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**Consultation Paper No. 09/2013-14**

# Airports Economic Regulatory Authority of India

# Determination of Aeronautical Tariffs in respect of Rajiv Gandhi International Airport, Shamshabad, Hyderabad for the first control period (01.04.2011 – 31.03.2016)

**New Delhi: 21st May, 2013**

**AERA Building**
**Administrative Complex**
**Safdarjung Airport**
**New Delhi - 110003**

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# In the matter of Determination of Tariffs for Aeronautical Services in respect of Rajiv Gandhi International Airport, Shamshabad, Hyderabad for the First Control Period (01.04.2011 – 31.03.2016)

## 1. Brief facts

**1.1.** Earlier, Airports in India were developed, owned and managed by Airports Authority of India (AAI). To keep with anticipated air traffic growth, GoI initiated the process of upgrading the existing airports in the country through AAI and also encouraged the setting up of Greenfield airports through private sector participation (PSP). In 1994 GoI also amended the Airports Authority of India Act, 1994 (AAI Act) allowing inter alia carrying out airport related activities through Public-Private Partnership (PPP) model, except for certain reserved activities such as air traffic control, security, customs etc. GoI also announced several fiscal incentives and concessions such as the availability of land from respective State Governments, financial assistance by way of equity/interest free loans etc.

**1.2.** Like many airports in the country, the then existing Begumpet airport in Hyderabad needed expansion of airside as well as landside facilities. To cater to the increasing demand of the passenger and the cargo traffic, a new international airport in Hyderabad was planned. The Government of Andhra Pradesh (GoAP), in association with GoI/AAI took initiatives in 1998 to develop a Greenfield international airport through PPP at Shamshabad near Hyderabad about 22 kms from the then existing Begumpet airport. GoI accorded its approval for a Greenfield airport at Shamshabad, Andhra Pradesh and also agreed for the closure of the existing airport for all civil and commercial operations once the new airport is operational.

**1.3.** In 1999, the GoAP invited global tender to set up a Greenfield international airport at Shamshabad through PPP model. The Authority is given to understand that nine bids were received by the State Government. These bids were processed through a two-stage bidding process and two consortia were shortlisted for the final round, which were GMR - MAHB (GMR Infrastructure Limited (GIL) and Malaysia Airports Holdings Berhad (MAHB)) and L&T-Zurich Airport Real Estate Consultant. Based on the final evaluation, the GMR-MAHB Consortium was selected by GoAP in December 2000 as the private partner for development of the proposed Greenfield International Airport at Shamshabad, Hyderabad.

**1.4.** Hyderabad International Airport Limited (HIAL) was incorporated to design, finance, build, operate and maintain a world class Greenfield airport at Shamshabad, Hyderabad. HIAL is a joint venture company with following shareholding pattern:

**Table 1: Shareholding Pattern of HIAL**

| **Holding Company** | **Percentage Shareholding** |
|---|---|
| GMR Infrastructure Limited | 63% |
| GoI through AAI | 13% |
| GoAP through Transport Roads & Buildings (Ports) Department | 13% |
| Malaysia Airports Holdings Berhad | 11% |

**1.5.** The airport, named as Rajiv Gandhi International Airport (RGI Airport / Hyderabad airport), Hyderabad, is India's one of the recent airports to be operationalized under the PPP model. The RGI Airport, Hyderabad, designed by Hong Kong architects Winston Shu and Gumund Stokke, was commissioned in 31 months and designed for a capacity of 12 million passengers per annum (mppa) and 1,50,000 tons of cargo handling capacity per annum. The airport was inaugurated on 14$^{th}$ March, 2008 and started the commercial operations from 23$^{rd}$ March, 2008. The RGI Airport, Hyderabad, can be expanded to accommodate over 40 mppa. It has a 4,260 meter Code-F runway and recently inaugurated a new parallel standby runway.

**1.6.** Key dates from initiation of the International Competitive Bidding process to Commercial Opening Date of the Airport are as under,

**Table 2: Key dates in development of RGI Airport, Hyderabad**

| **Milestones in the Commercial opening** | **Date** |
|---|---|
| International Competitive Bidding initiated | December 1999 |
| Request for proposal documents | July 2000 |
| Submission of Final bids | December 2000 |

| Milestones in the Commercial opening | Date |
|---|---|
| Selection of GMR led Consortium as preferred bidder | 31st May 2001 |
| Declaration of GMR led Consortium as JV partner | August 2003 |
| Signing of SHA and other documents | 30th September 2003 |
| Signing of Concession Agreement | 20th December 2004 |
| Commencement of Construction | September 2005 |
| Commencement of Commercial Operation | March 2008 |

**1.7.** The key agreements governing the working of HIAL inter alia include:

a) Concession Agreement

b) Land Lease Agreement

c) State Support Agreement

d) Sponsors' Agreement

e) CNS/ ATM Agreement

f) Shareholder's Agreement

**1.8.** A brief on the above Agreements is presented below:

***Concession Agreement***

- Nature of Agreement - Concession agreement for Development, Construction, Operation and Maintenance of Hyderabad International Airport between Ministry of Civil Aviation - Government of India and Hyderabad International Airport Limited
- Date of Agreement - 20th December 2004
- Concession
    - GoI grants HIAL the exclusive right and privilege to carry out the development, design, financing, construction, commissioning, maintenance, operation and management of the Airport (excluding the right to carry out the Reserved Activities and to provide communication and navigation surveillance / air traffic management services which are required to be provided by AAI)
- Scope of the Project
    - Development and Construction of the Airport on the site in accordance with the provisions of the agreement, Operation and maintenance of the airport

and performance of the Airport Activities and Non-Airport Activities in accordance with the provisions of the agreement, performance and fulfilment of all obligations of HIAL in accordance with the provisions of the agreement

- Fee
    - HIAL shall, in consideration for the grant by GoI of the Concession pursuant to Article 3.1, pay to GoI a fee amounting to four per cent (4%) of Gross Revenue annually on the terms specified.
    - Gross Revenue means all pre-tax revenue of HIAL, excluding the following: (a) payments made by HIAL for the activities undertaken by Relevant Authorities pursuant to Article 8.4, 8.5 and 8.6; (b) Insurance proceeds; and (c) any amount that accrues to HIAL from sale of any capital assets or items; (d) payments and/or monies received in respect of air navigation and air traffic management services; (e) payments and/or monies collected by HIAL for and on behalf of any governmental authorities under applicable law.
    - The Concession Fee shall be determined in respect of each financial year of HIAL occurring on and after the Airport Opening Date.
    - The Concession Fee in respect of the first ten (10) Financial Years (the Deferred Payment) shall be payable in twenty (20) equal half-yearly instalments …… in the eleventh (11th) Financial Year, with the remaining instalments each payable on each Reference Date falling thereafter.
    - Payments made under Article 3.3 shall be treated as part of the operating expenses of the Airport with the exception of deferred payment under Article 3.3.5, which are in lieu of payments to be accounted for in the relevant year.
- Existing Airport i.e. Begumpet Airport
    - HIAL shall, six (6) months prior to the anticipated Airport Opening Date, notify GoI of the date it expects Airport Opening to occur.
    - From and with effect from the date on which Airport Opening occurs GoI will ensure that the Existing Airport shall not be open or available for use for civil aviation operations.
- Charges

- The Airport Charges specified in Schedule 6 (Regulated Charges) shall be consistent with ICAO (International Civil Aviation Organization) Policies. The Regulated charges set out in Schedule 6 shall be indicative charges. Prior to Airport Opening HIAL shall seek approval from the Ministry of Civil Aviation for the Regulated Charges, which shall be based on the final audited project cost.
- From the date the Independent Regulatory Authority (IRA) has the power to approve the Regulated Charges, HIAL shall be required to obtain approval thereof from the IRA.

- Term
    - Unless terminated earlier, this Agreement shall continue in full force and effect from its commencement in accordance with Article 4 until the thirtieth (30th) anniversary of the Airport Opening Date whereupon the term of the Agreement shall at the option of HIAL be extended for a further period of thirty (30) years

***Land Lease Agreement***

- Nature of Agreement - Land Lease Agreement
- Date of Agreement - 30th September 2003
- Parties to the agreement - Transport, Roads and Buildings (Ports) Department, Government of Andhra Pradesh and HIAL
- GoAP agreed to provide on lease about 5000 acres at Shamshabad near Hyderabad.
- Term
    - The lease initially for a period of 30 years from the commercial operations date and shall be co-terminus with the Concession Agreement.
- Lease Rent
    - Payable on yearly basis starting from 8th year after the Commercial Operations Date
    - 2% per annum on the land cost of Rs. 155 crores (Base Value)
    - Base Value shall escalate at a compounded rate of 5% p.a. from 8th anniversary of the Commercial Operations Date

***State Support Agreement***

- Nature of Agreement - State Support Agreement
- Date of Agreement - 30th September 2003
- Parties to the agreement - Transport, Roads and Buildings (Ports) Department, Government of Andhra Pradesh and HIAL
- GoAP acknowledged and agreed that project is feasible only with support of GOAP. The support from the Government include the following:
    - Provision of support infrastructure in terms of road access, water supply, power supply
    - GoAP to provide Advance Development Fund Grant (ADFG) of Rs.107 crores (interest free non-refundable)
    - Interest Free Loan (IFL) of Rs.315 crores by GoAP to HIAL.

***Sponsors Agreement***

- Name of Agreement - Sponsors Agreement
- Date of Agreement - 30th September 2003
- Parties to the agreement - GMR Infrastructure Limited and Malaysia Airports Holdings Berhad
- Term of the Agreement: Effective upon its execution and is in effect till terminated by either party.
- Terminate upon: The Agreement stands terminated upon either of the following conditions:
    - MAHB ceasing to hold shares in HIAL
    - GMR ceasing to hold at least 10% shareholding in HIAL
- The Agreement also specifies the role of GMR and MAHB in the JV.

***CNS / ATM agreement***

- Nature of Agreement - CNS/ ATM Agreement
- Date of Agreement - 11th August 2005
- Parties to the agreement - Airports Authority of India and Hyderabad International Airport Limited
- Scope of services defined for Pre-Commissioning Phase, Commissioning Phase and Operation Phase defined

- Revenue
  - AAI shall be entitled to recover the Route Navigation Facilities Charges directly from airlines and HIAL shall incur no liability in respect of charges.
  - Terminal Navigation Landing charges payable by airlines shall be paid directly by airlines to AAI and HIAL shall incur no liability in respect of charges.
  - AAI shall pay a Rental Fee to HIAL in consideration of the facility and office space. Rental fee shall be mutually agreed and shall not be increased by more than 10% once in every three years.

***Shareholders Agreement***

- Nature of Agreement - Shareholders Agreement
- Date of Agreement - 30th September 2003
- Parties to the agreement - Transport, Roads and Buildings (Ports) Department, Govt of Andhra Pradesh, Airports Authority of India, GMR Infrastructure Limited, Malaysia Airports Holdings Berhad and Hyderabad International Airport Limited
- GOI approved the new Greenfield Airport proposed to be constructed at Shamshabad, Hyderabad and vide its letter dated May 29, 2000 addressed to GoAP confirmed that existing airport at Begumpet, Hyderabad shall be closed for all civil operations. Following a process of competitive bidding, the Private Promoters have been selected as Joint venture partners for the Project.
- GoAP issued a notification dated 26 July 2003 appointing the GMR-MAHB Consortium as the developer of the project.
- The Private Promoters had proposed that the Project is feasible only with State Support and lease of Land on concessional terms, as financing for the Project could not be fully met through the equity contributions and the debt financing from Lenders. In view of the aforesaid, Gol and GoAP have agreed to support the Company in terms of Concession Agreement, State Support Agreement and Land Lease Agreement.
- AAI Equity Cap means the maximum Equity Contribution of AAI, not exceeding the lower of (i) Rs. 50,00,00,000/- (Rupees Fifty Crores) or (ii) amount

corresponding to 13% Shareholding percentage on a fully diluted and fully converted basis.

- Authorised Share Capital : The authorised share capital of the Company was Rs. 50,00,00,000/- (Rupees Fifty Crores) only, divided into 5,00,00,000 (Five Crores) equity shares of the face value of Rs. 10/- (Rupees Ten) each.
- Shareholding and Capital Structure: Upon subscription to the Shares in accordance with this Agreement, the paid-up capital structure of the Company shall be as follows:
    - Private Promoters and Other Investors (collectively) – 74%
    - State Promoters (collectively) – 26%
- Lock-in period - The shareholding of the Sponsors and State Promoters shall be subject to the following lock-in restrictions during the periods set out below ("Lock-in Period"):
    - (i) The Sponsors shall subscribe to and hold at least forty five percent (45%) shareholding of HIAL (of which GMR will hold minimum 40% and MAHB will hold a minimum of 5%) until the expiration of three (3) years from the Commercial Operations Date, and in no event less than twenty six percent (26%) shareholding for a period up to seven (7) years after Commercial Operations Date.
    - (ii) The State Promoters shall subscribe to and hold at least twenty six (26%) percent shareholding in HIAL until the expiration of seven (7) years after Commercial Operations Date.

**1.9.** The Concession Agreement, is one of the most important agreements, for development, construction, operation and maintenance of the Hyderabad Airport. The Concession Agreement was entered into between GoI through the Ministry of Civil Aviation (MoCA) and HIAL, on 20th December 2004. The Concession Agreement which defines the terms and conditions under which HIAL, as a private company, is entitled to build and run the airport. The parties to this agreement recognized and acknowledged that in matters of airport infrastructure and civil aviation, GoI has and must continue to have a major role and responsibility in determining the framework for the aviation sector. Further, the Concession Agreement sets out the terms and conditions upon which the project, being undertaken through a public / private sector approach, will be implemented. The term of the concession is for a period of 30 years from the Airport Opening date i.e., 23rd March, 2008, extendable by a further period of 30 years at HIAL's option. As per the Concession Agreement, the activities of customs, immigration, quarantine, security and meteorological service will be performed by the relevant Government Agencies at the Airport and the communication, navigation & surveillance and air traffic management will be performed by AAI. HIAL shall, in consideration for the grant of Concession by Government of India, pay to Government of India a fee amounting to four per cent (4%) of gross revenue annually.

**1.10.** Schedule 6 of the Concession Agreement provides the Regulated Charges including User Development Fee. It is mentioned under this Schedule that:

> *"HIAL will be allowed to levy UDF w.e.f. Airport opening Date, duly increased in the subsequent years with inflation index as set out hereunder from embarking domestic and international passengers, for the provision of passenger amenities, services and facilities and the UDF will be used for the development, management, maintenance, operation and expansion of the facilities at the Airport."*

***Brief background on Revision of UDF Determination for RGI Airport, Hyderabad***

**1.11.** Based on the above provision in the Concession Agreement, HIAL made a UDF application before the Ministry of Civil Aviation (MoCA). MoCA allowed a levy of UDF @ Rs. 1,000/- (inclusive of taxes) per international departing passenger w.e.f. 23.04.2008 and @ Rs. 375/- (inclusive of taxes) per departing domestic passenger w.e.f. 18.08.2008 (vide letters No.AV.20015/03/2003-AAI dated 28.02.2008 and No.AV.20036/28/2004-AAI (Vol.IV) dated 18.08.2008 respectively), on ad-hoc basis. Excluding the service tax component, the UDF worked out to Rs. 340/- per departing domestic passenger and Rs. 907/- per departing international passenger.

