, the airport was covered under the definition of the Major Airport. Therefore, the depreciation rates for this period has been proposed by AAI to be as per the Authority’s examination. For the 3rd period, i.e., beyond 01/04/18, the depreciation rates has been proposed by AAI to be as per the Authority’s order No. 35/2017-18 titled “In the matter of Determination of Useful life of Airport Assets”, which defines the normative useful lives for various airport assets.
- 8.3 Further, depreciation has been computed separately on opening block of assets and on proposed additions.
- 8.4 The depreciation rates proposed by AAI have been summarized in the table below.

Table 17: Depreciation rates proposed by AAI

| Asset category | Up to FY 2016 | Between FY 2016 and FY 2018 | Beyond FY 2018 |
|---------------------------------|----------------------|------------------------------------|-----------------------|
| Freehold Land | 0% | 0% | 0% |
| Runways, Aprons and Taxiways | 13% | 3.33% | 3.33% |
| Road, Bridges & Culverts | 13% | 3.33% | 10.00% |
| Building – Terminal | 8% | 3.33% | 3.33% |
| Building – Residential | 5% | 3.33% | 3.33% |
| Boundary Wall – Operational | 8% | 3.33% | 10.00% |
| Boundary Wall – Residential | 5% | 3.33% | 10.00% |
| Other Buildings | 8% | 3.33% | 3.33% |
| Computer - End user | 20% | 16.67% | 33.33% |
| Computer - Servers and networks | 20% | 16.67% | 16.67% |
| Intangible Assets – Software | 20% | 20.00% | 20.00% |
| Plant & Machinery | 11% | 6.67% | 6.67% |
| Tools & Equipment | 20% | 6.67% | 6.67% |

| Asset category | Up to FY 2016 | Between FY 2016 and FY 2018 | Beyond FY 2018 |
|--|----------------------|------------------------------------|-----------------------|
| Office Furniture | 20% | 10% | 14.29% |
| Furniture & Fixtures: Other Than Trolley | 20% | 10% | 14.29% |
| Furniture & Fixtures: Trolley | 20% | 10% | 33.33% |
| Vehicles | 14% | 12.50% | 12.50% |
| Vehicles - car and jeep | 14% | 6.67% | 12.50% |
| Electrical Installations | 11% | 10.00% | 10.00% |
| Other Office Equipment | 18% | 20.00% | 20.00% |
| X Ray Baggage System | 11% | 6.67% | 6.67% |
| CFT/Fire Fighting Equipment | 13% | 6.67% | 6.67% |

8.5 The depreciation amount proposed by AAI for the 1st control period has been presented in the table below.

Table 18: Depreciation proposed by AAI (figures in INR crores)

| Particulars | Pre control regulatory period | | Control period | | | | |
|--------------------|--------------------------------------|----------------|-----------------------|----------------|----------------|----------------|----------------|
| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| Depreciation | 12.04 | 12.30 | 14.50 | 16.25 | 17.18 | 14.90 | 14.77 |

Authority’s Examination:

8.6 The Authority has noted the submission of three different rates of depreciation by AAI for different periods under consideration and has duly examined these for consideration towards determination of aeronautical tariff.

8.7 For period up to FY 2016, the Airport did not come under the regulatory ambit of the Authority. Therefore, the Authority has determined that the depreciation rates used by AAI according to its internal accounting policies are allowed to be followed in order to compute the net block of initial RAB. The Authority observed that the depreciation rates used by AAI up to FY 2016 were in line with its accounting policies, and hence the Authority does not propose any change in these.

8.8 As far as the period between 01/04/2016 and 31/03/2018 is considered, the Authority has had reference to its previous Tariff Orders for various AAI airports (Order No. 23/2017-18 dated 27/11/2017 for Kolkata airport, Order No. 10/2017-18 dated 04/08/2017 for Jaipur airport, and Order No. 03/2017-18 dated 02/06/2017 for Trivandrum Airport). In these Tariff Orders, the Authority considered the depreciation rates as prescribed in the Companies Act, 2013 for the purposes of tariff determination. Continuing with this approach, the Authority proposes to consider

these rates of depreciation for the period between 01/04/2016 and 31/03/2018 for the purposes of tariff determination of Indore Airport as well.

- 8.9 Upon examination of rates of depreciation proposed by AAI for this period, the Authority observed that except in case of one asset category, the rates proposed by AAI are in line with the above mentioned previous tariff orders. In case of Vehicles - car and jeep, AAI has used 6.67% rate. However, the Authority proposes to revise this to 12.5% in accordance with the above mentioned previous tariff orders.
- 8.10 For the period from 01/04/2018 onwards, the Authority has had reference to its study, which was commissioned to determine appropriate depreciation rates for regulation of airports in line with the provisions of the Companies Act, 2013.
- 8.11 As a result of this study, the Authority, vide its Order No. 35/2017-18 titled "In the matter of Determination of Useful life of Airport Assets", spelled out the normative depreciation rates which need to be used for computation of Aggregate Revenue Requirement.
- 8.12 These normative depreciation rates of airport assets as per the above mentioned Order, relevant to Indore Airport, have been presented in the table below.

Table 19: Depreciation rates as per Authority's Order No. 35 / 2017-18

| Asset category | Beyond FY 2018 |
|--|-----------------------|
| Freehold Land | 0.00% |
| Runways, Aprons and Taxiways | 3.33% |
| Road, Bridges & Culverts | 10.00% |
| Building – Terminal | 3.33% |
| Building – Residential | 3.33% |
| Boundary Wall – Operational | 10.00% |
| Boundary Wall – Residential | 10.00% |
| Other Buildings | 3.33% |
| Computer - End user | 33.33% |
| Computer - Servers and networks | 16.67% |
| Intangible Assets – Software | 20.00% |
| Plant & Machinery | 6.67% |
| Tools & Equipment | 6.67% |
| Office Furniture | 14.29% |
| Furniture & Fixtures: Other Than Trolley | 14.29% |
| Furniture & Fixtures: Trolley | 33.33% |
| Vehicles | 12.50% |
| Electrical Installations | 10.00% |

| Asset category | Beyond FY 2018 |
|-----------------------------|-----------------------|
| Other Office Equipment | 20.00% |
| X Ray Baggage System | 6.67% |
| CFT/Fire Fighting Equipment | 6.67% |

8.13 The Authority observed that the depreciation rates used by AAI for the period beyond 01/04/2018 are in line with the rates as per the above mentioned Order. Therefore, the Authority does not propose any change in these.

8.14 Combining its observations across the three periods, the Authority proposes the depreciation rates to be considered for tariff determination in respect of Indore Airport as per the following table.

Table 20: Depreciation rates proposed by the Authority

| Asset category | Up to FY 2016 | Between FY 2016 and FY 2018 | Beyond FY 2018 |
|--|----------------------|------------------------------------|-----------------------|
| Freehold Land | 0% | 0% | 0% |
| Runways, Aprons and Taxiways | 13% | 3.33% | 3.33% |
| Road, Bridges & Culverts | 13% | 3.33% | 10.00% |
| Building – Terminal | 8% | 3.33% | 3.33% |
| Building – Residential | 5% | 3.33% | 3.33% |
| Boundary Wall – Operational | 8% | 3.33% | 10.00% |
| Boundary Wall – Residential | 5% | 3.33% | 10.00% |
| Other Buildings | 8% | 3.33% | 3.33% |
| Computer - End user | 20% | 16.67% | 33.33% |
| Computer - Servers and networks | 20% | 16.67% | 16.67% |
| Intangible Assets – Software | 20% | 20.00% | 20.00% |
| Plant & Machinery | 11% | 6.67% | 6.67% |
| Tools & Equipment | 20% | 6.67% | 6.67% |
| Office Furniture | 20% | 10% | 14.29% |
| Furniture & Fixtures: Other Than Trolley | 20% | 10% | 14.29% |
| Furniture & Fixtures: Trolley | 20% | 10% | 33.33% |
| Vehicles | 14% | 12.50% | 12.50% |
| Vehicles - car and jeep | 14% | 12.50% | 12.50% |
| Electrical Installations | 11% | 10.00% | 10.00% |
| Other Office Equipment | 18% | 20.00% | 20.00% |
| X Ray Baggage System | 11% | 6.67% | 6.67% |
| CFT/Fire Fighting Equipment | 13% | 6.67% | 6.67% |

8.15 On account of changes in depreciation rates, and the changes in proposed capital expenditure, the Authority proposes the following depreciation during the 1st control period.

Table 21: Depreciation proposed by the Authority (figures in INR crores)

| Particulars | Pre control regulatory period | | Control period | | | | |
|--------------|-------------------------------|---------|----------------|---------|---------|---------|---------|
| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| Depreciation | 12.05 | 12.31 | 14.49 | 14.14 | 12.98 | 10.70 | 10.57 |

Proposal No. 5: Regarding depreciation

- 5.a. The Authority proposes to adopt depreciation rates for Indore airport as per Table 20 for the 1st control period.
- 5.b. The Authority proposes depreciation amounts as per Table 21 for the 1st control period.

8. Regulatory Asset Base for the 1st control period

8.1 AAI has submitted RAB for the 1st control period as follows:

Table 22: RAB for the 1st control period as per AAI's submission (figures in INR crores)

| S. No. | Particulars | Pre-control regulatory period | | Control period | | | | |
|----------|--------------------|-------------------------------|--------------|----------------|--------------|--------------|--------------|--------------|
| | | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| A | Opening RAB | 93.39 | 82.47 | 83.42 | 119.54 | 166.25 | 149.07 | 135.02 |
| B | Capitalizations | 1.12 | 13.26 | 50.62 | 62.96 | 0.00 | 0.85 | 0.00 |
| C | Disposals | - | - | - | - | - | - | - |
| D | Depreciation | 12.04 | 12.30 | 14.50 | 16.25 | 17.18 | 14.90 | 14.77 |
| E | Closing RAB | 82.47 | 83.42 | 119.54 | 166.25 | 149.07 | 135.02 | 120.25 |
| F | Average RAB | 87.93 | 82.94 | 101.5 | 142.9 | 157.7 | 142.0 | 127.6 |

Authority's Examination:

8.2 The Authority has duly examined each element of RAB in the previous chapters. The Authority proposes to adopt the Initial RAB as per Table 14, the capital expenditures in accordance with Table 16, and the depreciation amounts in accordance with Table 21.

8.3 As discussed in paragraphs 5.7 to 5.10 of this paper, the Authority proposes a terminal area ratio of 5.62% till 31/03/2019. Beyond this date, the Authority proposes to consider the same as 9.74%. Due to this, the closing RAB of FY 2019 and opening RAB of FY 2020 will not be equal.

8.4 Combining all its propositions, RAB to be considered by the Authority for determination of aeronautical tariff for the 1st Control Period in respect of Indore Airport is as follows:

Table 23: RAB for the 1st control period after Authority's examination (figures in INR crores)

| S. No. | Particulars | Pre-control regulatory period | | Control period | | | | |
|----------|--------------------|-------------------------------|--------------|----------------|--------------|--------------|--------------|--------------|
| | | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| A | Opening RAB | 92.13 | 81.20 | 82.15 | 116.39 | 165.21 | 152.23 | 142.38 |
| B | Capitalizations | 1.12 | 13.26 | 50.62 | 62.96 | 0.00 | 0.85 | 0.00 |
| C | Disposals | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| D | Depreciation | 12.05 | 12.31 | 14.49 | 14.14 | 12.98 | 10.70 | 10.57 |
| E | Closing RAB | 81.20 | 82.15 | 118.28 | 165.21 | 152.23 | 142.38 | 131.81 |
| F | Average RAB | 86.67 | 81.68 | 100.2 | 140.8 | 158.7 | 147.3 | 137.1 |

Proposal No. 6: Regarding average RAB

- 6.a. The Authority proposes to consider average RAB for the 1st control period for Indore airport as per Table 23.

9. Fair Rate of Return (FRoR)

- 9.1 AAI has considered Fair Rate of Return (FRoR) as 14% at par with the decision taken by the Authority for other AAI airports, including Kolkata, Jaipur and Trivandrum, among others.
- 9.2 AAI has submitted that all financing activities are undertaken centrally at the corporate office of AAI. The funds are apportioned among airports by the corporate office.

Authority's Examination:

- 9.3 The Authority has recognized that AAI's capital structure may not be regarded as an efficient one in that it doesn't optimize the cost of funds from a regulatory perspective. The Authority desires that the FRoR allowed to AAI should come down over a period of time by optimizing capital gearing. The Authority may also consider a normative capital structure to determine the FRoR at a later date. It may not be reasonable to expect AAI to contract large amounts of debt over a short period of time.
- 9.4 The Authority notes that as per a study conducted in respect of the 'Fair Rate of Return Estimation for AAI' in July 2011, it estimated a figure of 14.96% as Fair Rate of Return for AAI. The Authority notes that it has considered FRoR at 14% for other AAI airports considering the recommendations of another study done by NIPFP.
- 9.5 Based on the above, the Authority proposes to consider FRoR at the rate of 14% for Indore Airport for the 1st control period as submitted by AAI.

Proposal No. 7: Regarding Fair Rate of Return (FRoR)

- 7.a. The Authority proposes to consider FRoR at 14% for Indore Airport for the 1st control period.

10. Non-aeronautical revenue

10.1 AAI has forecasted revenue from services other than aeronautical services as below.

Table 24: Non-aeronautical revenue projections as per AAI (figures in INR crores)

| Particulars | Pre control regulatory period | | Control period | | | | |
|-------------------------------|-------------------------------|-------------|----------------|--------------|--------------|--------------|--------------|
| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| 1. Trading concessions | | | | | | | |
| Restaurant / snack bars | 0.34 | 0.38 | 6.20 | 6.82 | 7.50 | 8.25 | 9.08 |
| Retail and other stalls | 0.39 | 0.60 | 3.59 | 3.59 | 3.94 | 4.34 | 4.77 |
| Hoarding & display | 3.38 | 0.55 | 0.61 | 0.67 | 0.74 | 0.81 | 0.89 |
| 2. Rent and services | | | | | | | |
| Land leases | 1.05 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.81 |
| Building (residential) | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 |
| Building (non-residential) | 1.27 | 1.21 | 1.33 | 1.47 | 1.61 | 1.77 | 1.95 |
| 3. Miscellaneous | | | | | | | |
| Car rentals | 0.58 | 0.55 | 0.61 | 0.67 | 0.74 | 0.81 | 0.89 |
| Car parking | 0.76 | 1.98 | 2.18 | 2.40 | 2.63 | 2.90 | 3.19 |
| Admission tickets | 0.33 | 0.23 | 0.26 | 0.28 | 0.31 | 0.34 | 0.38 |
| Other income | 0.39 | 0.45 | 0.47 | 0.50 | 0.52 | 0.55 | 0.57 |
| Total | 8.53 | 6.73 | 16.02 | 17.16 | 18.78 | 20.55 | 22.56 |

10.2 The growth rates assumed by AAI have been presented in the table below.

Table 25: Growth rates assumed by AAI for non-aeronautical revenue

| Particulars | Control period | | | | |
|-------------------------------|----------------|---------|---------|---------|---------|
| | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| 1. Trading concessions | | | | | |
| Restaurant / snack bars | Bottom up | 10% | 10% | 10% | 10% |
| Retail and other stalls | Bottom up | 0% | 10% | 10% | 10% |
| Hoarding & display | 10% | 10% | 10% | 10% | 10% |
| 2. Rent and services | | | | | |
| Land leases | 0% | 0% | 0% | 0% | 7.5% |
| Building (residential) | 5% | 5% | 5% | 5% | 5% |
| Building (non-residential) | 10% | 10% | 10% | 10% | 10% |
| 3. Miscellaneous | | | | | |
| Car rentals | 10% | 10% | 10% | 10% | 10% |
| Car parking | 10% | 10% | 10% | 10% | 10% |
| Admission tickets | 10% | 10% | 10% | 10% | 10% |
| Other income | 5% | 5% | 5% | 5% | 5% |

| Particulars | Control period | | | | |
|--------------|----------------|-----------|-----------|-----------|------------|
| | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| Total | 138% | 7% | 9% | 9% | 10% |

Authority's Examination:

10.3 The Authority examined the non-aeronautical revenues for FY 2017 and FY 2018 from the trial balances of the respective years submitted by AAI. There were two instances where revenues from ANS services were included as part of non-aeronautical revenues.

a) In FY 2017, under 'Building (residential)', the Authority observed that revenue amounting to INR 0.54 lakhs pertaining to ANS services was included.

b) In FY 2017, under 'Admission tickets', the Authority observed that revenue amounting to INR 1.72 lakhs pertaining to ANS services was included.