**1.12.** HIAL, vide their letter no. GHIAL/UDF/Domestic/04/2008 dated 01.09.2008, had submitted to MoCA that in their original business plan furnished to MoCA, the average UDF amount was arrived @ Rs.725/- per passenger for both international and domestic passengers and since the UDF for international passengers was approved for Rs. 1,000/- by MoCA, the corresponding amount for domestic passengers should be Rs.

600/- so as to be in consonance with their business plan. HIAL submitted that in the meanwhile, they had started collecting the provisionally approved domestic UDF @ Rs.375/- per departing passenger, under protest. HIAL also stated that as a result of the lower UDF approved for domestic passengers, they were incurring a substantial loss of Rs. 16 crores per month.

**1.13.** Pursuant to the enactment of the "The Airports Economic Regulatory Authority of India Act, 2008" (the "AERA Act") on 05.12.2008, the establishment of the Airports Economic Regulatory Authority of India (the "Authority") on 12.05.2009, and the notification of the powers and functions of the Authority w.e.f. 01.09.2009, MoCA, in October, 2009 transferred the issue of determination of UDF for RGI Airport, Hyderabad for the Authority's consideration, along with copies of extracts of some files and correspondences.

**1.14.** HIAL vide their letter Ref: GHIAL/F&A/UDF/2009-10/2 dated 02.08.2009 addressed to MoCA, requested for upward revision of UDF as under:

1.14.1. If 28.54% hike in Landing, Housing and Parking Charges is allowed: Domestic UDF @ Rs. 450/- plus taxes and International UDF @ Rs. 2,840/- plus taxes.

1.14.2. If 28.54% hike in Landing, Housing and Parking Charges is not allowed: Domestic UDF @ Rs. 450/- plus taxes and International UDF @ Rs. 2,918/- plus taxes.

**1.15.** Upon scrutiny of the aforesaid application made by HIAL, the Authority observed that the auditor's certificate for classification of assets was not available and the methodology of calculation of UDF was not clear. The Authority, vide its letter no. AERA/20010/ HIAL-DUF/2009-10 dated 09.12.2009, requested HIAL to furnish the above information at the earliest.

**1.16.** The Authority had noted that in addition to the initial project cost of Rs. 2,478 crores, MoCA had approved the proposal of HIAL for additional investment to the tune of Rs.442 crores (at the project execution stage) subject to the following conditions (Ref letter No.AV.20014/003/2006-AAI dated 02.04.2008):

1.16.1. It will not require any additional contribution from stakeholders

1.16.2. There will not be any additional liability to the user. No additional UDF will be considered on this account;

1.16.3. All the works may be taken through competitive bidding process.

**1.17.** MoCA had, vide its letter No.AV.20014/003/2006-AAI dated 09.08.2010, conveyed that the conditions imposed by the Ministry vide its letter of even no. dated 02.04.2008 on the investment of Rs.442 crores at RGI Airport, Hyderabad, stand withdrawn.

**1.18.** Subsequently, HIAL, vide its letter dated 18.08.2010, submitted an application for revision in UDF seeking approval of the Authority for revised rates of Rs.500/- per departing domestic passenger and Rs. 2,825/- per departing international passenger, w.e.f. 01.09.2010, excluding service tax. HIAL had stated that the UDF proposed by them had been worked out on single till basis and had been calculated for five years (From FY 2009 to FY 2013) including last two completed years of FY 2009 and FY 2010.

**1.19.** Further, vide its clarifications dated 13.09.2010, HIAL submitted the following points to be considered by the Authority in its appraisal of the UDF proposal:

1.19.1. A hotel asset existing in the books of account of HIAL had been demerged through a 100% owned subsidiary namely, GMR Hotels & Resorts Ltd. The capital cost of the hotel had not been assumed in the asset base. Revenues and cost of the same had been excluded from the projections of HIAL.

1.19.2. As per scheme of demerger, an amount of Rs.110 crores was treated as equity investment of HIAL in the subsidiary whereas an amount of Rs.140 crores was considered as unsecured loan extended to the subsidiary, i.e. GMR Hotels & Resorts Ltd., by HIAL.

1.19.3. The unsecured loan of Rs.140 crores (advanced by HIAL to its subsidiary, i.e. GMR Hotels & Resorts Ltd.) was considered by HIAL as received from the subsidiary and repaid to the existing lenders during the year 2010-11.

1.19.4. No land cost associated with the hotel was considered for determination of UDF. However, HIAL proposed to charge a lease rent of Rs. 35 per sq. meter per month for the land occupied by the hotel (i.e. 7.03 acres).

1.19.5. As per HIAL submissions, the total project cost of HIAL, including the hotel, was Rs. 2,920 crores, which consisted of Rs. 2,120 crores loan and Rs. 800 crores equity and quasi-equity. The bifurcation of equity and loans was as under:

**Table 3: Bifurcation of Equity and Loans**

| Equity and Loans | Rs. (in Crores) |
|---|---|
| Equity | 378 |
| Interest Free Loan from GoAP | 315 |
| Advance Development Fund Grant | 107 |
| **Total Equity** | **800** |
| Term Loan 2005 | 960 |
| Term Loan 2007 | 718 |
| Additional Term Loan required | 442 |
| **Total Debt** | **2120** |

1.19.6. Concession fee (payable @ 4% after 10 years) was considered an expense for each financial year and accounted for on accrual basis as per the accounting standards.

1.19.7. The inflation figures in the original proposal dated 18.08.2010 were changed to correct factual errors. The new WPI increase came to 5.33% per annum which was incorporated in the revised calculation.

1.19.8. Dividends in general did not form part of the core activity (airport operations) of the airport operator and were not included in tariff calculation. Telecom Disputes Settlement and Appellate Tribunal (TDSAT) has, in an Order dated 30.08.2007, held that dividends do not constitute part of Adjusted Gross Receipt (AGR).

1.19.9. Landing, Parking and Housing (LPH) charges were taken as per existing rates for the year 2010-11 and the 10% escalation was considered, year on year, starting from 2011-12.

1.19.10. The reduced discount of 2% on domestic LPH was considered w.e.f. 01.11.2010.

1.19.11. Similarly, a landing charge of Rs.4000/- per landing for aircraft with less than 80 seats was considered w.e.f. 01.11.2010.

1.19.12. The revenue share from the Cargo was considered as aeronautical revenue whereas Rs. 5.77 crores without any escalation was considered as rental revenues and considered as Non Aeronautical revenue.

**1.20.** Based on the above points, HIAL revised its earlier submitted proposal for levy of UDF and requested for approval for levy of UDF at the revised rates of Rs. 500/- per departing domestic passenger and Rs. 2,987/- per departing international passenger, exclusive of service tax, w.e.f. 01.11.2010.

**1.21.** The Authority had examined the proposal submitted by HIAL for levy of UDF in respect of various aspects including Regulatory Asset Base, Weighted Average Cost of Capital, Traffic projections, Aeronautical and Non-Aeronautical Revenue projections and Operating Cost projections.

**1.22.** The Authority thereafter had issued Consultation Paper No. 07/2010-11 dated 23.09.2010 presenting its examination of HIAL submissions and its views on the UDF rates. A stakeholder consultation meeting was also held on 29.09.2010 at Novotel Hotel, RGI Airport, Shamshabad, Hyderabad, which was attended by a wide range of stakeholders including GoAP, MoCA, AAI, National Aviation Company of India Ltd (presently Air India), Jet Airways, Indigo, Kingfisher, Association of Private Airport Operators (APAO), Blue Dart Aviation Ltd, Federation of Indian Airlines (FIA), Federation of Indian Chambers of Commerce and Industry (FICCI), Federation of Andhra Pradesh Chambers of Commerce and Industry and Federation of Indian Export Organization (FIEO).

**1.23.** Based on the stakeholder consultation and examination by the Authority, it issued Order No. 06/2010-11 dated 26.10.2010 (Ad-Hoc UDF Order) in the matter of Revision of User Development Fee (UDF) at Rajiv Gandhi International Airport, Hyderabad, wherein the Authority had stated as under,

> *"In exercise of powers conferred by Section 13(1)(b) of the Act read with rule 89 of the Aircraft Rules, 1937, the rate of User Development Fee (UDF) to be levied at the Rajiv Gandhi International Airport, Hyderabad is revised to Rs. 430/- (Rupees Four Hundred and Thirty only) per embarking domestic passenger and Rs.1700/- (Rupees One Thousand Seven Hundred only) per embarking International passenger (exclusive of service tax, if any), purely on an ad-hoc basis, with effect from 01.11.2010 based on the figures for a period of 5 year. This ad-hoc determination would be reviewed at the stage of tariff determination for the first cycle and*

*thereafter at such intervals as the Authority may determine, from time to time."*

**1.24.** As per the above Ad-Hoc UDF Order dated 26.10.2010, the Authority is required to review the UDF rates determined in respect of RGI Airport, Hyderabad at the stage of final determination of tariff. This Ad-Hoc UDF Order dated 26.10.2010, has not been challenged either by HIAL or any of the stakeholders. The Consultation Paper No. 07/2010-11 dated 23.09.2010, the minutes of the stakeholder consultation Meeting held on 29.09.2010 and the Ad-hoc UDF Order are available on the website of the Authority (www.aera.gov.in).

**1.25.** Meanwhile, the Authority was in the process of finalizing its approach for economic regulation that culminated in issue of Order No. 13/2010-11 dated 10.01.2011 wherein the Authority finalized the approach in the matter of Regulatory Philosophy and Approach in Economic Regulations of Airport Operators (i.e. the Airport Order). Further, the Authority vide its Direction No. 5/2010-11 dated 28.02.2011, finalized the Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators), Guidelines 2011 (i.e. Airport Guidelines).

**1.26.** As per the Airport Order, the Authority decided that the first control period for determination of tariffs for airport operators will be the five year period from 01.04.2011 to 31.03.2016 i.e. the period 2011-12 to 2015-16. Further, as per Clause 3.1 of the Airport Guidelines, all Airport Operator(s) were required, within four months of the date of issue of the Airport Guidelines (i.e., 28.02.2011), to submit to the Authority for its consideration, a Multi Year Tariff Proposal (MYTP) for the first Control Period in the form and manner specified in the said Guidelines. The last date for submission of the MYTP in terms of the Guidelines was 30.06.2011.

**1.27.** Further, in terms of Section 13 (1) (a) of the AERA Act, the Authority shall, inter alia, determine the tariff for the aeronautical services, development fees including user development fees and passengers services fees to be levied as per the Aircrafts Rule, 1937.

**1.28.** The Authority was conscious of the fact that in the nature of the timelines specified in the Airport Guidelines, it would not be possible to determine the tariff in respect of any of the major airports before 01.04.2011. In this light, the Authority had proposed to permit the concerned airport operators to continue charging the tariffs for aeronautical services provided by them, at the existing rates, in the interim period for which a separate order was issued after due stakeholder consultation (Order No.17/2010-11 dated 31.03.2011).

**1.29.** HIAL filed an appeal before the Airports Economic Regulatory Authority Appellate Tribunal (i.e. the Appellate Tribunal or AERAAT) against the Airport Order and the Airport Guidelines issued by the Authority. The Appellate Tribunal, vide its Order dated 11.05.2011 in the matter of Appeals No 08 of 2011 and 10 of 2011, directed HIAL to furnish the requisite Tariff Proposal to the Authority and directed the Authority not to make the final determination without leave of the Appellate Tribunal. The Appellate Tribunal's Order dated 11.05.2011 stated as under,

> *"…In the meantime, without prejudice to the stands taken, let the requisite information / details / data / tariff proposal be furnished by the appellant to the Regulatory Authority. It may continue the process of the determination, but shall not make a final determination without leave of this Court. Time for submission of information / details / data / tariff proposal / details is extended till 31st July, 2011. it is made clear that since the tariff proposal/information/data/details are being directed to be given without prejudice to the claims involved, they shall be treated as confidential by the Regulatory Authority."*

**1.30.** In line with the Appellate Tribunal's Order dated 11.05.2011, HIAL, vide its letter no GHIAL/AERA/2011-12/01, submitted its MYTP in respect of RGI Airport, Hyderabad on 31.07.2011. The Yield Per Passenger (YPP) under this MYTP submission was calculated by HIAL following dual till approach for the first control period. HIAL mentioned that it, being the fuel farm operator, has filed a tariff proposal for the fuel farm facility separately. HIAL stated as under,

> *"The yield per pax calculated in MYTP is worked on the dual till with control period of 5 year regulatory period…*
>
> *The fuel farm tariff proposal has been filed separately; as GHIAL being the fuel farm operator is making a separate 5 year filing with yield per KL calculation …*

*The current proposal is for the approval of Yield Per Pax (computed by dividing the Aggregate Revenue Requirement by the total number of passengers in the control period. The yield has been computed for the control period effective from April 1st 2011 to March 31st 2016. This yield per pax will require suitable upward adjustment based on the shortfall in collection as a result of actual date of charging being a future date rather than April 1st 2011. After this approval from AERA, we shall submit a detailed pricing proposal to achieve this Yield Per Pax which will be a combination of various aeronautical charges, UDF, Discounts etc.*

*Inflation has not been factored in our forecast for future years. It is assumed that AERA will give year on year a WPI based increase over and above yield per pax calculated, based on WPI data…"*

**1.31.** Subsequently HIAL, vide its letter dated 05.08.2011, submitted additional information / data to the Authority and stated as under,

*"This is in continuation to our letter no. GHIAL\AERA\2011-12\01 dated 31st July, 2011 in respect of furnishing Multi Year Tariff Proposal of GHIAL. Further to our application, we are submitting Form(s)/information/data required as prescribed in the guidelines issued by the Authority to the extent possible under dual till."*

**1.32.** The Authority pointed out that the submission of HIAL under dual till was not in accordance with the Airport Guidelines issued by it. In response, HIAL, vide its letter dated 30.08.2011, submitted that it would file a tariff proposal under the single till and vide its letter dated 13.09.2011, submitted its MYTP in respect of RGI Airport, Hyderabad under single till. HIAL, in its submission dated 13.09.2011, stated as under,

*"This is in reference to our letter number GHIAL\AERA\2011-12\03 dated August 30 2011 on the aforesaid subject wherein we had submitted to provide for GHIAL tariff filing for the first control period based on Single Till.*

*Enclosed is our MYTP for the first control period…*

*The fuel farm tariff proposal has been filed by us separately…*

*The current Tariff proposal has not been approved by the Board of GHIAL and same will be presented to board in the next board meeting in October 2011. We have also not submitted a 10 year business plan and the same shall be submitted after approval by Board…*

*We are making this MYTP filing in the manner and formats prescribed by AERA in its guidelines."*

**1.33.** Subsequently HIAL, vide its letter dated 14.12.2012, submitted revised MYTP under single till stating as under,

*"This is in reference to our MYTP filing made vide letter no. GHIAL\ AERA\2011-12\04 dated September 13th 2011 under Single Till.*

*Substantial period has elapsed since our earlier filing and there has been material change in the filed numbers thus necessitates a revision of our application. The actual audited financials of 2011-12 are now available and the same will give us a better insight in future forecasts. As such it will be prudent to incorporate the actual numbers of 2011-12…*

*In light of the aforementioned reasons we hereby enclose our revised MYTP under Single Till.*

*……………*

*Detailed tariff proposal along with financial model is submitted to the Authority for determination of MYTP of GHIAL. The period of charging is reduced to 3 year, having condensed the charging period from 5 years to 3 years…*

*We also reserve our right to revise our filing under dual till."*

**1.34.** Meanwhile, the Appellate Tribunal, vide its Order dated 15.02.2013 in the Appeals No 08/2011 and 10/2011 of HIAL against Order No 14/2010-11 dated 28.02.2011 and Direction No 5/2010-11 of the Authority, stated as under,

*"Today, when the matters came for disposal on merits it was found that in spite of the guidelines the directions issued pursuance thereto yet there would be no impediment for the AERA to consider all the relevant issues and then to finalise the order regarding the determination of tariff of*

*airports. Shri Nanda, Counsel appearing on behalf of the AERA categorically says that though these guidelines are binding yet it would still be possible to the contesting parties to canvass their views regarding the principles to be applied in determination of the tariff and that the Authority had only indicated its mind prima facie, in the impugned orders.*

*…*

*In that view, we would dispose off these appeals with the direction to the AERA to complete this exercise of determination of tariff and while doing so, the AERA would give opportunities to all the stakeholders to raise all the plea and contentions and consider the same. The impugned orders herein would not come in the way of that exercise. We would, however, request AERA to complete the determination exercise as expeditiously as possible. We have taken this view as we are of the firm opinion that it would not be proper to entertain the appeals on different stages of determination of tariff and to give the finality to the questions of final determination of tariff.*

**1.35.** In pursuance to the above Order of the Appellate Tribunal, HIAL, vide its submission dated 27.02.2013, submitted additional tariff model prepared on dual till basis. Further, HIAL also submitted an application to the Authority vide its letter dated 15.03.2013 to make a presentation to the Authority with its requests on certain aspects including request for consideration of dual till for RGI Airport, Hyderabad. Subsequently HIAL made a presentation to the Authority on 01.04.2013 requesting the Authority to take into consideration the points made in the said presentation. HIAL during the presentation also reiterated that the points made in the presentation were also raised by it as part of its appeal before the Appellate Tribunal. In addition, to these points, HIAL also made certain additional submissions.

**1.36.** The Authority noted that HIAL, in its submission before the Appellate Tribunal, had argued in favour of dual till on various grounds. The Authority had also filed its reply in the form of counter-affidavit before the Appellate Tribunal. As part of the present tariff determination and in line with the Order dated 15.02.2013 of the Appellate Tribunal, the Authority has carefully considered the submissions of HIAL. The submissions, which are specifically related to the regulatory building blocks of tariff determination have been considered and analysed/discussed in the respective building blocks. In addition HIAL has also made certain general submissions in support of dual till. These general submissions in support of dual till have been analysed after consideration of the various building blocks and are discussed in Para 23 below.

**1.37.** Further, HIAL has vide its letter No. Ref: GHIAL/MOCA/regulatory/2012-13/001 dated 20th April, 2013, addressed to the Hon'ble Minister for Civil Aviation, and copy endorsed to this Authority, has requested MoCA to issue a direction to AERA under Section 42 of the AERA Act, for fixation of Regulated Charges at RGIA, Hyderabad in line with Concession Agreement and particularly with respect to the following (vide Para 20 of HIAL's letter).

> *"(a) To adopt a Dual Till in compliance with provisions of Concession Agreement.*
>
> *(b) Not to deduct the value of land meant for Non Airport Activities from RAB and also not to consider the revenues generated therefrom, while fixing the Regulated Charges, as per Concession Agreement at RGIA, Hyderabad."*

**1.38.** These submissions are analysed in Para 23.16 below. The Authority however notes that according to HIAL, Concession Agreement means Dual Till.

**1.39.** The Authority got the tariff model, submitted by HIAL as a part of its tariff application, vetted by the Consultants. The scope of the assignment for the Consultants included review and assessment of the models' arithmetic accuracy, check for logical and calculation integrity of the models and assistance in undertaking certain sensitivity analyses. The Consultants were further required to provide assistance to the Authority in identifying such elements that may need to be certified from auditors/ Chartered Accountants of HIAL for key aspects/ assumptions and also assist the Authority in reviewing the implications/change in results through sensitivity analysis of various factors, to be conducted with respect to specific changes to assumptions for a factor.

**1.40.** During the course of the review and clean-up of the tariff model, HIAL was also requested to furnish to the Authority, certifications from its Statutory Auditors in support of figures considered in the tariff model including those taken as the base for their projections/ forecast. The approach, followed by HIAL, in preparing the tariff model was to use the actuals till FY 2011-12, the actuals for first 6 months of FY 2013 extrapolated for the next 6 months of FY 2012-13 and then making projections for the remaining years in the control period namely, FY 2013-14, FY 2014-15 and FY 2015-16. Accordingly, HIAL was asked to furnish the auditor certificates for the historical numbers for FY 2011-12 and first 6 months of FY 2012-13 used in the model. In case of difference between the numbers in the tariff model submitted by HIAL and those in the respective auditor certificates, the numbers in the auditor certificates were considered by the Authority.

**1.41.** The tariff model, submitted by HIAL with its submissions dated 06.02.2013, was considered by the Authority for its review. This tariff model was updated for the numbers from the auditor certificates and the tariff model was updated during various meetings. Subsequently, HIAL submitted additional pending auditor certificates on 09.05.2013 and the same were suitably incorporated in the tariff model and this tariff model, frozen on 09.05.2013 was considered as the Base Model (the components of Base Model are given in Table 4). The Authority notes that the YPP numbers submitted earlier by HIAL (in the tariff model as submitted by it on 06.02.2013) was Rs. 863.30 under single till and Rs. 1,048.23 under dual till. The Authority incorporated the figures for various building blocks as per auditor certificates / clarifications submitted by HIAL, in this model submitted by it on 06.02.2013. After incorporating these figures, the YPP number as per the Base Model works out to Rs. 861.99 under single till and Rs. 1,042.41 under dual till. This Base Model is based on single till and has the functionality to perform calculations on dual till also. The Yield Per Passenger (YPP) under single till in this Base Model, is Rs. 861.99 and that under dual till is Rs. 1042.41. The considerations under single till and dual till, as made by HIAL for calculation of above YPP values are presented below:

**Table 4: Various factors under Single Till and Dual Till – HIAL's Base Model**

| Parameters | Value under Single Till | Value under Dual Till |
|---|---|---|
| 100% subsidiary for SEZ - GMR Hyderabad Aviation SEZ Limited | Included in calculation | Not included in calculation |
| 100% subsidiary for Hotel – GMR Hotels & Resorts Limited | Included in calculation | Not included in calculation |

| Parameters | Value under Single Till | Value under Dual Till |
|---|---|---|
| 100% subsidiary for Duty Free – Hyderabad Duty Free Retail Limited | Included in calculation | Not included in calculation |
| Forex Loss Adjustments | Included in calculation | Included in calculation |
| Non-aeronautical revenues of GHIAL other than those captured in the 100% subsidiaries | Included in calculation | Not included in calculation |
| Cost of Equity | 24% | 24% |
| Past Losses | 455.19 | 537.18 |
| Date of Tariff Hike | 01.04.2013 | 01.04.2013 |
| Inflation on YPP number | Not considered | Not considered |
| **Final Calculated YPP** | **Rs. 861.99** | **Rs. 1042.41** |

**1.42.** The Authority also received the Annual Tariff Proposals (ATP) for FY 2013-14 and FY 2014-15 from HIAL vide its submission dated 06.05.2013. HIAL, in its submission dated 06.05.2013, stated as under,

> *"This is in reference to filing of ATP of GHIAL. We are hereby submitting ATP for single till and dual till at Yield Per Pax (YPP) of Rs. 894.15 and Rs. 1,078.57 respectively. YPP does not include inflation as submitted to the Authority in MYTP filing and the same needs to be factored by the Authority.*
>
> *We have considered the charging date of the revised tariffs w.e.f. 1st July, 2013. The Authority is requested to allow complete true-up for any variation in forecasted and actual traffic as well as for shortfall in UDF collection due to tickets booked in advance i.e. before implementation of revised tariffs."*

**1.43.** The Authority notes that while the Base Model considers the date of tariff hike as 01.04.2013 and accordingly calculates YPP at Rs. 861.99 under single till and Rs. 1042.41 under dual till, the ATP submitted by HIAL is based on the date of tariff hike as 01.07.2013 and accordingly considers the YPP of Rs. 894.15 under single till and Rs. 1,078.57 under dual till. However the Authority, in this paper, has considered the Base Model and its YPP of Rs. 861.99 under single till and Rs. 1042.41 under dual till for comparison with the sensitivities under the Authority's proposals.

**1.44.** Sensitivity analysis of the Base Model has been carried out by the Consultants as per the tentative proposals of the Authority for various Regulatory Building Blocks. The impact of the tentative proposals of the Authority on each element of the building block is separately shown in the discussion of that particular building block, both under single till and dual till, keeping the rest of the parameters under other building blocks unchanged (i.e. keeping the rest of the parameters as per the Base Model). The findings, deliberations, changes, and tentative proposals of the Authority in respect of each item of the Regulatory Building Block are captured in the subsequent sections of this paper.

## 2. Investments

**2.1.** The Authority understands that HIAL has incorporated some subsidiary companies. As per the audited balance sheets of HIAL for FY 2011-12, the subsidiary companies are as below:

2.1.1. Hyderabad Menzies Air Cargo Private Limited

2.1.2. GMR Hyderabad Aerotropolis Limited

2.1.3. GMR Hyderabad Airport Resource Management Limited

2.1.4. Hyderabad Airport Security Services Limited

2.1.5. GMR Hyderabad Aviation SEZ Limited

2.1.6. GMR Hyderabad Multiproduct SEZ Limited

2.1.7. GMR Hotels and Resorts Limited

2.1.8. Hyderabad Duty Free Retail Limited

2.1.9. Asia Pacific Flight Training Academy Limited

2.1.10. GMR Airport Handling Service Company Limited

# 3. Guiding Principles for the Authority

***Legislative Policy Guidance and Principles***

**3.1.** The legislature has provided policy guidance to the Authority regarding the determination of tariff for the aeronautical services under the provisions of the AERA Act. The Authority is required to adhere to this legislative policy guidance in the discharge of its functions in respect of the major airports. These functions are indicated in Section 13 (1) of the AERA Act:

3.1.1. Determination of the tariff for the aeronautical services;

3.1.2. Determination of the amount of the development fees including User Development Fee;

3.1.3. Determination of the amount of the passenger service fee levied under rule 88 of the Aircraft Rules, 1937 made under Aircraft Act, 1934; and

3.1.4. Monitoring the set performance standards relating to quality, continuity and reliability of service as may be specified by the Central Government or any authority authorised by it in this behalf.

**3.2.** Further to the specification of functions to be performed by the Authority, the legislature also provides policy guidance on the factors, which are to be considered by the Authority in performing these functions. Under Section 13 (1) (a) of the AERA Act, the legislature requires the Authority to determine tariff for the aeronautical services taking into consideration the following factors:

3.2.1. the capital expenditure incurred and timely investment in improvement of airport facilities;

3.2.2. the service provided, its quality and other relevant factors;

3.2.3. the cost for improving efficiency;

3.2.4. economic and viable operation of major airports;

3.2.5. revenue received from services other than the aeronautical services;

3.2.6. concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;

3.2.7. any other factor which may be relevant for the purposes of the Act

**3.3.** Thus the Authority is acting in accordance with the legislative policy guidance as above. To operationalize the mandate of the legislature, the Authority had issued the Airport Order and the Airport Guidelines. In normal course it would have proceeded to determine the aeronautical tariffs in accordance with the Airport Order and the Airport Guidelines. However, in view of the Appellate Tribunal's Order dated 15.02.2013 (refer Para 1.34 above), the Authority would now proceed to examine the submissions of HIAL - both under Single till and Dual Till, with reference to various Regulatory Building Blocks. The Authority would also accordingly present the calculation of the different Regulatory Building Blocks in both Single Till and Dual Till. It would also present the financial implications including the tentative estimation of YPP. Thereafter it would analyse the various submissions made by HIAL in support of Dual Till and present its findings for stakeholder consultation.

***HIAL as a Standalone entity***

**3.4.** The Authority has considered HIAL as a stand-alone entity based on the accounts of HIAL without any consolidation with its subsidiaries or taking into account the balance sheets and income statements of other subsidiaries. Hence the equity of HIAL at Rs. 378 crores as a standalone entity is taken into account for further consideration.

**3.5.** In calculations of tariffs under single till, therefore, the revenue from aeronautical services as well as non-aeronautical services (without considering the two subsidiaries of Hotel and SEZ) are taken into account, along with the expenses. Similarly, in respect of dual till again, the aeronautical and non-aeronautical activities are separated for the purposes of the various building blocks like Regulatory Asset Base, Operations and Maintenance expenditure, etc. The calculations are made with respect to the RAB Boundary (Para 3.7 below). These are summarized in Table 5 and are discussed in the relevant paragraphs below.

**Table 5: Various factors under Single Till and Dual Till – As per the Authority**

| Parameters | Value under Single Till | Value under Dual Till |
|---|---|---|
| 100% subsidiary for SEZ - GMR Hyderabad Aviation SEZ Limited | Not Included in calculation | Not included in calculation |
| 100% subsidiary for Hotel – GMR Hotels & Resorts Limited | Not Included in calculation | Not included in calculation |

| Parameters | Value under Single Till | Value under Dual Till |
|---|---|---|
| 100% subsidiary for Duty Free – Hyderabad Duty Free Retail Limited | **Included** in calculation (Revenue share from Duty Free to HIAL considered for cross-subsidization) | Not included in calculation |
| Non-aeronautical revenues of HIAL other than those captured in the 100% subsidiaries | Included in calculation | Not included in calculation |

***Taxation***

**3.6.** As regards taxation, the general principle adopted by Authority is to consider taxes paid on actual by the regulated entity, namely HIAL - as a stand-alone entity. The Authority has, therefore, proposed to consider the tax paid by the standalone entity of HIAL, both under single till and dual till, noting however that under dual till the tax liability of HIAL - pertaining only to the aeronautical activities, would be required to be separately calculated. The Authority has also tentatively proposed to true up the taxes actually paid by the stand-alone entity of HIAL (both under single till and dual till) as presented in relevant section below.