Because ANS services are considered separate from airport operations, the Authority proposes to exclude these from non-aeronautical revenues. Other than the above two instances, the Authority found the revenue figures to be in line with the trial balances for FY 2017 and FY 2018.

10.4 On examination of the trial balances for the two historical financial years as mentioned above, the Authority observed that revenues from hoarding and display for FY 2017-18 were understated by INR 5.26 crores. AAI earned INR 5.81 crores from this revenue stream, instead of INR 0.55 crores, as per the multi-year tariff proposal by AAI. This has a bearing on the projected revenues of all years of the control period for this revenue stream, which stand increased due to the growth rate being applied on a higher base.

10.5 **Retail and other stalls:** The Authority observed that AAI did a bottom-up projection for revenue from retail and other stalls for FY 2019. Upon examination, the Authority found that with effect from FY 2018-19, AAI has entered into three new concession agreements for retail and other stalls. These new concessions replaced the previous retail operations at the airport.

a) For retail outlets, AAI awarded a master concession to develop, market, setup, operate, maintain and manage multiple retail outlets at Indore airport. The concession includes a minimum of two international brand outlets and one domestic brand outlet. The concession was applicable with effect from 1st May, 2018 and applicable for 7 years. The concession fee was decided as INR 30 lakh per month, or a certain percentage of net sales, whichever is

higher. Further, this would increase by 10% each year. The Authority notes that it is not possible to forecast the actual sales at the retail outlets. Therefore, the Authority proposes to consider the minimum monthly guaranteed amount of INR 30 lakh per month to forecast the revenues to AAI.

- b) AAI awarded a concession to set up hotel reservation counter at Indore airport. The commercial terms indicated an inflow of INR 2.21 lakh per month to AAI. This was applicable with effect from 1st May 2018.
- c) AAI awarded a concession to set up a smoking lounge at Indore airport. The commercial terms indicated an inflow of INR 0.35 lakh per month to AAI. This was applicable with effect from 1st Feb 2018.

The bottom-up projections for FY 2019 pertaining to retail and other stalls, as proposed by AAI and verified by the Authority has been given in the table below.

Table 26: Revenue from retail and other stalls for FY 2018-19

| Particulars | Working | Amount (INR crores) |
|---------------------------|---|----------------------------|
| Retail outlets | INR 30 lakh per month from 01/05/2018 to 31/03/2019 | 3.30 |
| Hotel reservation counter | INR 2.21 lakh per month from 01/05/2018 to 31/03/2019 | 0.24 |
| Smoking lounge | INR 0.35 lakh per month from 01/04/2018 to 31/03/2019 | 0.04 |
| | Total | 3.59 |

The Authority observed that for FY 2019-20, AAI projected a revenue of INR 3.59 crores, which was similar to the projections for FY 2018-19. This was found to be erroneous. The Authority proposes to increase the projections for FY 2019-20 by 10%, in line with the terms of the concession agreements. This led to increase in projected revenues of all years of the control period. The revenue projections for FY 2019-20 are given in the table below.

Table 27: Revenue from retail and other stalls for FY 2019-20

| Particulars | Working | Amount (INR crores) |
|---------------------------|-------------------------------------|----------------------------|
| Retail outlets | INR 30 lakh * (1+10%) * 12 months | 3.96 |
| Hotel reservation counter | INR 2.21 lakh * (1+10%) * 12 months | 0.29 |
| Smoking lounge | INR 0.35 lakh * (1+10%) * 12 months | 0.05 |
| | Total | 4.30 |

10.6 Revenue from restaurant / snack bars: The Authority observed that AAI did a bottom-up projection for revenue from F&B outlets for

FY 2019. Upon examination, the Authority found that with effect from FY 2018-19, AAI awarded a master concession to develop, market, setup, operate, maintain and manage multiple food and beverages outlets at Indore airport. The concession includes a minimum of one international brand outlet and one domestic brand outlet. The concession was applicable with effect from 1st April, 2018 and applicable for 7 years. The concession fee was decided as INR 51.66 lakh per month, or a certain percentage of net sales, whichever is higher. Further, this would increase by 10% each year. The Authority has found the projections to be in line with the new agreement. The Authority notes that it is not possible to forecast the actual sales at these F&B outlets. Therefore, the Authority proposes to consider the minimum monthly guaranteed amount of INR 51.66 lakh per month to forecast the revenues to AAI.

10.7 For revenues from all other sources, the Authority examined the commercial agreements that AAI has entered into with various parties, and found the projections to be in line with these agreements.

10.8 The revised growth rates as per Authority's examination have been presented in the table below.

Table 28: Growth rates in non-aeronautical revenue considered by the Authority

| Particulars | Control period | | | | |
|-------------------------------|----------------|------------|------------|------------|------------|
| | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| 1. Trading concessions | | | | | |
| Restaurant / snack bars | Bottom up | 10% | 10% | 10% | 10% |
| Retail and other stalls | Bottom up | 10% | 10% | 10% | 10% |
| Hoarding & display | 10% | 10% | 10% | 10% | 10% |
| 2. Rent and services | | | | | |
| Land leases | 0% | 0% | 0% | 0% | 7.5% |
| Building (residential) | 5% | 5% | 5% | 5% | 5% |
| Building (non-residential) | 10% | 10% | 10% | 10% | 10% |
| 3. Miscellaneous | | | | | |
| Car rentals | 10% | 10% | 10% | 10% | 10% |
| Car parking | 10% | 10% | 10% | 10% | 10% |
| Admission tickets | 10% | 10% | 10% | 10% | 10% |
| Other income | 5% | 5% | 5% | 5% | 5% |
| Total | 82% | 11% | 10% | 10% | 10% |

10.9 The revised non-aeronautical revenues as per Authority's examination have been presented in the table below.

Table 29: Non-aeronautical revenues proposed by the Authority (figures in INR crores)

| Particulars | Pre control regulatory period | | Control period | | | | |
|-------------------------------|-------------------------------|--------------|----------------|--------------|--------------|--------------|--------------|
| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| 1. Trading concessions | | | | | | | |
| Restaurant / snack bars | 0.34 | 0.38 | 6.20 | 6.82 | 7.50 | 8.25 | 9.08 |
| T.R. stall | 0.39 | 0.60 | 3.59 | 4.30 | 3.94 | 4.34 | 4.77 |
| Hoarding & display | 3.38 | 5.81 | 6.40 | 7.04 | 7.74 | 8.51 | 9.36 |
| 2. Rent and services | | | | | | | |
| Land leases | 1.05 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.81 |
| Building (residential) | 0.01 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 |
| Building (non-residential) | 1.27 | 1.21 | 1.33 | 1.47 | 1.61 | 1.77 | 1.95 |
| 3. Miscellaneous | | | | | | | |
| Car rentals | 0.58 | 0.55 | 0.61 | 0.67 | 0.74 | 0.81 | 0.89 |
| Car parking | 0.76 | 1.98 | 2.18 | 2.40 | 2.63 | 2.90 | 3.19 |
| Admission tickets | 0.33 | 0.23 | 0.26 | 0.28 | 0.31 | 0.34 | 0.38 |
| Other income | 0.39 | 0.45 | 0.47 | 0.50 | 0.52 | 0.55 | 0.57 |
| Total | 8.50 | 11.99 | 21.80 | 24.24 | 26.56 | 29.11 | 31.98 |

Proposal No. 8: Regarding non-aeronautical revenues

- 8.a. The Authority proposes to consider non-aeronautical revenues for the 1st control period for Indore airport in accordance with Table 29.