***RAB Boundary***

**3.7.** The AERA Act requires the Authority to take into consideration ***"***revenue received from services other than the aeronautical services" while determining tariffs for aeronautical services. Hence the Authority can take into calculation, all revenues arising from all the services other than aeronautical services. Such services could include even those outside the airport terminal and the ones that are generally associated with commercial exploitation of land leased to the airport operator that is in excess of requirement of airport (Generally referred to as Real Estate Development). The Authority had addressed this issue in its Airport Order (See Para 3.10 below) and after stakeholders' consultation, decided on the RAB boundary that it will generally follow in its tariff determination of aeronautical services.

**3.8.** Regarding delineation of RAB boundary for the purposes of determination of charges for aeronautical services, the Authority has considered HIAL as a stand-alone entity. It has, therefore, considered both aeronautical and non-aeronautical services that such stand-alone entity would be providing at HIAL. As an illustrative list, the non-aeronautical services and activities would include duty free shopping, food and beverages, retail outlets, public admission fee for entry into the terminal, hotel, if any provided inside the terminal building, banks, ATMs, airlines offices, commercial lounges, spa and gymnasium facilities, car parking, etc. The Authority is aware that this is not an exhaustive list. In addition to the above, individual airport operator may innovate and add more non-aeronautical services so as to improve the passenger conveniences or enhancing ambience of the airport and terminal building.

**3.9.** The real estate development by the airport operator through commercial exploitation of land leased or granted to it, which is in excess of the airport requirement, would normally be outside the RAB boundary. This means that the revenues from commercial exploitation of such lands would, in normal course, **not** enter into the calculation of revenues required for aeronautical tariff determination. However, there may be such circumstances which the Authority may be required to take into account (like special covenants in the Concession Agreement or Lease Deed, etc.) that may require separate consideration for taking revenues from real estate development into calculation of aeronautical tariffs. An illustrative list of such developments would include hotels (outside the terminal building), Aerotropolis, convention centre, golf course, shopping complexes and residential areas, etc. Again this is not an exhaustive list and the airport operator may develop such real estate for other users. The Authority understands that the real estate development or for that matter commercial development on such land is subject to the relevant land zoning restrictions of the local bodies and in other specific covenants or special acts like the Airports Authority of India Act, etc. They may also be governed, additionally, by the covenants of other agreements entered into by the public authorities with the airport operator (for example, OMDA or Lease Agreement, etc.). The treatment considered by the Authority in respect of land in excess of airport requirement for HIAL has been discussed in Paras 9.22 to 9.27 below, which talks about the Authority's approach in this regard under both single till and dual till

**3.10.** The Authority, in its Airport Order, has outlined the principles for inclusion / exclusion of assets from the aeronautical RAB to be considered for tariff determination. The principles for exclusion of assets from RAB Boundary are presented below:

3.10.1. The assets that substantially provide amenities/ facilities/ services that are not related to, or not normally provided as part of airport services, may be excluded from the scope of RAB;

3.10.2. The assets that in the opinion of the Authority do not derive any material commercial advantage from the airport (for example from being located close to the airport) may be excluded from the scope of RAB;

3.10.3. The Authority will not include working capital in the RAB.

3.10.4. Work in Progress (WIP) assets would not be included in the RAB until they have been commissioned and are in use.

3.10.5. The investment made from pre-funding levy (DF) would not be included in the RAB.

***Considerations specific to Building Blocks in HIAL's tariff determination***

**3.11.** Apart from the above, Authority's approach regarding specific building blocks in HIAL's determination has been indicated in the relevant paragraphs.

***Revenue Recognition from Cargo, Ground Handling and Fuel Throughput (CGF)***

**3.12.** As per the provisions of the AERA Act, the Authority considers the services rendered in respect of cargo, ground handling and supply of fuel (CGF) as the aeronautical services. In normal course, the Authority's approach towards recognition of revenue accruing to the airport operator in respect of the CGF services has been that if the service is being provided by the airport operator himself, the revenue accruing to it on account of the provision of the service would be considered as aeronautical service and if the service is outsourced by the airport operator to a third party concessionaire and the revenue accruing in the hands of the airport operator through revenue share / rental etc. from such third party concessionaire would be considered as non-aeronautical revenue.

**3.13.** In respect of HIAL, however, the Authority has come across a case that while the cargo service is being provided by the third party concessionaire, certain assets being utilized for the provision of this service are in the books of the airport operator. As HIAL is not providing the cargo service itself, it has classified the assets pertaining to cargo facility service in its books as non-aeronautical assets. HIAL has considered revenue from the third party cargo service provider as non-aeronautical.

**3.14.** The Authority believes that the primary consideration for determination of classification of an asset or the revenue therefrom as aeronautical or non-aeronautical is the classification of the service itself. If a service is being considered as aeronautical service, the assets being utilized for provision of that service would also qualify to be aeronautical assets. Thus the Authority believes that the assets being utilized for provision of an aeronautical service should be considered as aeronautical assets. Thus the assets pertaining to provision of cargo facility service are aeronautical assets and in case of HIAL appear on the books of HIAL and would thus enter into aeronautical RAB. In this case if HIAL's submission is accepted – i.e. the revenue received by HIAL from aeronautical service (i.e. cargo service) is treated as non-aeronautical while the assets pertaining to this aeronautical service of cargo facility (in the books of HIAL) are treated as aeronautical, then a situation would arise where – (1) aeronautical assets pertaining to cargo service would be included in the RAB (these aeronautical assets are in the books of HIAL) (2) the revenue accruing to HIAL from third party cargo service provider would be treated as non-aeronautical, (3) the airport operator (HIAL) would claim depreciation as well as proportionate interest cost and WACC on these assets that would go into the overall costs for aeronautical services and eventually paid for by the passengers. The revenue obtained by the airport operator, under dual till would not however be counted towards income. (4) Hence under dual till, there will be no corresponding (aeronautical) revenue stream accruing to HIAL to reckon towards the passenger charges (despite passengers bearing the burden thereof). This is an anomalous situation, where despite aeronautical assets entering the RAB, the revenue therefrom has been considered by HIAL as non-aeronautical.

**3.15.** The Authority observes that the revenue accruing to the airport operator - on account of these aeronautical assets pertaining to cargo facility service forming part of RAB, should therefore be considered as aeronautical revenue. The Authority is aware that this distinction of certain assets or revenue therefrom being considered as aeronautical or non-aeronautical would not be material (in a financial sense) in case of tariff determination under single till, however the same would be material in case of tariff determination under dual till. The Authority, therefore, proposes to reckon the revenues accruing to airport operator on account of aeronautical assets on its books to be aeronautical revenue, regardless of whether the aeronautical service is provided by the airport operator or has been concessioned out by him to third party concessionaires. Hence in case of HIAL, the revenue from cargo service, provided by third party concessionaires, is proposed to be reckoned as aeronautical revenue.

**3.16.** The Authority further notes that the Ground Handling service has been concessioned out by HIAL to a third party concessionaire and as per information available, the assets pertaining to this service are not in the books of HIAL. Thus, following the above principle, the Authority proposes to consider revenue from such third party Ground Handling service provider accruing to HIAL as non-aeronautical revenue in the hands of HIAL. Further, it is noted that HIAL is providing fuel farm service (i.e. falling under the supply of fuel – an aeronautical service) itself and the assets of which are in the books of HIAL. Thus, the Authority proposes to consider revenue from the aeronautical service of fuel farm as aeronautical revenue in the hands of HIAL.

## 4. Consideration of pre-Control Period losses of HIAL

**4.1.** In its MYTP submissions, HIAL has considered the control period of 5 years from 01.04.2011 up to 31.03.2016 in accordance with the Airport Guidelines. However, the MYTP also includes the losses for the three year period from April 2008 to March 2011 i.e. the pre-Control Period losses.

**a HIAL submission on Consideration of pre-Control Period losses of HIAL**

**4.2.** HIAL has made a mention of its pre-Control Period losses while discussing the control period for its MYTP submission. HIAL stated as under,

> *"The control period considered is 5 years period starting from April 1st 2011 to March 31, 2016, considering the past 3 year's losses from April 2008 to March 2011."*

**4.3.** During its presentation to the Authority on 19.12.2012, HIAL submitted that it had incurred losses in the first 2 years. HIAL presented as under,

> *"GHIAL has been continuously making losses over the first 2 years of operations. The Company has made marginal profits during the year 2010-11, due to the fact that the tariff had been revised upward by the Authority Effective November 1, 2010 on Adhoc basis*
>
> *As on March 31, 2011 the accumulated losses of the Company after considering the DTA is Rs.164 Crores*
>
> - *Equal to 43% of the Equity invested*
> - *accumulated losses without considering DTA is Rs.267 Crores which is almost 70% of the Equity invested by the promoters.*
>
> *Therefore, for survival of organization, for recovering the past losses and to ensure a fair rate of return to the promoters, it is very important for a substantial increase in tariff levels from the current levels."*

**4.4.** HIAL, vide submission dated 06.02.2013, submitted its rationale for including the past period losses as part of the current MYTP, as under,

> *"Rationale for inclusion of past losses:*
>
> *1. AERA had considered the period from April 2008 to March 2013 during the determination of adhoc tariff*

*2. Similarly considering the same regulatory guidelines, the eligibility has been worked out for the period April 2008 to March 2011 and actual revenues received during such period including the adhoc UDF received during such period has been reduced from the eligibility amount and the further deficit to be recovered has been calculated*

*3. Also the eligibility has slightly been increased due to the lapse of time on account of future value calculations*

*4. Based on the Authority's Ad-hoc UDF Order, these shortfall in the recovery of past losses needs to be made up. Authority noted in its Order that*

*"The detailed comments of the Authority on the issues raised by HIAL (as indicated in para 18.1 above) are given in Annexure-II. Broadly, it is the Authority's understanding that the aforesaid differences are arising mainly as HIAL is taking 2010-11 estimates as firm figures. It is reiterated that the figures of 2010-11 are only estimates and therefore, Authority proposes to continue with its approach of taking actuals of 2009-10 to estimate the figures in respect of 2010-11 and 2011-12 and 201213. After reconciliation the UDF rate has been worked out as Rs-430/-per domestic passenger and Rs.1700/-per international passenger, exclusive of service tax, on an ad-hoc basis w.e.f, 01.11.2010 (details at Annexure III).* ***Authority is conscious that on a detailed assessment, including a bottoms up analysis of all revenues and expenditures, the UDF rates presently determined may need to be altered. This exercise will be undertaken at the final determination stage.****"*

**4.5.** The Authority sought clarification from HIAL on the consideration of 18.33% as the return in the State Support Agreement between HIAL and GoAP. In response to this HIAL, vide its submission dated 10.05.2013, stated as under

*"History/Background of Equity IRR being set at 18.33% for HIAL Project by GoAP*

*The Government of Andhra Pradesh had decided to develop a new world class international Greenfield airport at Shamshabad, Hyderabad through* *public private partnership ("Airport Project"). Ministry of Civil Aviation, Government of India vide its letter dated 29.05.2000 have approved the construction of new international greenfield airport at Shamshabad, Hyderabad on joint venture basis and closure of the existing airport at Begumpet, Hyderabad for civil operations on commissioning of the new airport.*

1. *Reason for inclusion of a minimum return:*

*GHIAL was the first green field airport PPP project launched in India. The project was fraught with uncertainties:*

*1 First time a greenfield airport project was being launched in India*

*2 This was a first private public partnership in an airport project in India.*

*3 This was the first time a private player was attempting to build an airport. Various uncertainties in getting various clearances and approvals made the project full of uncertainties.*

*4 This was first such large PPP project in state of AP.*

*5 The project was fraught with various risks like traffic risk, construction risk, shifting to new site risk, etc.*

*Large Infrastructure projects like airports are long gestation projects and with above uncertainties as add on, it would have been difficult to attract private players. In the background of the challenges of the project, GoAP would have had the following objectives*

*1 Ensure success of project by attracting private players.*

*2 Ensure that the economic development is triggered by development of airport (as later proved by NCAER study).*

*3 Ensure that the people of Andhra Pradesh get the best infrastructure in world (as proved by the airport being awarded as the best in the world in its class).*

*GoAP supported the project by:*

*1 Providing unencumbered leased land.*

*2 Giving interest free loan (IFL)*

*3 Giving Advance Development Fund Grant (ADFG)*

*4 Giving an assured Equity IRR.(EIRR)*

*In our view, the support of GoAP was very critical in general for attracting investors and in particular for our involvement in the project.*

*Based on above rationale Govt. of AP invited bids assuring them of the returns from the Project. GoAP included the equity return expectation as one of the bidding evaluation criterion.*

*2. RFP stage:*

*GoAP issued an RFP in July, 2000 to select a party to Design, Finance, Build, Operate & Maintain the Greenfield Airport Project at Shamshabad. The RFP mentions the evaluation criteria among which the "IRR for the Project factoring in the modifications to the DFR provided." The Scoring Method mentioned was "Realistic IRR on equity (post tax) to be between 15%-40%. Highest IRR (within the band) – 10; others proportionately lower; IRR beyond the band- 0"*

| | | | | |
|---|---|---|---|---|
| | *f) IRR for the project factoring in the modifications to the DFR provided* | | *10* | *Realistic IRR on equity (post tax) to be between 15% -40%.*<br>*Highest IRR (within the band) – 10*<br>*Others proportionately lower.*<br>*IRR beyond the band - 0* |
| | | | 100 | |

| | |
|---|---|
| ***Detailed Feasibility Report (DFR)*** | *The Ten Volumes Feasibility Study Report prepared by Tata Economic Consultancy Services, Mumbai in collaboration with SPEEDWING Consulting, A Division of British Airways, London, UK, on the new Hyderabad International Airport at Shamshabad* |

*(Source: RFP document)*

*3. Bid Award Stage:*

*GMR was selected by GoAP as a preferred bidder in May, 2001 based on a competitive bidding process. The Equity IRR agreed by GoAP later became a guiding number for the purpose of setting the IFL (Interest Free Loan) too. Hence, GoAP placed a strong emphasis on the Project's Equity IRR* *being at-least 18.33%. The importance and need for an unwavering State Support was realized as early as the year 2000 itself during the phase of announcing the preferred bidder by GoAP- for making the Project of Hyderabad Airport viable.*

*The mechanism for release of State Support was finalized and sanctioned through GoAP's Order G.O.Ms.No.130, dt. 26-06-2003. The final mechanism was chosen out of various alternatives suggested by M/S ICICI to the Cabinet Sub Committee and the Infrastructure Authority.*

*The above said Order takes full cognizance of the Equity IRR that had been agreed at 18.33%, based on which the IFL (Interest Free Loan) was fixed. Extract of the said annexure:*

*"*

| | | |
|---|---|---|
| 10 | Equity IRR | 18.33% |

*."*

*(Source: GoAP's Order G.O.Ms.No.130, dt. 26-06-2003)*

*Pursuant to the aforesaid G.O.Ms.No.130 dated. 26-07-2003, the State Support Agreement dated 30th September, 2003 ("State Support Agreement") was executed between the GoAP and GHIAL (then HIAL) giving effect to the aforesaid support recommended by the Cabinet Sub-Committee.*

*Further, Equity IRR agreed by GoAP was the minimum return (floor) and it was also envisaged that GHIAL can achieve an Equity IRR of over 18.33%. Based on above the GoAP had included following para in the award letter/order*

*6. Return on equity over and above 18.33% to be shared equally over the life of the project in proportion to the equity holding between the Developer and the Government of Andhra Pradesh i.e. there will be no asymmetrical sharing of profits above 18.33% in favour of Government"*

*(Source: GoAP's Order G.O.Ms.No.130, dt. 26-06-2003)*

4. *State Support Agreement:*

*Clause 2.3 of the State Support Agreement deals with financial and fiscal support which shall be provided by GoAP to GHIAL and the relevant Clause 2.3 (b) (i) which pertains to return on equity is reproduced herein below for ready reference:*

*(b) Interest Free Loan ("IFL")*

*(i) GoAP shall make available to the HIA, an IFL in the sum of Rs 3,15,00,00,000 (Rupees three hundred and fifteen crores). IFL shall not in any circumstance attract interest repayments. GoAP agrees and accepts that the IFL may be adjusted pro-rata upwards or downwards on completion of the DPR, if the determination is made that such pro-rata adjustment is required as a result of change to the Project cost and so as to maintain equity internal rate of return at 18.33%"*

*(Clause 2.3 of the State Support Agreement)*

5. ***Confirmation by GoAP in stakeholder meeting :*** *Mr. Ajay Mishra, Principle secretary (I&I) also have confirmed that GoAP had assured the return of 18.33% to the project:*

***"5.****11 Shri Ajay Mishra, Principal Secretary (I&I), representing the State Government of Andhra Pradesh, stated that on the issue of return on equity, the state stands by what has been provided in the State Support Agreement, i.e. 18.33%. Further, while the view of airlines is understandable, the State Government broadly supports higher UDF to ensure viability of the world class infrastructure created at the Hyderabad airport."*

*(Source: AERA Order No. 06/2010-11)*

*Confirmation by GoAP:*

*Further, in response to AERA's letter D.O. No. AERA/2011/AO-G/2011 dated 02.02.2011 the GoAP have, vide its letters bearing Letter No. 245/Airports/2011 dated 01.03.2011 and Letter No. 245/Airports/2011* *dated 03.03.2011, clarified to Airport Economic Regulatory Authority reiterating clause 2.3 (b) (i) of the State Support Agreement which mandates maintaining internal rate of return on equity at 18.33%.*

*Letter No. 245/Airports/2011 dated 01.03.2011 lays down as under:*

*"As per clause 2.3 b (i) of the State Support Agreement, dt30.9.2003, entered between Govt. of AP and HIAL, it is necessary to maintain equity Internal Rate of Return at 18.33%."*

*Letter No. 245/Airports/2011 dated 03.03.2011 lays down as under:*

*"1. Clause 2.3 b (i) of State Support Agreement, pertaining to Equity IRR of 18.33% is only in reference to pro-rata adjustment of Interest Free Loan from Govt. of Andhra Pradesh it is not envisages that this operate as a cap on the project returns based on single till or otherwise. As explained in our said letter dated March 1, 2011 the concession agreement does not envisage cross subsidy of non-aeronautical revenues against the aeronautical revenues."*

*In light of the documents referred to hereinbefore including the State Support Agreement, it may be concluded that the GoAP has covenanted to assure minimum internal rate of return on equity at 18.33% in respect of the GHIAL Airport Project."*

**b Authority's Examination of HIAL submissions on Consideration of pre-Control Period losses of HIAL**

**4.6.** The Authority has examined HIAL's submissions for consideration of the pre-control period losses (called as past period losses by HIAL) under the current MYTP. As has already been mentioned in Para 1.11 above, MoCA had determined UDF on ad-hoc basis for HIAL at the rate of Rs. 375 per domestic departing passenger and Rs. 1,000 per domestic departing passenger. The Authority had thereafter vide its Ad-hoc UDF Order No. 06/2010-11 dated 26.10.2010 revised the UDF *(not "tariff" as claimed by HIAL)* at RGI Airport, Hyderabad, to Rs. 430/- per embarking domestic passenger and Rs. 1,700/- per embarking international passenger on an ad-hoc basis. In this Ad-hoc UDF Order the Authority had stated as under:

*"This ad-hoc determination would be reviewed at the stage of tariff determination for the first cycle and thereafter at such intervals as the Authority may determine, from time to time."*

**4.7.** The proposal submitted by HIAL, at the time of determination of ad-hoc UDF by the Authority, was for the five year period from FY 2008-09 to FY 2012-13. The Authority, after consideration of the proposal, had determined the ad-hoc UDF for a period of 5 years to be levied with effect from 01.11.2010. At that time, the Authority was in the process of deliberating on the final commencement date for the first control period. Its calculation for five years with effect from 01.11.2010 was ad-hoc in the sense that the Authority needed to consider a time period for the purpose of calculation of UDF on NPV basis, and it had considered a time period of 5 years with effect from 01.11.2010. Now that the Authority has issued its Airport Order and Airport Guidelines, it has determined the commencement date for the first control period as 01.04.2011 for the purpose of calculating aeronautical tariffs, including UDF. All calculations have therefore been made in the instant paper with reference to this date. Hence in line with its ad-hoc UDF Order No. 06/2010-11, dated 26.10.2010, the Authority proposes to review its ad-hoc determination of UDF in respect of RGI Airport, Hyderabad as part of the current tariff determination exercise.

**4.8.** The MYTP submitted by HIAL corresponds to the first control period, which is in line with the Airport Order and Airport Guidelines and commences from 01.04.2011. The past losses, if any, correspond to the period between 23.04.2008 till 31.03.2011. During this period, HIAL was granted ad-hoc UDF first by MoCA (23.04.2008 to 31.10.2010) and thereafter by the Authority (01.11.2010 till 31.03.2011). As has been indicated by the Authority in the ad-hoc UDF Order No.06/2010-11 dated 26.10.2010, it had presumed that the Government had expected that HIAL would be able to receive a fair rate of return on its investments (including return on equity). If the rate at which the Government had determined UDF proved to be inadequate for this purpose, it required to be revised (upwards). The Authority had taken the accounts of the Company as a whole (equivalent to single till) for the purposes of calculation of past losses. The Authority is now required to determine the aeronautical tariffs as well as UDF as a final determination during the current control period. While doing so it would now calculate the financials both under single and dual till as indicated in Para 3.3 above.

**4.9.** The Authority notes that as per the submissions by HIAL, the pre-control period losses for single and dual till are as under:

**Table 6: Pre-control period losses for HIAL as per HIAL tariff model– Single Till**

| **Values in crores** | **2008-09** | **2009-10** | **2010-11** |
|---|---|---|---|
| RAB for calculating ARR | 2,200 | 2,316 | 2,315 |
| WACC | 10.62% | 10.62% | 10.62% |
| RAB * WACC | 234 | 246 | 246 |
| Depreciation | 100 | 116 | 127 |
| Operation and Maintenance Expenditure (including revenue share) | 218 | 220 | 264 |
| Tax | 2 | 0 | 0 |
| Revenue from services other than aeronautical services | 121 | 161 | 209 |
| Average Revenue Requirement | 433 | 421 | 428 |
| Aeronautical Revenues (including fuel farm excess set-off) | 231 | 293 | 360 |
| Deficit | 202 | 128 | 67 |
| Future Value as on 31.03.2011 (discounted at WACC) | 247 | 141 | 67 |
| Aggregate Future Value of deficits as on 31.03.2011 | | | 455.19 |
| The above calculations are based on inclusion of Hotel, SEZ, Forex Loss Adjustments, and Duty Free Shopping as per HIAL's Base Model. | | | |

**Table 7: Pre-control period losses for HIAL as per HIAL tariff model – Dual Till**

| **Values in crores** | **2008-09** | **2009-10** | **2010-11** |
|---|---|---|---|
| RAB for calculating ARR | 1,790 | 1,740 | 1,709 |
| WACC | 10.63% | 10.63% | 10.63% |
| RAB * WACC | 190 | 185 | 182 |

| Values in crores | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|
| Depreciation | 89 | 91 | 98 |
| Operation and Maintenance Expenditure (including revenue share) | 181 | 156 | 182 |
| Tax | 0 | 0 | 0 |
| Revenue from services other than aeronautical services | 0 | 0 | 0 |
| Average Revenue Requirement | 461 | 433 | 462 |
| Aeronautical Revenues (including fuel farm excess set-off) | 231 | 293 | 360 |
| Deficit | 230 | 140 | 102 |
| Future Value as on 31.03.2011 (discounted at WACC) | 281 | 154 | 102 |
| Aggregate Future Value of deficits as on 31.03.2011 | | | 537.18 |
| The above calculations are based on excluding Hotel, SEZ and Duty Free Shopping, and non-aeronautical activities as submitted by HIAL in its Base Model. | | | |

**4.10.** The Authority would be required to address the issue of past losses if any, during the pre-control period viz., 23.04.2008 till 31.03.2011. These past losses are also now calculated both under Single and Dual till framework. The quantum of the past losses is proposed to be added to the ARR for the first year (FY 2011-12) of this Control period as an additional revenue requirement on account of (and to recoup) past losses. While calculating the past losses, the Authority proposes to consider the three services viz., Cargo, ground handling and supply of Fuel to aircraft (CGF services) as aeronautical services regardless of its final tentative proposals regards the regulatory till. This is because the AERA Act defines these services as Aeronautical Services. The Authority has been consistently taking the stand that once AERA Act has been passed by the Legislature, its provisions take primacy over those of any agreement - to the extent that the provisions of the agreement are repugnant to the provisions of the AERA Act. This issue has been discussed in detail in Para 17 below.

**4.11.** To summarise, therefore, pre-control period losses are considered from 23.04.2008 to 31.03.2011, inasmuch as after 01.04.2011, the UDF is calculated with reference to the control period (01.04.2011 till 31.03.2016) along with other aeronautical charges in accordance with the provisions of the AERA Act. The period of pre-control period losses, therefore, consists of two sub-periods – (a) 23.04.2008 till 31.10.2010 and (b) 01.11.2010 till 31.03.2011. During the first sub-period (till 31.10.2010) the past UDF was determined by the Government and in the second sub-period (b) till 31.03.2011, the ad-hoc determination of UDF was done by the Authority.

**4.12.** The actual revenue and expenses for FY 2008-09, FY 2009-10 and FY 2010-11 in respect of RGI Airport, Hyderabad have been made available by HIAL and have been analysed by the Authority to assess the losses, if any, incurred by HIAL.

**4.13.** The Authority has calculated the ARR for HIAL for these three years considering the components including Regulatory Asset Base (RAB), Weighted Average Cost of Capital [considering the return on equity as calculated in Para 11.49 below], Operating Expenses, Depreciation and Taxes for respective past years. Considering the aeronautical revenue and cross-subsidisation due to non-aeronautical revenues for respective years, the Authority has calculated the year-wise deficit for HIAL. The value of these year-wise deficits (for FY 2008-09, FY 2009-10 and FY 2010-11) has been then calculated as on 31.03.2011.

**4.14.** In line with the principles adopted in its ad-hoc determination of UDF, the Authority has not considered Hotel and Aero SEZ and Forex adjustment as per AS 11 (as assumed by HIAL) as part of the RAB while calculating the losses for the pre-control period. The Authority has also excluded these items in its current determination of aeronautical tariffs for the period 01.04.2011 till 31.03.2016 as indicated in discussion of RAB in Para 9 below .

**4.15.** The Authority notes that MoCA while determining the ad-hoc UDF in 2008 had the objective of giving the airport operator a fair rate of return. The UDF was to be levied at the airport on departing passengers to bridge the gap between revenue (excluding UDF) and the expenditure. The Authority has followed the similar principle and objective. During its tariff determination for the first control period, it has firmed up estimates of different building blocks and has thus calculated what has been the shortfall in UDF for the past three years based on the Authority's calculation of the different building blocks. While doing so it has calculated the shortfall in UDF for the past three years both on single till and dual till.

**4.16.** At the ad-hoc determination stage the Authority had noted that the airport was making losses. It also observed that as per Clause 2.3 (b) of the State Support Agreement, the equity rate of return was to be maintained for the project at 18.33%. Thus, without going into the detailed calculations of a fair rate of return on equity in HIAL, at the stage of ad-hoc determination, the Authority had considered the cost of equity at 18.33%. It is noted that the Government had granted UDF of Rs. 375 per departing domestic passenger and Rs. 1,000 per departing international passenger on an ad-hoc basis. Thereafter, HIAL approached Government effectively stating that the levels of ad-hoc UDF were not adequate and sought an enhancement thereof. The Government referred the matter to the Authority for determination of UDF. The Authority therefore had taken the stand that the Government had desired that HIAL should get a fair return on its investment. Further to this, the Authority sought clarification from HIAL on the consideration of 18.33% return in the State Support Agreement in respect of RGI Airport, Hyderabad. HIAL's response to this clarification is presented in Para 4.5 above. The Authority has noted this submission of HIAL.

**4.17.** Now that the Authority has made its calculations regarding the fair rate of return that HIAL should get on its investments, it has taken this rate for calculation of the past losses along with carrying costs. On further analysis, the Authority has tentatively proposed to consider the cost of equity at 16% for tariff determination of the RGI Airport, Hyderabad, the reasons of which are detailed in Para 11 below. In the current determination, for calculating the year-wise deficit for Past Losses, the Authority has therefore considered a Cost of Equity of 16%.