11. Operation and maintenance expenditure

11.1 Operation and Maintenance (O&M) expenditure submitted by AAI is segregated into the following:

- a) Payroll expenses,
- b) Admin and general expenditure,
- c) Repair and maintenance expenditure,
- d) Utilities and outsourcing expenditure, and
- e) Other outflows, i.e. collection charges on UDF

11.2 The expenses related to Cargo, AAICLAS, ANS and CISF security have not been considered by AAI.

11.3 AAI has segregated the expenses into aeronautical expenses, non-aeronautical expenses, and common expenses. The common expenses have been further segregated into aeronautical and non-aeronautical on the basis of relevant ratios.

11.4 AAI submitted that the allocation of CHQ/RHQ expenses among individual airports has been done on the basis of revenue.

11.5 The summary of aeronautical expenses proposed by AAI for the 1st control period has been presented in the table below:

Table 30: Operation and Maintenance (O&M) expenditure (in INR crore) as per AAI

| Particulars | Pre control regulatory period | | Control period | | | | |
|---|-------------------------------|--------------|----------------|--------------|--------------|--------------|--------------|
| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| Payroll expenses - non CHQ/RHQ | 9.67 | 10.75 | 12.83 | 13.45 | 14.12 | 14.83 | 15.57 |
| Payroll expenses - CHQ/RHQ | 2.01 | 2.12 | 2.51 | 2.64 | 2.77 | 2.91 | 3.06 |
| Administration and General expenses - non CHQ/RHQ | 1.98 | 2.91 | 2.99 | 3.50 | 3.85 | 4.24 | 4.66 |
| Administration and General expenses - CHQ/RHQ | 2.10 | 2.21 | 2.32 | 2.44 | 2.56 | 2.69 | 2.82 |
| Repairs and maintenance | 5.27 | 7.50 | 8.19 | 8.78 | 9.43 | 8.67 | 8.80 |
| Utilities and outsourcing expenses | 2.71 | 2.99 | 3.01 | 3.04 | 3.07 | 3.10 | 3.13 |
| Other outflows - Collection Charges on UDF | 0.19 | 0.23 | 0.25 | 0.27 | 0.29 | 0.32 | 0.35 |
| Total | 23.94 | 28.70 | 32.10 | 34.11 | 36.09 | 36.75 | 38.39 |

11.6 The summary of growth rates assumed by AAI for the operation and maintenance expenses have been presented in the table below:

Table 31: Growth rates in O&M as per AAI

| Particulars | Control period | | | | |
|---|----------------|-----------|-----------|-----------|-----------|
| | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| Payroll expenses - non CHQ/RHQ | 19% | 5% | 5% | 5% | 5% |
| Payroll expenses - CHQ/RHQ | 19% | 5% | 5% | 5% | 5% |
| Administration and General expenses - non CHQ/RHQ | 3% | 17% | 10% | 10% | 10% |
| Administration and General expenses - CHQ/RHQ | 5% | 5% | 5% | 5% | 5% |
| Repairs and maintenance | 9% | 7% | 7% | -8% | 2% |
| Utilities and outsourcing expenses | 1% | 1% | 1% | 1% | 1% |
| Other outflows - Collection Charges on UDF | 8% | 8% | 8% | 11% | 11% |
| Total | 12% | 6% | 6% | 2% | 4% |

11.7 Further, summary of allocation of expenses between aeronautical and non-aeronautical as proposed by AAI is given in the table below:

Table 32: Allocation of O&M expenses as per AAI

| Particulars | Aeronautical | Non-aeronautical |
|---|--------------|------------------|
| Payroll expenses - non CHQ/RHQ | 96.5% | 3.5% |
| Payroll expenses - CHQ/RHQ | 95% | 5% |
| Administration and General expenses - non CHQ/RHQ | 100% | 0% |
| Administration and General expenses - CHQ/RHQ | 95% | 5% |
| Repairs and maintenance | 96% | 4% |
| Utilities and outsourcing expenses | 100% | 0% |
| Other outflows - Collection Charges on UDF | 100% | 0% |

Authority's Examination:

11.8 The Authority examined the trial balances for FY 2017 and FY 2018 to ensure that the actual figures considered by AAI for these two years are accurate. In all instances except the following four, the numbers were found to be consistent with the trial balances.

- In the tariff determination model, the Authority observed that repairs and maintenance expenses were found to be underestimated by INR 4 lakh for FY 2016-17. The Authority proposes to revise the same.
- For FY 2017, an expense included in 'Other outflows' amounting to INR 5.44 lakh pertained to ANS services. Because ANS services are considered separate from airport operations, the Authority proposes to exclude this expense.

11.9 Regarding other outflows, the Authority observed that AAI has projected two separate collection charges - collection charges on PSF (FC) and collection charges on UDF. These are given in the table below.

Table 33: Other outflows - Collection charges as proposed by AAI (INR crores)

| Particulars | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Collection Charges on PSF (FC) | 0.19 | 0.23 | 0.25 | 0.27 | 0.29 | 0.31 | 0.33 |
| Collection Charges on UDF | - | - | - | - | - | 0.01 | 0.02 |
| Total | 0.19 | 0.23 | 0.25 | 0.27 | 0.29 | 0.32 | 0.35 |

Upon examination of the proposed tariff card, the Authority found that with implementation of new charges, AAI has proposed to subsume PSF (FC) charges under the UDF charges as one single charge. Therefore, projections of such outflows should be based on this one single charge of UDF, and not on two separate charges. On account of this, the Authority proposes to exclude INR 1 lakh and INR 2 lakhs projected by AAI in tariff years 4 and 5, respectively from O&M expenses. Accordingly, the revised projections of other outflows, based on revised ATM traffic projections, are given in the table below.

Table 34: Other outflows - Collection charges as proposed by Authority (INR crores)

| Particulars | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Collection Charges on UDF | 0.13 | 0.23 | 0.25 | 0.27 | 0.29 | 0.31 | 0.33 |
| Collection Charges on PSF (FC) | - | - | - | - | - | - | - |
| Total | 0.13 | 0.23 | 0.25 | 0.27 | 0.29 | 0.31 | 0.33 |

11.10 The Authority observed in the tariff determination model that the total utilities and outsourcing expenses did not include water and manpower hiring charges, while the same should have been included as it is actually incurred by the Airport. The Authority accordingly proposes to include the same in utilities and outsourcing expenses.

11.11 The Authority examined the allocation of expenses between aeronautical and non-aeronautical. The Authority compared the allocation proposed by AAI to its recent orders for other AAI airports. A summary of these has been presented in the table below.

Table 35: Comparison of allocation of O&M expenses with other AAI airports

| Expense category | Indore | Kolkata | Jaipur | Trivandrum |
|---|--------|---------|--------|------------|
| Payroll expenses - non CHQ/RHQ | 96.5% | 88% | 94% | 95% |
| Payroll expenses - CHQ/RHQ | 95% | 88% | 95% | 95% |
| Administration and General expenses - non | 100% | 96% | 88% | 94% |

| Expense category | Indore | Kolkata | Jaipur | Trivandrum |
|---|--------|---------|--------|------------|
| CHQ/RHQ | | | | |
| Administration and General expenses - CHQ/RHQ | 95% | 85% | 90% | 90% |
| Repairs and maintenance | 96% | 89% | 93% | 97% |
| Utilities and outsourcing expenses | 100% | 91% | 93% | 98% |
| Other outflows - Collection Charges on UDF | 100% | 93% | 100% | 100% |

11.12 The Authority observed that the Administration and General expenses - non CHQ/RHQ were not allocated between aeronautical and non-aeronautical. To ensure that these expenses are allocated between aeronautical and non-aeronautical in an appropriate manner, the Authority examined them in detail. These expenses comprise various other sub-expenses. The Authority made the following observations for these sub-expenses:

- 'Upkeep expenses' pertain to the terminal building, and hence are proposed to be allocated in terminal area ratio.
- 'Office expenses' pertain to expenses incurred in AAI's office areas at the airport. These are proposed to be allocated as per employee ratio.
- 'Telephone expenses' are proposed to be allocated as per employee ratio.
- 'Printing expenses' are proposed to be allocated as per employee ratio.

Refer Chapter 5 for details of these ratios. After incorporating these changes, the overall allocation of administration and general expenses (non-CHQ/RHQ) is proposed to be revised to 96%.