**4.18.** Thus the Authority is calculating the pre-control period losses considering 16% return on equity. The year-wise deficit of HIAL, considering exclusion of Hotel, SEZ and Duty Free assets, as well as Forex Loss Adjustments, under Single and Dual Till works out as under:

**Table 8: Pre-control period losses for HIAL as per the Authority (based on excluding Hotel, SEZ and Duty Free assets, and Forex Loss Adjustments) – Single Till**

| Values in crores | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|
| RAB for calculating ARR | 2,080 | 2,081 | 2,058 |
| WACC | 9.39% | 9.39% | 9.39% |
| RAB * WACC | 195 | 195 | 193 |
| Depreciation | 100 | 104 | 105 |
| Operation and Maintenance Expenditure (including revenue share) | 218 | 192 | 214 |
| Tax | 2 | 0 | -1 |
| Revenue from services other than aeronautical services | 121 | 130 | 154 |
| Average Revenue Requirement (considered from 23.04.2008) | 371 | 362 | 358 |
| Aeronautical Revenues (including fuel farm excess set-off) (considered from 23.04.2008) | 218 | 295 | 362 |
| **Total Deficit considering past losses from 23.04.2008** | 191 | 77 | -4 |
| **Future Value as on 31.03.2011 (discounted at WACC)** | 218 | 295 | 362 |
| **Aggregate Future Value of deficits as on 31.03.2011** | | | 263.44 |

**Table 9: Pre-control period losses for HIAL as per the Authority (based on excluding Hotel, SEZ and Duty Free assets, and Forex Loss Adjustments, and non-aeronautical activities) – Dual Till**

| Values in crores | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|
| RAB for calculating ARR | 1,790 | 1,740 | 1,688 |
| WACC | 9.39% | 9.39% | 9.39% |
| RAB * WACC | 168 | 163 | 158 |

| Values in crores | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|
| Depreciation | 89 | 91 | 92 |
| Operation and Maintenance Expenditure (including revenue share) | 181 | 156 | 182 |
| Tax | 0 | 0 | 0 |
| Revenue from services other than aeronautical services | 0 | 0 | 0 |
| Average Revenue Requirement (considered from 23.04.2008) | 412 | 411 | 432 |
| Aeronautical Revenues (including fuel farm excess set-off) (considered from 23.04.2008) | 218 | 295 | 362 |
| **Total Deficit considering past losses from 23.04.2008** | 194 | 117 | 71 |
| **Future Value as on 31.03.2011 (discounted at WACC)** | 242 | 133 | 74 |
| **Aggregate Future Value of deficits as on 31.03.2011** | | | **449.58** |

**4.19.** Further to the above, the pre-control period losses under single till and dual till as considered by the Authority on account of considering all tentative proposals taken by the Authority is presented below:

**Table 10: Pre-control period losses for HIAL as per the Authority (after considering all tentative proposals taken by the Authority) – Single Till**

| Values in crores | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|
| RAB for calculating ARR | 2,080 | 2,081 | 2,058 |
| WACC | 9.39% | 9.39% | 9.39% |
| RAB * WACC | 195 | 195 | 193 |
| Depreciation | 100 | 104 | 105 |
| Operation and Maintenance Expenditure (including | 216 | 192 | 213 |

| Values in crores | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|
| revenue share) | | | |
| Tax | 2 | 0 | -1 |
| Revenue from services other than aeronautical services | 121 | 130 | 154 |
| Average Revenue Requirement (considered from 23.04.2008) | 369 | 362 | 357 |
| Aeronautical Revenues (including fuel farm excess set-off) (considered from 23.04.2008) | 218 | 294 | 361 |
| **Total Deficit considering past losses from 23.04.2008** | 151 | 67 | -5 |
| **Future Value as on 31.03.2011 (discounted at WACC)** | 188 | 77 | -5 |
| **Aggregate Future Value of deficits as on 31.03.2011** | | | 260.68 |

**Table 11: Pre-control period losses for HIAL as per the Authority (after considering all tentative proposals taken by the Authority) – Dual Till**

| Values in crores | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|
| RAB for calculating ARR | 1,790 | 1,740 | 1,688 |
| WACC | 9.39% | 9.39% | 9.39% |
| RAB * WACC | 168 | 163 | 158 |
| Depreciation | 89 | 91 | 92 |
| Operation and Maintenance Expenditure (including revenue share) | 179 | 156 | 181 |
| Tax | 0 | 0 | 0 |
| Revenue from services other than aeronautical services | 0 | 0 | 0 |
| Average Revenue Requirement (considered from | 410 | 411 | 431 |

| Values in crores | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|
| 23.04.2008) | | | |
| Aeronautical Revenues (including fuel farm excess set-off) (considered from 23.04.2008) | 218 | 294 | 361 |
| **Total Deficit considering past losses from 23.04.2008** | 192 | 116 | 70 |
| **Future Value as on 31.03.2011 (discounted at WACC)** | 240 | 133 | 73 |
| **Aggregate Future Value of deficits as on 31.03.2011** | | | **447.14** |

**4.20.** Thus, as per the Authority, the pre-control period loss works out to Rs. 260.68 crores under Single till and Rs. 447.14 crores under dual till. This pre-control period loss would need to be added to the ARR for FY 2011-12 in the current determination of aeronautical tariff(s) for recouping the losses.

**Proposal No. 1. Regarding Pre-Control Period Loss**

**1.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To consider Pre-Control Period Loss (for the period 23.04.2008 to 31.03.2011) (inclusive of carrying costs) as of 31.03.2011 at Rs. 260.68 crores under single till and Rs. 447.14 crores under dual till.**

**ii. To add this amount of pre control period loss to the ARR for FY 2011-12 while determining the tariffs for aeronautical services for the current control period so as to recoup these losses.**

**4.21.** The table below presents the comparison of pre-control period losses as per HIAL's Base Model and as per Authority's assessment.

**Table 12: Pre-Control Period losses**

| | | | |
|---|---|---|---|
| Single Till | | | |
| Pre-Control Period Losses as per the Base Model* (in Rs. Cr.) | 455.19 | Pre-Control Period Losses as per Authority's examination considering exclusion of Hotel, SEZ, Forex Loss Adjustments, but inclusive of Duty Free Shopping (within the terminal building) (in Rs. Cr.) | 263.44 |
| Dual Till | | | |
| Pre-Control Period Losses as per the Base Model* (in Rs. Cr.) | 537.18 | Pre-Control Period Losses as per Authority's examination considering exclusion of Hotel, SEZ, Forex Loss Adjustments, and non-aeronautical activities (including Duty Free Shopping (within the terminal building)) (in Rs. Cr.) | 449.58 |
| * - Base Model – Refer to Para 1.41 | | | |

## 5. Control Period

### a HIAL Submission on Control Period

**5.1.** As per its initial submission dated 31.07.2011, HIAL submitted that it has considered a control period of 5 years from 01.04.2011 up to 31.03.2016. Further HIAL submitted as under,

> *"The control period considered is 5 years starting from April 1st 2011 up to March 31, 2016, considering the past 3 years losses from April 2008 to March 2011."*

**5.2.** In further submissions made as on 13.09.2011 and 14.12.2012, HIAL re-iterated that it has considered a control period of 5 years from 01.04.2011 up to 31.03.2016 as stated above.

### b Authority's Examination of HIAL Submissions on Regulatory Period

**5.3.** The Authority proposes to follow the first control period in respect of RGI Airport, Hyderabad from 01.04.2011 to 31.03.2016 as per the Airport Guidelines and as submitted by HIAL.

**Proposal No. 2. Regarding Control Period**

**2.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To consider the first Control Period in respect of determination of tariffs for aeronautical services in respect of RGI Airport, Hyderabad to be from 01.04.2011 up to 31.03.2016.**

## 6. Regulatory Building Blocks

**6.1.** The Authority has analysed and determined the Regulatory Building Blocks for calculation of Aggregate Revenue Requirement (ARR) in respect of RGI Airport, Hyderabad for the current Control Period.

**6.2.** The ARR for the current Control Period will be determined based on the following components of Regulatory Building Blocks with reference to the submissions made by HIAL:

6.2.1. Fair Rate of Return applied to the Regulatory Asset Base (FRoR x RAB)

6.2.2. Operation and Maintenance Expenditure (O)

6.2.3. Depreciation (D)

6.2.4. Taxation (T)

6.2.5. Revenue from services other than aeronautical services (NAR)

**6.3.** Revenue from services other than aeronautical services (NAR) includes revenues in the hands of the airport operator from services other than those captured under aeronautical revenue.

**6.4.** The ARR under single till for the Control Period (ARR) is calculated as under:

$$\mathrm{ARR} = \sum_{t=1}^{5}(ARR_t) \text{ and}$$

$$\mathrm{ARR_t} = (\mathrm{FRoR\ x\ RAB_t}) + \mathrm{D_t} + \mathrm{O_t} + \mathrm{T_t} - \mathrm{NAR_t}$$

6.4.1. Where t is the Tariff Year in the Control Period

6.4.2. Where $ARR_t$ is the Aggregate Revenue Requirement for year t

6.4.3. Where FRoR is the Fair Rate of Return for the control period

6.4.4. Where $RAB_t$ is the Regulatory Asset Base for the year t

6.4.5. Where $D_t$ is the Depreciation corresponding to the RAB for the year t

6.4.6. Where $O_t$ is the Operation and Maintenance Expenditure for the year t, which include all expenditures incurred by the Airport Operator(s) including expenditure incurred on statutory operating costs and other mandated operating costs

6.4.7. Where $T_t$ is the Taxation for the year t, which includes payments by the Airport Operator in respect of corporate tax on income from assets/ amenities/ facilities / services taken into consideration for determination of ARR for the year t

6.4.8. Where $NAR_t$ is the Revenue from services other than aeronautical services for the year t

**6.5.** In case of dual till, the calculation of ARR differs as cross subsidization from Revenue from services other than aeronautical services (NAR) is not considered. Other than NAR, other building blocks remain in the formula, however their values will change as the methodology for determination of these blocks will be different. Further the Regulatory Asset Base (RAB) will be considered corresponding to those assets, which are used for providing aeronautical services. In other words the assets being used for providing services other than aeronautical services will be excluded from RAB. Accordingly, Depreciation will be considered on these assets. Operation & Maintenance Expenditure will be considered for activities pertaining to provision of aeronautical services. Thus, the ARR for the current Control Period will be determined based on the following components of Regulatory Building Blocks (for dual till):

6.5.1. Fair Rate of Return applied to the Regulatory Asset Base (FRoR x RAB)

6.5.2. Operation and Maintenance Expenditure (O)

6.5.3. Depreciation (D)

6.5.4. Taxation (T)

**6.6.** The ARR under dual till for the Control Period (ARR) is expressed as under:

$$\mathrm{ARR} = \sum_{t=1}^{5}(ARR_t) \text{ and}$$

$$\mathrm{ARR_t} = (\mathrm{FRoR \ x \ RAB_t}) + \mathrm{D_t} + \mathrm{O_t} + \mathrm{T_t}$$

**6.7.** The Authority's examination of each of the building blocks in respect of RGI Airport, Hyderabad is presented in the subsequent sections.

# 7. Allocation of Assets (Aeronautical / Non-Aeronautical)

## a HIAL Submission on Asset Allocation (Aeronautical / Non-Aeronautical)

**7.1.** As per HIAL's submissions dated 31.07.2011 and 04.04.2013, the asset allocation methodology followed by HIAL is as under,

*"Classification of assets in Aero and Non Aero*

*"**Aeronautical Assets**" are those assets which are necessary or required for the performance of Aeronautical Services at the Airport and required for generating Aeronautical Revenues and considered for reasonable rate of return and all other assets that the Company may procure in accordance with the written direction of GoI for or in relation to provision of any of the Reserved Activities.*

*"**Non-Aeronautical Assets**" are the assets required or necessary for the performance of Non Aeronautical Services at the airport.*

*"**Common Assets**" are the assets that are not identifiable/categorized either into Aeronautical Asset or Non Aeronautical Assets.*

*The total fixed assets as per audited balance sheet has been classified in to Aero, Non Aero and Common assets as per below mentioned classification.*

*."**Aeronautical Services**" shall means the provision of facilities and services, indicative list of which are as follows*

- *Aerodrome Control Services*
- *Airfield*
- *Airfield lighting and associated works*
- *Runways*
- *Taxiways*
- *Apron and aircraft parking area*
- *Remote parking stands*
- *Air traffic Control Building and associated assets*
- *Special Handling Terminal - HAJ*

- *Airport Seating*
- *Airside access roads*
- *Lifts, escalators and elevators*
- *Flight information and public address system*
- *Compound wall*
- *Traffic forecourts*
- *Rescue and Fire fighting Service*
- *Air field crash fire Service*
- *Bird Scaring system*
- *Ground Power unit Service*
- *Passenger Boarding Bridges*
- *Baggage Handling system and Hold baggage In line x-ray screening*
- *Visual docking and Guidance System*
- *CUTE including gate control*
- *Operational vehicle like rubber removal machine, runway Sweepers, Golf carts, trolley pulling scooters*
- *Airport Operation and control Center*
- *Airport Operational database*
- *Airport Community Network*
- *Airport Management Administrative Network*
- *Other IT system for airport operation*
- *Surface Drainage*
- *Plumbing and Sewerage system*
- *Water and Sewerage Treatment Facilities*
- *Signage*
- *Waste disposal*
- *Information desks*

- *Emergency Services*
- *General maintenance and upkeep of the Airport*
- *Customs and Immigration halls*
- *VVIP and VIP lounges*
- *Public Transport Centre*
- *Facilities for the disabled and other special needs people*
- *Any other service and facility deemed to be necessary for the safe and efficient operation of the Airport*

*As part of classification, we have considered Cargo and Ground Handling assets as Non Aeronautical as the company is not involved in the operation of cargo and ground handling and is only receiving revenue share/ rentals from the cargo and ground handling operators.*

*"**Non Aeronautical Services**" shall mean facilities and services, indicative list of which is as follows:*

- *Car park equipment*
- *Airline Lounges and other commercial lounges*
- *General retail facilities*
- *Vehicle Fueling services*
- *Kirby Sheds – Temporary office Spaces*
- *Site Office Building*
- *Cargo Agents Building*
- *Any other service or facility other than Aeronautical Services*

***Common Assets**: The indicative list of Common Assets is as follows:*

- *Passenger Terminal Building*
- *Heating Ventilation and Air Conditioning system for PTB*
- *New Office Building (including Furniture & Fixtures)and associated works*
- *Quarters for outside Security Personnel*

- *Common Hardware, software and Communication System*
- *Central Stores Building"*

**7.2.** Further, in its submission dated 31.07.2011, HIAL stated the following methodology for apportionment of Common Assets into Aero and Non Aero assets,

*"**Apportionment of Common Assets into Aero and Non Aero**: The Common Assets have been apportioned into Aeronautical and Non Aeronautical Assets on the following basis:*

| *S.No.* | *Description of the Asset* | *Basis of Apportionment* |
|---|---|---|
| *1.* | *Passenger Terminal Building (PTB)- Area allotted for Airline Lounges and other commercial lounges, General retail facilities, Office spaces etc is treated as Non Aero asset and remaining area as Aero Asset.* | *PTB Area (Sq. Mts.)* |
| *2.* | *Heating Ventilation and Air Conditioning system for Passenger Terminal Building. In the Ratio of the PTB area classified in to Aero and Non Aero.* | *PTB Area (Sq. Mts.)* |
| *3.* | *New Office Building (including Furniture & Fixtures) and associated works. Common area is allocated in the ratio of total Aero and Non Aero assets.* | *Office Area (Sq. Mts.)* |
| *4.* | *Quarters for outside Security Personnel* | *Aero & Non Aero Assets Ratio* |
| *5.* | *Common Hardware, software and Communication System* | *Aero & Non Aero Assets Ratio* |
| *6.* | *Central Stores Building* | *Aero & Non Aero Assets Ratio* |

*."*

**7.3.** Based on the above approach, HIAL has segregated the Aeronautical and Non-Aeronautical Assets for the current control period. The overall ratio between Aeronautical Assets and Total Assets (i.e. Aeronautical and Non-Aeronautical Assets) as computed by HIAL on area basis for each year of the control period, is summarised below:

**Table 13: Overall Aeronautical Assets on area basis as a % of Total Assets as submitted by HIAL**

| In% | FY 09 | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
|---|---|---|---|---|---|---|
| Aeronautical Assets as %age of Total Assets | 85.44% | 82.83% | 83.05% | 83.09% | 83.09% | 83.09% |
| Total Aeronautical Assets | 2,276 | 2,420 | 2,438 | 2,432 | 2,461 | 2,492 |

**b Authority's Examination of HIAL Submissions on Asset Allocation (Aeronautical / Non-Aeronautical)**

**7.4.** The Authority has noted the above submission of HIAL on the allocation of assets into Aeronautical and Non-aeronautical categories. It proposes to calculate aeronautical tariffs under dual till based on the asset allocation indicated by HIAL (asset allocation is not relevant for single till). It also proposes to commission an independent study to assess the reasonableness of this allocation and to consider the conclusions thereof at the time of determination of tariffs for aeronautical services in the next control period as may be relevant.