11.13 The Authority noted 100% allocation of the utilities and outsourcing expenses as aeronautical by AAI. The Authority desired to have an ideal allocation based on actual consumption by the non-aeronautical avenues like stalls, kiosks etc. at the airport. In absence of data pertaining to actual consumption by such avenues, the Authority proposes to consider 1% of power charges as non-aeronautical.

11.14 For allocation of payroll expenses (non-CHQ/RHQ), the Authority observed that AAI considered an employee ratio of 3:83 in FY 2017-18. However, as discussed in Chapter 5, the actual employee ratio for FY 2017-18 was 4:81. Therefore, the Authority proposes to revise the allocation of payroll expenses for FY 2017-18 on the basis of this revised ratio.

11.15 The Authority proposes the following allocation of O&M expenses into aeronautical and non-aeronautical.

Table 36: Allocation of O&M expenses as per the Authority

| Particulars | Aeronautical | Non-aeronautical |
|---|--------------|------------------|
| Payroll expenses - non CHQ/RHQ | 95% | 5% |
| Payroll expenses - CHQ/RHQ | 95% | 5% |
| Administration and General expenses - non CHQ/RHQ | 96% | 4% |
| Administration and General expenses - CHQ/RHQ | 95% | 5% |
| Repairs and maintenance | 96% | 4% |
| Utilities and outsourcing expenses | 99% | 1% |
| Other outflows - Collection Charges on UDF | 100% | 0% |

11.16 The Authority examined the growth rates considered by AAI. For payroll expenses, AAI has considered an overall growth rate of approximately 19% for FY 2019. This was on account of revised pay commission, which is applicable to employees of AAI. Upon examination and consultation with AAI, it was found that the revised pay commission was implemented by AAI in FY 2018 for executive grade employees. The implementation for non-executive grade employees is proposed to be done in FY 2019. Therefore, the Authority proposes to consider that the growth in overall payout of non-executive grade employees should be similar to the actual growth in payout of executive grade of employees in FY 2018 based on revised pay commission. The Authority found this to be an increment of 37.16% for non-executive grade employees. Based on the proportion of employees in the two grades, the Authority has found the overall growth of 19% in FY 2019 to be reasonable.

11.17 AAI considered a growth rate of 5% in payroll expenses beyond FY 2019. AAI made a revised submission for a 7% growth rate in payroll expenses, for consistency with other AAI airports. The Authority has found the growth rate of 7% to be reasonable.

11.18 The repairs and maintenance expenses included runway resurfacing expenses. Details of this have been given in the table below.

Table 37: Runway resurfacing charges (INR crores)

| Particulars | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Actual cash expense incurred | 7.38 | | | | | | |
| Expense 1 | | 3.26 | | | | | |
| Expense 2 | | | 0.77 | | | | |
| Expense 3 | | | | | | | |
| To be charged off in 5 years | | | | | | | |
| Incurred in FY 17 | 1.48 | 1.48 | 1.48 | 1.48 | 1.48 | - | - |
| Incurred in FY 18 | - | 0.65 | 0.65 | 0.65 | 0.65 | 0.65 | - |

| Particulars | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Incurring in FY 19 | - | - | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |
| Total expense | 1.48 | 2.13 | 2.28 | 2.28 | 2.28 | 0.81 | 0.15 |

The Authority notes that these expenses are expected to provide a benefit of 5 years, after which resurfacing of runway would be needed again. Therefore, the expense incurred is spread over 5 years. The Authority examined the commercial documents in this regard, and has found the expense projected to be reasonable. Moreover, because this expense has reduced from FY 2022 onwards, there was a significant decrease in implied growth rate for repairs and maintenance expenses in FY 2022 (-8%).

11.19 The Authority examined actual growth trend of expenses for the past few years at the airport. Further, the Authority examined a few contractual agreements with vendors on a sample basis to understand the escalation dynamics. On the basis of these checks, the Authority has found the considered growth rates to be reasonable.

11.20 For other outflows, i.e., collection charges on UDF, AAI considered the growth rate to be the same as that of ATM traffic. The Authority found the same to be a reasonable driver.

11.21 Based on above considerations, the Authority proposes the following growth rates in operation and maintenance expenses.

Table 38: Growth rates in O&M expenses considered by the Authority

| Particulars | Control period | | | | |
|---|-----------------------|----------------|----------------|----------------|----------------|
| | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| Payroll expenses - non CHQ/RHQ | 20% | 7% | 7% | 7% | 7% |
| Payroll expenses - CHQ/RHQ | 20% | 7% | 7% | 7% | 7% |
| Administration and General expenses - non CHQ/RHQ | 6% | 17% | 10% | 10% | 10% |
| Administration and General expenses - CHQ/RHQ | 5% | 5% | 5% | 5% | 5% |
| Repairs and maintenance | 9% | 7% | 7% | -8% | 2% |
| Utilities and outsourcing expenses | 2% | 2% | 2% | 2% | 3% |
| Other outflows - Collection Charges on UDF | 8% | 8% | 8% | 8% | 8% |
| Total | 13% | 7% | 7% | 3% | 6% |

11.22 After incorporating the above observations by the Authority, the revised O&M expenses have been presented in the table below.

Table 39: Operation and maintenance (O&M) expenses as revised by the Authority (INR crores)

| Particulars | Pre control regulatory period | | Control period | | | | |
|---|-------------------------------|--------------|----------------|--------------|--------------|--------------|--------------|
| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| Payroll expenses - non CHQ/RHQ | 9.67 | 10.62 | 12.78 | 13.65 | 14.61 | 15.63 | 16.72 |
| Payroll expenses - CHQ/RHQ | 2.01 | 2.12 | 2.54 | 2.72 | 2.91 | 3.11 | 3.33 |
| Administration and General expenses - non CHQ/RHQ | 1.81 | 2.81 | 2.97 | 3.49 | 3.84 | 4.22 | 4.65 |
| Administration and General expenses - CHQ/RHQ | 2.10 | 2.21 | 2.32 | 2.44 | 2.56 | 2.69 | 2.82 |
| Repairs and maintenance | 5.31 | 7.50 | 8.19 | 8.78 | 9.43 | 8.67 | 8.80 |
| Utilities and outsourcing expenses | 2.81 | 3.35 | 3.41 | 3.48 | 3.55 | 3.63 | 3.73 |
| Other outflows - Collection Charges on UDF | 0.13 | 0.23 | 0.25 | 0.27 | 0.29 | 0.31 | 0.33 |
| Total | 23.86 | 28.82 | 32.46 | 34.82 | 37.18 | 38.26 | 40.38 |

Proposal No. 9: Regarding O&M expenses

- 9.a. The Authority proposes to consider O&M expenses for the 1st Control Period for Indore Airport as per Table 39.

12. Taxation

12.1 To compute depreciation for tax purposes, AAI has used the depreciation rates in accordance with the following table:

Table 40: Depreciation rates for tax purposes as per AAI

| Asset category | IT Depreciation rate - up to FY 18 | IT Depreciation rate - from FY 19 |
|--|---|--|
| Freehold Land | 0% | 0% |
| Runways, Aprons and Taxiways | 15% | 10% |
| Road, Bridges & Culverts | 10% | 10% |
| Building – Terminal | 10% | 10% |
| Building – Residential | 5% | 5% |
| Boundary Wall – Operational | 15% | 10% |
| Boundary Wall – Residential | 5% | 5% |
| Other Buildings | 10% | 10% |
| Computer - End user | 60% | 40% |
| Computer - Servers and networks | 60% | 40% |
| Intangible Assets – Software | 60% | 40% |
| Plant & Machinery | 15% | 15% |
| Tools & Equipment | 15% | 15% |
| Office Furniture | 10% | 10% |
| Furniture & Fixtures: Other Than Trolley | 10% | 10% |
| Furniture & Fixtures: Trolley | 10% | 10% |
| Vehicles | 15% | 15% |
| Vehicles - car and jeep | 15% | 15% |
| Electrical Installations | 10% | 10% |
| Other Office Equipment | 10% | 10% |
| X Ray Baggage System | 15% | 15% |
| CFT/Fire Fighting Equipment | 15% | 15% |

12.2 The tax calculation as submitted by AAI has been presented in the table below:

Table 41: Taxation as per AAI (figures in INR crores)

| Particulars | Pre control regulatory period | | Control period | | | | |
|---------------------------------|--------------------------------------|----------------|-----------------------|----------------|----------------|----------------|----------------|
| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| Aero revenue with revised rates | 22.30 | 24.97 | 48.84 | 88.30 | 97.52 | 107.7 | 117.2 |
| Non aeronautical revenue | 2.56 | 2.02 | 4.81 | 5.15 | 5.63 | 6.17 | 6.77 |
| O&M expenses | -23.94 | -28.70 | -32.10 | -34.11 | -36.09 | -36.75 | -38.39 |
| Depreciation | -11.58 | -9.80 | -12.64 | -17.30 | -18.38 | -16.31 | -14.50 |
| Profit before tax | -10.67 | -11.52 | 8.91 | 42.04 | 48.69 | 60.83 | 71.08 |
| Tax rate (%) | 34.608% | 34.608% | 34.944% | 34.944% | 34.944% | 34.944% | 34.944% |
| Taxes | - | - | 3.11 | 14.69 | 17.01 | 21.26 | 24.84 |

Authority's Examination:

- 12.3 The Authority observed that AAI had proposed 01/11/2018 as the implementation date of the new tariffs. The Authority proposes to revise the same to 01/03/2019. This had an impact on the projected aeronautical revenues, leading to difference in tax computation.
- 12.4 The Authority examined the depreciation rates considered by AAI and compared them with the rates prescribed in the Income Tax Act, 1961. The Authority observed that in case of one asset category, the depreciation rates proposed by AAI were not in line with the Income Tax Act, 1961. These have been presented in the table below.

Table 42: Difference in depreciation rates for tax purposes

| Asset category | Up to FY 2018 | |
|---------------------------|------------------|----------------------------------|
| | Rate used by AAI | Rate as per Income Tax Act, 1961 |
| Boundary wall-operational | 15% | 10% |

- 12.5 The Authority observed that the tax treatment of losses by AAI is not appropriate. AAI did not consider carry-forward of losses and their set-off in subsequent years of profit. In the period between FY 2016-17 and FY 2017-18, existing airport charges were levied. Further, in the first year of the control period, i.e. FY 2018-19, existing charges are being levied until the implementation of revised charges. The Authority observed that the existing charges led to aeronautical losses in these years. In its computation of tax expenses, AAI did not consider the benefit of these losses on taxable aeronautical profits of subsequent years, leading to increase in overall projected tax expenses. The Authority proposes to consider the carry forward and set-off of these losses. Refer Table 43 for application of carry forward and set-off of losses.
- 12.6 The Authority evaluated the computation of depreciation for tax allowance purposes as submitted by AAI. The Authority observed that for FY 2017-18, the depreciation rate used by AAI was not appropriate. For this financial year, AAI considered the set of rates that are applicable from FY 2018-19. The Authority proposes to use the set of rates that are applicable to FY 2017-18. The difference between these two sets of depreciation rates impacted four categories of assets. These are:
- Runways, aprons and taxiways
 - Computer - End user
 - Computer - Servers and networks
 - Intangible Assets – Software

Refer Table 40 for the depreciation rates pertaining to these asset categories.

12.7 The Authority observed that non-aeronautical revenues have been considered for computation of taxes. Under hybrid till, only aeronautical taxes are considered for tariff determination. Therefore, the Authority proposes to exclude the non-aeronautical revenues from this computation.

12.8 The Authority proposes to consider the O&M expenses in accordance with Table 39 for computation of tax expense.

12.9 The Authority proposes to consider the capital expenditures for computation of depreciation in accordance with Table 16.

12.10 After considering all the above observations, the Authority proposes the following tax expense during the 1st control period.

Table 43: Tax expense as per Authority (figures in INR crores)

| Particulars | Pre control regulatory period | | Control period | | | | |
|--|-------------------------------|--------------|----------------|-------------|-------------|-------------|-------------|
| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| Aero revenue with proposed rates | 22.3 | 24.9 | 32.2 | 84.5 | 96.4 | 110.1 | 125.7 |
| Non aeronautical revenue | - | - | - | - | - | - | - |
| O&M expenses | -23.9 | -28.8 | -32.5 | -34.8 | -37.2 | -38.3 | -40.4 |
| Depreciation | -11.4 | -10.3 | -12.4 | -17.1 | -18.2 | -16.2 | -14.4 |
| Profit before tax | -13.0 | -14.1 | -12.7 | 32.6 | 41.0 | 55.6 | 71.0 |
| Carry forward of loss | -13.0 | -14.1 | -12.7 | - | - | - | - |
| Set-off of loss | - | - | - | 32.6 | 7.3 | - | - |
| Profit before tax after set-off of loss | -13.0 | -14.1 | -12.7 | - | 33.8 | 55.6 | 71.0 |
| Tax rate (%) | 34.61 | 34.61 | 34.94 | 34.94 | 34.94 | 34.94 | 34.94 |
| Taxes | - | - | - | - | 11.8 | 19.4 | 24.8 |

Proposal No. 10: Regarding tax expense

10.a. The Authority proposes to consider the tax expense for the 1st Control Period for Indore Airport as per Table 43.

13. True up

- 13.1 As explained in Chapter 2 of this consultation paper, the Authority considered the Aggregate Revenue Requirement, or ARR, for the first two years, i.e. FY 2016-17 and FY 2017-18. This ARR would be compared with the actual aeronautical revenues earned by AAI. Any shortfall (or surplus) would be added (true-up) to the ARR for the five-year control period.
- 13.2 AAI submitted a computation of true up based on actual figures of FY 2016-17 and FY 2017-18.
- 13.3 The shortfall has been compounded up to 1st April, 2019. The true-up computation proposed by AAI has been presented in the table below.

Table 44: True up calculation as per AAI (figures in INR crores)

| Particulars | FY 2017 | FY 2018 | FY 2019 |
|---|--------------|--------------|--------------|
| ARR | 45.73 | 50.60 | |
| Actual aero revenues | 22.30 | 24.97 | |
| Shortfall | 23.44 | 25.63 | |
| Future value factor at 14% | 1.30 | 1.14 | |
| Future value of shortfall at 14% | 30.46 | 29.22 | 59.68 |

Authority's examination:

- 13.4 The Authority proposes to revise the above computation on the basis of its proposals of various regulatory building blocks discussed in this paper, as those observations and proposals are applicable for these two years as well. Accordingly, the Authority's computation of true-up is presented in the table below.

Table 45: True up calculation as per the Authority (figures in INR crores)

| Particulars | FY 2017 | FY 2018 | FY 2019 |
|---|--------------|--------------|--------------|
| ARR | 45.49 | 48.97 | |
| Actual aero revenues | 22.25 | 24.94 | |
| Shortfall | 23.24 | 24.03 | |
| Future value factor at 14% | 1.30 | 1.14 | |
| Future value of shortfall at 14% | 30.20 | 27.40 | 57.60 |

Proposal No. 11: Regarding true-up

- 11.a. The Authority proposes to consider the true up calculations for the 1st Control Period for Indore Airport as per Table 45.

14. Aggregate Revenue Requirement for the 1st control period

14.1 AAI has submitted Aggregate Revenue Requirement (ARR) and yield per passenger (Y) for the 1st control period as per the regulatory building blocks discussed.

14.2 All cash flows are assumed to occur at the end of the year. Further, all cash flows are discounted to 1st April, 2019.