**Proposal No. 3. Regarding Asset Allocation (Aeronautical / Non-Aeronautical)**

**3.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To consider the allocation of assets as submitted by HIAL (Refer Table 13) for computation of ARR under dual till for the current control period.**

**ii. The Authority also tentatively proposes that it will commission an independent study to assess the reasonableness of the asset allocation submitted by HIAL and would take corrective action, as may be necessary for determination of tariffs under dual till, at the commencement of the next control period commencing with effect from 01.04.2016. The Authority further proposes that upon analysis / examination pursuant to such a study, the Authority may conclude that the allocation of assets considered under dual till needs to be changed. In such a case the Authority would consider truing up the**

**allocation mix at the commencement of the next control period as may be relevant.**

# 8. Future Capital Expenditure including General Capital Expenditure

## a HIAL Submission on Future Capital Expenditure

**8.1.** As per its submission dated 14.12.2012, HIAL submitted that some additional future capital expenditure including general capital expenditure will be incurred in order to smoothen the day to day operations at the RGI Airport, Hyderabad. Under this head HIAL has also included the future capital expenditure requirements of its SEZ, Hotel and Duty Free businesses. HIAL has stated that all the items under future capital expenditure are of value less than Rs. 50 crores and thus a prior stakeholder consultation on these items is not required. Further, each item under future capital expenditure as per HIAL's submission dated 14.12.2012 is presented hereunder,

8.1.1. Airport Connectivity from North: HIAL stated that there is no connectivity to the airport from the northern boundary of the airport and thus HIAL has proposed constructing a public road considering the future traffic within the entire airport area. The road connectivity, as proposed by HIAL has two main segments including a 2.5 kms, 6 lane road with a north-south alignment connecting the existing spine road and a 1.4 kms 4 lane road with east-west alignment along the northern boundary of the airport. Further to this, HIAL provided the required expenditure details as under,

- *"The construction cost of road is Rs. 30 Cr is an all-inclusive estimate which includes median, footpath, cycle track, street lighting, drainage, utility corridor & landscaping costs.*
- *Out of the Rs. 30 Cr, Rs. 20 Cr is being added to the RAB within the control period based on the date of capitalization"*

8.1.2. Water Supply Capacity Augmentation: HIAL submitted that the water storage within the premises of RGI Airport, Hyderabad needs to be increased so that the supply inconsistency from Hyderabad Metropolitan Water Supply & Sewerage Board (HMWSSB) can be overcome. HIAL has proposed to increase the supply volume from 2000 KLD to 4000 KLD from HMWSSB and to increase the storage capacity in RGI Airport, Hyderabad from about 3 to 6 days of consumption. To achieve this, HIAL has proposed to increase the capacities of Water Treatment

Plant (from 1600 KL to 4000 KL), storage (from 5000 KL to 24000 KL), Sewage Treatment Plant (from 1850 KLD to 3200 KLD) and storage capacity of treated sewage (from 1850 to 3200 KL). Further to this, HIAL provided the required expenditure details as under,

- *"The cost break-up is as follows:*
  - *Water & sewage treatment – Rs. 10 Cr*
  - *Water Storage – Rs. 20 Cr*
- *Based on expected date of capitalization, Rs. 30 Crs as per above is included in the RAB"*

8.1.3. Flood Control & Rainwater Harvesting - Sustainability & Flood Control: HIAL submitted that it proposes to develop 3 ponds in an area of 45 acres to contain the excess water due to heavy rainfall in the area. HIAL also proposed to construct a green belt along the pond. HIAL further supported the rational for construction of this facility by stating that Hyderabad is part of Cyclonic weather conditions in India and flood is one of the gravest risks for the airport. HIAL has also quoted that in several past instances, its property was severely damaged due to floods and thus supported the inclusion of this facility as part of future capital expenditure. Further to this, HIAL provided the required expenditure details as under,

- *"The estimated cost of the project is Rs. 30 Cr.*
- *Based on expected date of capitalization, Rs. 20 Crs as per above is included in the RAB"*

8.1.4. Sustainability through Renewable Energy (Solar): HIAL submitted that as part of the green initiative for the Airport, it proposes to construct a 4 MW Solar Power plant in the premises to meet the current minimum load of the Airport. HIAL, has submitted that the construction of this facility would lead to lower operating costs due to expected saving from this project. Further to this, HIAL provided the required expenditure details as under,

- *"The estimated cost of the project is Rs. 40 Cr (at an all-inclusive cost of Rs. 10 Cr/MW)*

- *project will be taken up in FY 14 and capitalized in same year and included in RAB from FY14 onwards"*

8.1.5. Power Capacity Augmentation: HIAL submitted that in order to meet the future demand of electricity in the Airport for its parts including Apron, Taxiways, Fire stations, Ground handling equipment workshops and, new commercial establishments, Air conditioning, Water supply, Sewage treatment and other Airport related navigational set-up, the power infrastructure needs to be expanded. In order to cater to these future requirements HIAL has proposed an inter-connection between existing and proposed Power distribution network indicating the expenditure details as under,

- *"Rs. 20 Cr will be spent over the next 3-4 years to augment the capacity of the main sub-station and distribution sub-station to meet the future requirements of the Airport including the concessionaires and other related establishments*
- *The cost of Rs. 20 Cr includes the cost of laying cables, distribution systems and related civil works.*
- *Based on expected date of capitalization, Rs. 20 Crs as per above is included in the RAB."*

8.1.6. General Capex: In addition to the specific heads discussed in the Paras 8.1.1 to 8.1.5 above. HIAL have also furnished their general capital expenditure, based on the past trends in capital expenditure and considering the large size of the airport, which have been discussed here under,

8.1.6.a. HIAL has considered a capex spend of 1% of the gross fixed assets annually and also assumed that the gross fixed assets value will be escalated by WPI Index year on year for calculation of General Capex meant for future uncertain requirements. Further HIAL has also stated that the historical general capex requirements for 31.03.2010 is Rs. 144 Cr, for 31.03.2011 is Rs. 26 Cr, for 31.03.2012 is Rs. 14 Cr and till September 2012 for FY 2012-13 is Rs. 23 Cr. Based on above assumption of 1% p.a., HIAL has provided the general capex assumptions for 31.03.2013 as Rs. 29.01 Cr, for 31.03.2014 as Rs. 31.01 Cr, for 31.03.2015 as Rs. 33.84 Cr and for 31.03.2016 as Rs. 36.73 Cr.

8.1.6.b. Pursuant to this, in their submission dated 06.02.2013, HIAL reiterated the above and additionally submitted a list of ongoing and upcoming projects forming part of General Capex. The list has been reproduced as under,

*"List of some of the ongoing projects and upcoming projects are given below:*

| ***Project List*** | ***Rs. in Cr*** | ***Remarks*** |
|---|---|---|
| *Domestic SHA Modification* | *11.3* | *Non Aero Revenue Enhancement and better Passenger Experience* |
| *Cargo Apron* | *17.36* | *Strengthening of cargo Apron with minimum PCN Value in order to make it Complaint to be used by freighters like MD 11.<br>Making Provision of the FEGPs.* |
| *Cargo Car Park* | *0.25* | *To implement a car-park system for Cargo village area* |
| *RUNWAY AGL REDUNDANCY* | *4.2* | *1. Upgrading the secondary runway AGL system" to meet the night operations criteria.<br>2. Uninterrupted operation for Cargo aircrafts.<br>3. Reduce response time for any emergency at south side of Runway.* |
| *Covering of Car Park Drains* | *1.44* | *1. To avoid users of car park to fall into the drains.<br>2. To eliminate safety hazards.* |
| *Water Redundancy* | *0.83* | *Scarcity of Water due to insufficient quantity supplied by HMWSSB, hence To create Zero tolerance system with redundancy levels* |
| *Power Redundancy* | *6.95* | *To ensure uninterrupted power supply to airport operations as a Business Continuity Plan.* |
| *BHS modification - Conversion of belt 2 & 3 to International Operations* | *3.4* | *To operate domestic conveyors for international operations at present there is no inline screening system. Taken as an Operational Improvement* |
| *BHS modification – Increasing length of Departure carousel* | *1.56* | *Frequent diebacks causing loss of time and affecting OTP. With this work 30 % more bags can be accommodated in make up carrousel.* |
| *Fire Protection system for Transformers* | *0.4* | *Mandatory as per statutory requirement and To prevent damage of transformer in case of fire* |
| *Fire Barrier for Cable, Pipe* | *1.2* | *Mandatory for fire safety,1. To restrict* |

| Project List | Rs. in Cr | Remarks |
|---|---|---|
| *Openings at PTB, ATC* | | *spreading of fire from one area to adjacent area.*<br>*2. To restrict spreading of smoke from one room to adjacent room.*<br>*3. To restrict movement of rodents* |
| *Redundant PLC for BHS* | *0.48* | *Mandatory for fire safety, 1. PLC process time can be minimized.*<br>*2. Future modifications are possible.*<br>*3. Arrivals and Departures of each Island will run independently and thus increasing the system reliability.*<br>*4. Separating the PLC's into Arrival and Departure will reduce the scan time.*<br>*5. The tracking performance will increase with software upgrade.*<br>*6. Hassle free maintenance slot for PLC* |
| *Increasing of Infeed Conveyors for belt 4&5* | *3.85* | *Space constraints for feeding bags at arrival conveyor at BMA area.*<br>*1. To improve the operation efficiency by easing the loading of baggage at infeed conveyor.*<br>*2. To decrease the idle running of arrival Baggage handling system.*<br>*3. Improve ASQ rating* |
| *Irrigation water connection from Sump-2 to Sump-1* | *0.5* | *Water scarcity for landscaping during summer on western side of Airport*<br>*1. To utilize STP Water for landscaping during summer on western side of airport.*<br>*2. Cost saving.* |
| *Guard Railing for Glasses and Wall cladding* | *1* | *Glass and Cladding damages due to trolley movements. To restrict damages of Glass and Cladding* |
| *Shifting of Screening machine to BMA* | *0.7* | *1. To increase the screening time from maximum 10 seconds to maximum 20 seconds.*<br>*2. To avoid/reduce the dieback situations of arrival BHS system.*<br>*3. To improve the speedy delivery of baggage* |
| *Deepening of Main Holding Tank* | *1.67* | *Storm water run off causing wall breaches. 1. To avoid wall breach*<br>*2. To increase the water storage for utilization* |
| *Utilization of rain water* | *0.6* | *Water Management & Conservation* |

| Project List | Rs. in Cr | Remarks |
|---|---|---|
| *collected in ponds in airside to connect to WTP and usage for flushing water by strengthening the HDPE Joints.* | | |
| *Communication systems for emergency purpose inter connection to CFR mains,satellite,AOCC & ATC* | *0.2* | *Standalone system as redundancy as per ICAO guideline* |
| *Centralized monitoring of Critical systems* | *0.25* | *System improvement* |
| *Replacing F level lighting with Led lights* | *3* | *Energy conservation* |
| *Conversion of T8 to T5 Lamps - PTB* | *0.21* | *Energy conservation* |
| *Replacement of 420 nos. HPSV lamps with LED lamps for street lighting - Energy Conservation Initiative* | *0.35* | *Energy conservation* |
| *Up-gradation of present SCADA system at DG yard to analyse 33 KV incoming power.* | *0.1* | *To record fluctuations of incoming voltage for analysis & corrections.* |
| *To replace PLC system of DG/EB control system* | *0.1* | *Present PLC system to be replaced with new PLC model* |
| *TS IT equipment's and software's* | *0.085* | |
| *Street lighting from central store to GMRVF* | *0.23* | *To provide lighting at road leading Raxa/GHIAL accommodation centres and to avoid accidents* |
| *Dissolved Oxygen meter (Spare) for STP-1 & STP-2* | *0.015* | *To have standby DO meter for process monitoring closely.* |
| *CCV Refurbication of Meeting room - Modification of AC Unit of 2 Ton capacity* | *0.02* | *To avoid water seepage in CCV vehicle.* |
| *Automatic Fire suppression system for kitchen at B-level* | *0.15* | *To control accidental Fire at kitchen area* |
| *Utility Trench Drain pump* | *0.022* | *To prevent stagnation of water and to reuse the accumulated water.* |
| *Filter Press unit for STP-2 along with Shed for Equipment* | *0.2* | *To convert wet sludge into cake form to use as manure for trees.* |

| ***Project List*** | ***Rs. in Cr*** | ***Remarks*** |
|---|---|---|
| *Strengthening of rain water harvesting - Main Holding Tank bund* | *0.06* | *To strengthen the bund walls to avoid any wall breaches* |
| *Submersible pump (Spare) to transfer sewage from Equalization tank to Aeration tank at STP-1 & STP-2* | *0.015* | *To have standby pump facility at STP* |
| *Pallet Trolley* | *0.006* | *For transferring of heavy items like gear box units* |
| *Special tools for equipment maintenance* | *0.004* | *For carrying out effective maintenance* |
| *Ceiling rope Vehicle Rescue kit)* | *0.004* | *For carrying out effective maintenance* |
| *Hydraulic Jack (Vehicle Rescue kit)* | *0.002* | *For lifting of vehicle wheel base units for maintenance* |
| *Hydraulic trolley for gears/motors unloading* | *0.002* | *For carrying out effective maintenance* |
| *Battery Charger unit* | *0.0015* | *For carrying out effective maintenance* |
| *Bench Grinder* | *0.0015* | *For carrying out effective maintenance* |
| *Bench Wise* | *0.001* | *For carrying out effective maintenance* |
| *Automobile Battery Tester* | *0.0007* | *For charging of vehicle battery units* |
| *Torque Wrench* | *0.007* | *Regular Maintenance* |
| *common user general warehouse* | *6.8* | *Forwarders, Agents & Customers require warehouse space for Marking, Labeling, Consolidation, Storage before handing over to Airlines, hence need for common user warehouse was identified*<br>*Latent need by 3PL's, Forwarders for warehouse space within the Airport campus. Ground floor warehouse space at CSB is fully occupied , indicating a requirement for additional warehousing area* |
| *Airport Village* | *15* | *Creating a great ambience and a wow factor at the Airport Village (combined with the extended plate)*<br>*Exploit the available space commercially – aligning stores with the traffic flow*<br>*Creating a comprehensive offering of F&B, Retail and Services for all segments.*<br>*Provide adequate amenities & seating for paid & unpaid visitors* |