14.3 The summary of ARR and Yield has been presented in the table below.

Table 46: ARR and Yield as per AAI

| Particulars | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|--------------------------------------|---------------|--------------|--------------|--------------|--------------|
| Average RAB (INR crores) | 101.48 | 142.89 | 157.66 | 142.04 | 127.63 |
| Fair Rate of Return | 14% | 14% | 14% | 14% | 14% |
| Return on average RAB (INR crores) | 14.21 | 20.00 | 22.07 | 19.89 | 17.87 |
| O&M expenses (INR crores) | 32.10 | 34.11 | 36.09 | 36.75 | 38.39 |
| Depreciation (INR crores) | 14.50 | 16.25 | 17.18 | 14.90 | 14.77 |
| Tax expense (INR crores) | 3.11 | 14.69 | 17.01 | 21.26 | 24.84 |
| Less: 30% NAR (INR crores) | -4.81 | -5.15 | -5.63 | -6.17 | -6.77 |
| ARR per year (INR crores) | 59.12 | 79.91 | 86.72 | 86.63 | 89.10 |
| Add: True up | 59.68 | | | | |
| PV of ARR based @14% (INR crores) | 118.79 | 70.09 | 66.73 | 58.47 | 52.76 |
| Total present value of ARR (INR cr.) | 366.84 | | | | |
| Total traffic (million passengers) | 15.15 | | | | |
| Yield per passenger (Y) (INR) | 242.08 | | | | |

Authority's Examination:

14.4 The observations and proposals of the Authority across the regulatory building blocks impact the computation of ARR and Yield. With respect to each element of the regulatory building blocks considered by AAI in computation of ARR and Yield in the Table 46 above, the Authority proposes as below:

14.4.1 To consider the average RAB in accordance with Table 23.

14.4.2 To consider the FRoR at 14%.

14.4.3 To consider the O&M expenses as per Table 39.

14.4.4 To consider the depreciation as per Table 21.

14.4.5 To consider the tax expense as per Table 43.

14.4.6 To consider the non-aeronautical revenue as per Table 29.

14.4.7 To consider the total traffic in accordance with Table 5.

14.5 After considering the above, the Authority proposes the following ARR and Yield, as presented in the table below.

Table 47: ARR and Yield as per Authority

| Particulars | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Average RAB (INR crores) | 100.22 | 140.80 | 158.72 | 147.30 | 137.09 |
| Fair Rate of Return | 14% | 14% | 14% | 14% | 14% |
| Return on average RAB (INR crores) | 14.03 | 19.71 | 22.22 | 20.62 | 19.19 |
| O&M expenses (INR crores) | 32.46 | 34.82 | 37.18 | 38.26 | 40.38 |
| Depreciation (INR crores) | 14.49 | 14.14 | 12.98 | 10.70 | 10.57 |
| Tax expense (INR crores) | - | - | 11.80 | 19.44 | 24.80 |
| Less: 30% NAR (INR crores) | -6.54 | -7.27 | -7.97 | -8.73 | -9.59 |
| ARR per year (INR crores) | 54.44 | 61.40 | 76.21 | 80.28 | 85.34 |
| Add: True up | 57.60 | | | | |
| PV of ARR based @14% (INR crores) | 112.04 | 53.86 | 58.64 | 54.19 | 50.53 |
| Total present value of ARR (INR cr.) | 329.26 | | | | |
| Total traffic (million passengers) | 17.57 | | | | |
| Yield per passenger (Y) (INR) | 187.37 | | | | |

14.6 It is to be noted that the above yield is based on total passengers expected at the airport, i.e., departing as well as embarking. It is an indicative figure, not to be confused with revenue entitlement to the airport per departing passenger only. The yield per departing passenger in similar terms would be twice of yield as per the above table, i.e. INR 374.74.

Proposal No. 12: Regarding Aggregate Revenue Requirement

12.a. The Authority proposes to consider the ARR and Yield for the 1st control period for Indore airport in accordance with Table 47.

15. Annual Tariff Proposal

- 15.1 As part of the Multi-year Tariff proposal, AAI submitted a tariff card for all five years of the first control period. This tariff card has been reproduced in this chapter. The Authority examined AAI's Multi-year Tariff Proposal, along with all regulatory building blocks. The Authority's examination has been discussed in this consultation paper in the previous chapters. Except a revised UDF, AAI has not revised the tariff card after Authority's examination.
- 15.2 AAI has proposed the implementation date of new tariffs from 01/11/2018. The Authority has proposed to revise the implementation date to 01/03/2019.
- 15.3 The tariff card proposed for the first control period has been reproduced here. For purposes of comparison, the existing aeronautical charges have been provided along with each charge.
- 15.4 Because there are no international operations at Indore airport, and no projections made, the Authority does not intend to propose any tariff for international operations. As and when the international operations commence at Indore Airport, AAI may approach the Authority with its tariff proposal.

Table 48: Landing charges proposed for the first control period

| Weight of the Aircraft | Domestic rate per landing (INR) |
|-------------------------------|--|
| Up to 25 MT | 160 Per MT |
| Above 25 MT up to 50 MT | 4,000+280 per MT in excess of 25 MT |
| Above 50 MT up to 100 | 11,000+320 per MT in excess of 50 MT |
| Above 100 MT to 200 MT | 27,000+390 per MT in excess of 100 MT |
| Above 200 MT | 66,000+440 per MT in excess of 200 MT |

Table 49: Existing landing charges

| Weight of Aircraft | Domestic flights |
|---------------------------|---|
| Up to 10 MT | INR 67.10 per MT |
| Above 10 MT up to 20 MT | INR 671 plus INR 117.70 per MT in excess of 10 MT |
| Above 20 MT up to 50 MT | INR 1,848 plus INR 231 per MT in excess of 20 MT |
| Above 50 MT up to 100 MT | NA |
| Over 100 MT | NA |

- 15.4.1 No landing charges shall be payable in respect of a) aircraft with a maximum certified capacity of less than 80 seats, being operated by domestic schedule operators at airport, b) helicopters of all types, and c) DGCA approved Flying school/flying training institute aircrafts.
- 15.4.2 All domestic legs of international routes flown by Indian operators will be treated as domestic flights as far as landing charges is concerned, irrespective of flight number assigned to such flights.
- 15.4.3 Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg).
- 15.4.4 Flights operating under Regional connectivity scheme will be completely exempted from Landing charges from the date of the scheme is operationalized by GOI.

II) PARKING AND HOUSING CHARGES

Table 50: Parking and housing charges proposed for the first control period

| Weight of the Aircraft | Parking Charges Rates per Hour (INR) | Housing Charges Rates per Hour (INR) |
|-------------------------------|--|--|
| Up to 25 MT | 3.00 Per Hour Per MT | 6.00 Per Hour Per MT |
| Above 25 MT up to 50 MT | 75.00+4.00 per Hour per MT in excess of 25 MT | 150.00+8.00 per MT per Hour in excess of 25 MT |
| Above 50 MT up to 100 | 175.00+8.00 per MT per Hour in excess of 50 MT | 350.00+16.00 per MT per Hour in excess of 50 MT |
| Above 100 MT to 200 MT | 575.00+10.00 per MT per Hours in excess of 100 MT | 1150.00+20.00 per MT per Hours in excess of 100 MT |
| Above 200 MT | 1575.00+11.00 per MT per Hours in excess of 200 MT | 3150.00+22.00 per MT per Hours in excess of 200 MT |

Table 51: Existing parking, housing and night parking charges

| Weight of Aircraft | Domestic flights | International flights |
|---------------------------|--|--|
| Housing charges: | | |
| Up to 40 MT | INR 3.50 per hour per MT | INR 4.10 per hour per MT |
| Above 40 MT up to 100 MT | INR 140 plus INR 6.80 per hour per MT in excess of 40 MT | INR 164 plus INR 7.90 per hour per MT in excess of 40 MT |
| Above 100 MT | INR 548 plus INR 10.30 per hour per MT in excess of 100 MT | INR 638 plus INR 11.90 per hour per MT in excess of 100 MT |

| Weight of Aircraft | Domestic flights | International flights |
|---|---|---|
| Parking charges: | | |
| Up to 40 MT | INR 1.80 per hour per MT | INR 2.10 per hour per MT |
| Above 40 MT up to 100 MT | INR 72 plus INR 3.40 per hour per MT in excess of 40 MT | INR 84 plus INR 3.90 per hour per MT in excess of 40 MT |
| Above 100 MT | INR 276 plus INR 5.20 per hour per MT in excess of 100 MT | INR 318 plus INR 6.00 per hour per MT in excess of 100 MT |
| Night parking charges (between 2200 hours and 0600 hours): | | |
| Up to 40 MT | INR 0.90 per hour per MT | INR 1.10 per hour per MT |
| Above 40 MT up to 100 MT | INR 36 plus INR 1.70 per hour per MT in excess of 40 MT | INR 44 plus INR 2.00 per hour per MT in excess of 40 MT |
| Above 100 MT | INR 138 plus INR 2.60 per hour per MT in excess of 100 MT | INR 164 plus INR 3.00 per hour per MT in excess of 100 MT |

15.4.5 No parking charges shall be levied for the first two hours. While calculating free parking period, standard time of 15 minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of taxing time of aircraft from parking stand to take off point. These periods shall be applicable for each aircraft irrespective of actual time taken in the movement of aircraft after landing and before take-off.

15.4.6 For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour.

15.4.7 Charges shall be calculated on the basis of nearest MT.

15.4.8 Charges for each period parking shall be rounded off to nearest rupee.

15.4.9 At the in-contact stands and open stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges.

15.4.10 It is proposed to waive off the night parking charges in principle for all domestic scheduled operators at Indore Airport if the State Government has brought the rate of tax (VAT) on ATF \leq 5%. The above waiver of night parking charges (between 2200 hrs. to 0600 hrs.) will be made

applicable from the date of implementation of $\leq 5\%$ tax on ATF by the State Govt. In the event of upward revision in the tax rate of ATF by the State Govt., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State.

- 15.4.11 The tariff for flights operating under Regional Connectivity Scheme will be governed by AIC issued on this subject by DGCA.

III) THROUGHPUT CHARGES

| |
|--------------------------------------|
| Proposed Rate Per KL (IN INR) |
| 164.57 |

IV) PASSENGER SERVICE FEE (PSF) – FACILITATION/USER DEVELOPMENT FEES (UDF)

| Category | Existing rate – PSF (FC) - INR per embarking passenger | Proposed rate – UDF - INR per embarking passenger |
|----------|--|---|
| Domestic | 77 | 394 |

Note: PSF (FC) is proposed to be subsumed under UDF. PSF (SC) would be applicable as prescribed by the Ministry of Civil Aviation. Originally, AAI proposed a UDF of INR 460 per embarking domestic passenger. However, after examination of the regulatory building blocks by the Authority and the resultant ARR, there was a surplus in projected aeronautical revenues when compared with ARR. Therefore, to ensure that the projected aeronautical revenues match with the ARR, AAI has proposed the UDF per embarking domestic passenger at INR 394 for domestic passengers.

- 15.4.12 Collection charges: If the payment is made within 15 days of receipt of invoice then collection charges at INR 5 per departing passenger shall be paid by AAI. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days or in case of any part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any account with AAI. Wherever collection charges are payable the amount shall be settled within 15 days. Further, the Authority notes that Credit Policy of AAI is being revised with effect from 01/04/2019. However, the same shall be considered by the Authority after consultation with the stakeholders.
- 15.4.13 No collection charges are payable to casual operator/non-scheduled operators.
- 15.4.14 For conversion of UDF in foreign currency, the RBI reference conversion rate as on the last day of the previous month for tickets issued in the 1st fortnight and rate as on 15th of the month for tickets issued in the 2nd fortnight shall be adopted.

- 15.4.15 Revised UDF charges will be applicable on tickets issued on or after 01/03/2019.

V) Exemption from levy and collection from UDF at the Airports

The following categories of persons are exempted from levy and collection of UDF:

- 15.4.16 Children (under age of 2 years),
- 15.4.17 Holders of Diplomatic Passport,
- 15.4.18 Airlines crew on duty including sky marshals & airline crew on board for the particular flight only (this would not include Dead Head Crew, or ground personnel),
- 15.4.19 Persons travelling on official duty on aircraft operated by Indian Armed Forces,
- 15.4.20 Persons traveling on official duty for United Nations Peace Keeping Missions,
- 15.4.21 Transit/transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hours. A passenger is treated in transit only if onward travel journey is within 24 hours from arrival into airport and is part of the same ticket. In case two separate tickets are issued, it would not be treated as transit passenger), and
- 15.4.22 Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions.

VII) GENERAL CONDITION:

All the above Charges are excluding GST. GST at the applicable rates are payable in addition to above charges.

Aeronautical revenue under the proposed tariff card:

- 15.4.23 The Authority ensured that the proposed tariff card leads to projected revenues in line with the ARR. This has been further detailed in the table below.

Table 52: Computation of shortfall or surplus from proposed aeronautical charges (in INR crores)

| Particulars | FY 2019 - up to 28/02/19 | FY 2019 - from 01/03/19 | FY 202 0 | FY 202 1 | FY 202 2 | FY 202 3 |
|--|-----------------------------|----------------------------|----------------|----------------|----------------|----------------|
| Total PV of ARR including true up | 329.26 | | | | | |

| Particulars | FY 2019 - up to 28/02/19 | FY 2019 - from 01/03/19 | FY 202 0 | FY 202 1 | FY 202 2 | FY 202 3 |
|---|-----------------------------|----------------------------|----------------|----------------|----------------|----------------|
| Landing charges: | | | | | | |
| Domestic | 12.4 | 1.5 | 19.9 | 22.3 | 25.1 | 28.2 |
| International | - | - | - | - | - | - |
| Parking and housing charges: | | | | | | |
| Domestic | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| International | - | - | - | - | - | - |
| Fuel Throughput charges | 0.6 | 0.1 | 0.8 | 0.9 | 1.1 | 1.2 |
| Ground handling charges | 1.0 | 0.1 | 1.2 | 1.3 | 1.4 | 1.5 |
| Land lease - Oil companies / Ground Handling | 0.7 | 0.1 | 0.8 | 0.8 | 0.8 | 0.8 |
| CUTE charges | 2.1 | 0.2 | 2.6 | 3.0 | 3.5 | 4.0 |
| Total - before UDF | 16.8 | 1.9 | 25.4 | 28.5 | 31.9 | 35.9 |
| PV factor | 1.00 | 1.00 | 0.88 | 0.77 | 0.67 | 0.59 |
| PV of above | 16.8 | 1.9 | 22.3 | 21.9 | 21.5 | 21.2 |
| Σ PV of above | 105.68 | | | | | |
| Shortfall before UDF | 223.58 | | | | | |
| UDF: | | | | | | |
| Domestic | 9.2 | 4.3 | 59.1 | 68.0 | 78.2 | 89.9 |
| International | - | - | - | - | - | - |
| PV of UDF | 9.2 | 4.3 | 51.8 | 52.3 | 52.8 | 53.2 |
| Σ PV of UDF | 223.58 | | | | | |
| Shortfall / (surplus) | - | | | | | |

Authority's examination:

15.5 As can be observed from the table above, AAI is entitled to recover an ARR of INR 329.26 crores, as per Authority's proposals, summarized in Chapter 17. From the tariff card proposed and further revised by AAI, the present value of total projected aeronautical revenues is INR 329.26 crores (INR 105.68 crores + INR 223.58 crores), which is within the ARR.

Proposal No. 13: Regarding tariff rate card

13.a. The Authority proposes the Annual Tariff Proposal as given in Section 16.3 for determination of tariff during 1st control period as the present value of proposed revenues by AAI matches with the ARR as per Authority.

13.b. Because there are no international operations at Indore Airport, and no projections made, the Authority does not intend to propose any tariff for international operations. As and when the international operations commence at Indore Airport, AAI may approach the Authority with its tariff proposal.

16. Summary of proposals

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17. Stakeholders' Consultation Timeline

- 17.1 In accordance with the provision of Section 13(4) of the AERA Act, 2008, the proposals contained in the Chapter 17 – Summary of proposals read with the relevant discussion in the other chapters of the paper is hereby put forth for Stakeholders' Consultation.
- 17.2 For removal of doubts, it is clarified that the contents of this consultation paper may not be construed as any Order or Direction by the Authority. The Authority shall pass an order, in the matter, only after considering the submissions of the stakeholders' in response hereto and by making such decisions fully documented and explained in terms of the provisions of the Act.
- 17.3 The Authority welcomes written evidence based feedback, comments and suggestions from stakeholders on the proposal made in Chapter 17 above, latest by **11.02.2019** at the following address:

Secretary,

Airports Economic Regulatory Authority of India

AERA Building, Administrative Complex, Safdarjung Airport,

New Delhi -110003

Tel: 011-24695040,

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**(S. Machendranathan)
Chairperson**