| *Project List* | *Rs. in Cr* | *Remarks* |
|---|---|---|
| | | *Design the layout taking into consideration the future traffic.* |
| *International SHA Modification* | *7.4* | *To improve the overall ambience of the International SHA*<br>*To provide guided passenger movement to maximize commercial returns*<br>*To maximize passenger convenience with enough seating capacity, appropriate retail categories and F&B concepts*<br>*To create additional space for commercial returns without compromising on passenger convenience* |
| *12 Mtrs & 14 Mtrs Vertical Platform* | *0.24* | *1. Area above protected corridor & above Duty free not reachable*<br>*2. The area above idly factory, behind Taste of India Kitchen not reachable*<br>*3. The Glazed area & associated frames adjacent to all the boarding gates are not reachable.*<br>*4. Presently Utilize 10 Mtrs from E level Gate 22 to 28 and 32 B to 34 B for glass cleaning, but unable to reach top 02 glasses* |
| *36 mts platform at Level B* | *0.3* | *Six numbers of panel not reachable due below mound at level-B, need to make pathway for 36 mtrs TUPEN machine to access the above panels. 2. To recharge the ground for increasing water table*<br>*All the above panels are now full with cobwebs and started turning black. It is visible by the passenger from domestic CISF frisking point* |
| *CFL balance* | *0.4469* | *Scaffolding:Part of the new equipment proposed for high rise cleaning*<br>*Bubble cleaning equipment :For Cleaning of Water Bubbles mechanized*<br>*Purchase of Laptop, scanners, printers, projectors for Training to Service Provider on safety , Security and Housekeeping etc. and Automation of Delivery & Logistics Inward/ outward pass.* |
| *Multi-channel recording* | *0.0025* | *DGCA Requirement* |

| Project List | Rs. in Cr | Remarks |
|---|---|---|
| *system* | | |
| *Emergency Auto Dialer* | *0.0005* | *Reduction in the message delivery time* |
| *Expansion of crew room and shifting of Duty Officer room at main fire station* | *0.16* | *To provide adequate space in crew room by relocating the duty officer room and joining the same to the present crew room.* <br> *The duty officer room will be shifted to the existing operation store which visibility to operational area and quick access to vehicle bay. This is also a MAG observation and recommendation.* |
| *Construction of road from crash gate 27 to srisailam highway* | *0.8* | *To ensure a swift response outside the crash gate 27 by ARFF appliances and other emergency vehicles during in case of any aircraft accident in the funnel area.* |
| *Police Rest Rooms* | *0.3206* | *Rest rooms for Police personnel who are deployed at Gate no. 11 and Srisailam Gate, as they are deployed 24 X 7 and the tents which are provided temporarily is not matching with the ambience and standards.* |
| *Pneumatic lifting bags and RAMs* | *0.15* | *To ensure quick rescue during the accidents and also to remove the aircraft from runway and its associated areas in case of any undercarriage related emergencies.* |
| *Portable fire pump* | *0.15* | *To ensure quick relay of water to remote fire areas during fire fighting operations where there is no accessibility for fire appliances and also for dewatering purpose.* |
| *Suction pit at Fire station ( 4m X 4m X 10m)* | *0.12* | *To ensure functioning of suction capability of various fire tenders so that the pumps can be tested and functionality ensured for emergency requirement.* <br> *2. To meet statutory requirement and maintain records.* |
| *To develop physical activity ground at main fire station with fitness facilities.* | *0.1* | *To develop an earth hardened physical activity ground at Main fire station with physical fitness facilities such as Rope climbing, parallel bar, chin up bar etc. so that drills, physical training, driving training, rating test etc. can be conducted safely as per standard.* |

| ***Project List*** | ***Rs. in Cr*** | ***Remarks*** |
|---|---|---|
| *Construction of additional parking bay at SFS* | *0.9* | *To Prevent damage to costly fire tender and its equipment .<br>2. To create facility for proper storage of fire extinguishing media namely, Foam and Dry chemical powder (a stock of 200% should be maintained as per DGCA requirement.* |
| *To make up budget deficiency to complete construction of 02 rooms at main fire station (Plastering, plumbing, Electrical work, etc.)* | *0.12* | *The structural work of 02 additional rooms at main fire station is nearing completion. PMT has not included certain works like plastering, plumbing, electrical etc. in the initial approval. Therefore additional budget is required to make up the budget deficiency to complete the work.* |
| *Earth removal from western side of ARFF Watch tower to have clear view from ARFF Watch Tower to Apron are* | *0.15* | *ARFF watch tower controller can have clear view of apron and size up for emergency and initiate appropriate response actions quickly.* |
| *Flight information display at main and satellite fire station* | *0.04* | *To get information through FIDs about the aircraft position. This is a recommendation of MAG.* |
| *Nomex Fire Suits* | *0.25* | *Nomex suit is an individual issue for exposure protection of fire personnel. The life of the nomex suit is 5 years and 30 such suits have out lived their life which needs to be replaced.To ensure that fire personnel have approved PPE for fire fighting.* |
| *Water mist fire extinguisher and additional cartridges* | *0.06* | *To provide a quick and effective fire fighting equipment to carry out fire fighting in areas difficult to access and to control fire fast and minimum water damage.* |
| *Other Miscellaneous Projects :* | | |
| *Replacement of existing Doors with SS doors* | *0.65* | |
| *Furniture & Fittings-Library Rack* | *0.0025* | |
| *Software(A-CAD License)* | *0.015* | |
| *Path Planner License* | *0.15* | |
| *GIS Software and Related Hardware* | *0.159* | |
| *Alteration/Construction of* | *0.05* | |

| ***Project List*** | ***Rs. in Cr*** | ***Remarks*** |
|---|---|---|
| *office cabins* | | |
| *Plant & Machinery* | *0* | |
| *Laptops* | *0.018* | |
| *Printer* | *0.006* | |
| *Camera* | *0.002* | |
| *Replacement of Chairs at AOCC- 20 No.* | *0.00015* | |
| *Expansion of remote domestic bussing boarding gate lounge by relocating AI-SATS office, creating minimum 2 more boarding gates and addition of about 400 seats* | *2.7* | |
| *Modification and creation of required furniture and fixture for AISATS staff at alternate location (s)* | *0.3* | |
| *Office for APHO at arrivals and departures* | *0.25* | |
| *Modification/constructions , converting SDWT room @ level-E for Training room which will be also used by the stake holders* | *0.235* | |
| *Requirements to make RGIA a Silent Airport* | *0.75* | |
| *Haj Canopy on the visitor's side* | *0.1* | |
| *Haj terminal Tar road* | *0.2* | |
| *Pedestrial Fans for Haj terminal (10 nos)* | *0.02* | |
| *Relocation of Tops office to level H including COO's office* | *0.1* | |
| *Increase in entry gates @ departures* | *0.05* | |
| *Bar code readers for CISF @ the start of departure entry to read the soft and E-tkts.* | *0.08* | |
| *Digital signage at the entry bridges of the departure forecourt .* | *0.12* | |

| ***Project List*** | ***Rs. in Cr*** | ***Remarks*** |
|---|---|---|
| *In phase -1 Replacement of existing Paver Block flooring with granite flooring outside Domestic bus gates ( BCM observation)* | *0.3* | |
| *phase ii International Bus Gates* | *0.2* | |
| *old duty free space renovation ( for rentals) total area* | *1.8* | |
| *Close gate boarding for 34A /B- TSA requirement* | *0.7* | |
| *Security check area improvement/ re-modification plan for Domestic/swing/international which includes shifting of Dy.CASO's to level-G & include that space for passenger movement along with new signage's as per BCM's instructions* | *0.35* | |
| *Furnitures and other required fixtures in addition to given in S.No 14a* | *0.45* | |
| *VIP lobby modification / ambience improvement* | *0.185* | |
| *CUSS cluster with platform excluding CUSS machines required if any* | *0.25* | |
| *Baggage trolleys ( 250 nos)* | *1.25* | |
| *Shopping trolleys ( 250 nos)* | *1* | |
| *OOG/service trolleys (50 nos)* | *0.12* | |
| *Hand baggage measurement bins (15 nos)* | *0.02* | |
| *Paid porter billing machines (5 nos)* | *0.05* | |
| *Chairs for Check in counters, Ticketing cunters, Hand baggage counters, Custom counters,* | *0.2* | |

| *Project List* | *Rs. in Cr* | *Remarks* |
|---|---|---|
| *Immigration & emigration counters- 250 chairs* | | |
| *Wheel chairs ( 10 nos)* | *0.03* | |
| *Refrigerator for office use* | *0.0015* | |
| *Camera for office* | *0.0015* | |
| *Car park software and system upgradation* | *0.15* | |
| *CPS for Car park* | *0.5* | |
| *Office furniture* | *0.1* | |
| *Visitor gallery chairs* | *0.2* | |
| ***Total Capex (Rs. Crs)*** | ***110.1*** | |

*."*

8.1.6.c. The Authority sought clarification and justification for the items included in the Future Capital Expenditure and General Capital Expenditure. In response HIAL, in its letter dated 04.04.2013, submitted a revised list of projects / general capex items and corresponding year-wise costs to be incurred for each of these items. HIAL also stated in its submission that this list of general capex items are as per the current perception and requirements. The list has been reproduced as under,

*"Year Wise General Capex (fig. in Rs. Crores)*

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** |
|---|---|---|---|---|
| *Digital signage at the entry bridges of the departure forecourt .* | | | | *0.12* |
| *Modification/contructions ,converting SDWT room @ level-E for Training room which will be also used by the stake holders* | | | | *0.24* |
| *Office for APHO at arrivals and departures* | | | | *0.25* |
| *Phase -2 International bus gates* | | | | *0.20* |
| *Increase in entry gates @ departures* | | | | *0.05* |
| *12 Mtrs & 14 Mtrs Vertical Platform* | | | | *0.24* |
| *2 work-stations at level-2* | | | | *0.30* |
| *AGL Redundancy for night operations of Secondary Runway* | | *4.20* | | |
| *Air Curtains/ Pesto Flash (for Kitchen & Dining Hall)* | | | | *0.02* |
| *AIRPORT VILLAGE CONCEPT DEVLOPMENT* | | | | |
| *AIRPORT VILLAGE EXPANSION* | | *0.18* | | |
| *Alteration/Construction of office cabins* | | | | *0.05* |

| Project Name | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|
| *Arrival extended plate* | | | *15.00* | |
| *Automatic Fire suppression system for kitchen at B-level* | | | | *0.15* |
| *Automobile Battery Tester* | | | | *0.00* |
| *BAGGAGE HANDLING FOR BELT NO 4 & 5* | | | | |
| *Baggage reclaim belt 4 conversion for Domestic Operations* | | | | *1.50* |
| *Baggage trolleys ( 250 nos)* | | | | *1.25* |
| *Banquet Tables & Chairs* | | | | *0.02* |
| *Bar code readers for CISF @ the start of departure entry to read the soft and E-tkts.* | | | | *0.08* |
| *Battery Charger unit* | | | | *0.00* |
| *Battery's Consol for forklift* | | | | *0.03* |
| *Bench Grinder* | | | | *0.00* |
| *Bench Wise* | | | | *0.00* |
| *BHS modification - Conversion of belt 2 & 3 to International Operations* | | | *3.40* | |
| *BHS modification – Increasing length of Departure carousel* | | *1.56* | | |
| *Board Room Interior works - Begumpet Office* | | | | *0.03* |
| *Bubble cleaning equipment* | | | | *0.01* |
| *Bus gate counters* | | *0.18* | | |
| *Cabin with A/C for Transfer Screening area* | | | | *0.04* |
| *Camera* | | | | *0.00* |
| *Camera for office* | | | | *0.00* |
| *Car park software and system upgradation* | | *0.15* | | |
| *Cargo apron* | *15.39* | | | |
| *Cargo car-park* | | *0.25* | | |
| *CCTV @ CONCESSIONARIES STORE* | | *0.25* | | |
| *CCV Refurbication of Meeting room - Modification of AC Unit of 2 Ton capacity* | | | | *0.02* |
| *Ceiling rope Vehicle Rescue kit)* | | | | *0.00* |
| *CENTRAL IMAGE DATA ARCHIEVE - CIDA* | | *0.40* | | |
| *Central Opening* | *0.61* | | | |
| *Centralized monitoring of Critical systems* | | | | *0.25* |
| *Chairs for Check in counters, Ticketing cunters, Hand baggage counters, Custom counters, Immigration & emigration counters- 250 chairs* | | | | *0.20* |
| *CIVIL WORK FOR CAR PARKING* | | | | |
| *Close gate boarding for 34A /B- TSA requirement* | | | | *0.70* |
| *Common user warehouse* | | | *6.88* | |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** |
|---|---|---|---|---|
| *Communication systems for emergency purpose inter connection to CFR mains,satellite,AOCC & ATC* | | | | *0.20* |
| *CONSTRUCTION OF 2 ROOM & STORE* | | | | |
| *Construction of additional parking bay at SFS* | | | | *0.90* |
| *Construction of road from crash gate 27 to srisailam highway* | | | | *0.80* |
| *Conversion of T8 to T5 Lamps - PTB* | | | | *0.21* |
| *Covering of Car Park Drains* | | *1.44* | | |
| *CPS for Car park* | | *0.50* | | |
| *CSB fire-safety recommendations* | | *1.53* | | |
| *CUSS cluster with platform excluding CUSS machines required if any* | | | | *0.25* |
| *Deepening of Main Holding Tank* | | | *1.67* | |
| *Departure extended plates improvement project.* | | | | *10.30* |
| *DEPARTURE TERMINAL MODIFICATION* | *13.16* | | | |
| *Desktop for E-learning & checking mails* | | | | *0.01* |
| *DG set for GH 75* | | | | *0.03* |
| *Dissolved Oxygen meter (Spare) for STP-1 & STP-2* | | | | *0.02* |
| *DOT Matrix printer for D &L* | | | | *0.00* |
| *Earth removal from western side of ARFF Watch tower to have clear view from ARFF Watch Tower to Apron are* | | | | *0.15* |
| *Emergency Auto Dialer* | | | | *0.05* |
| *Expansion of crew room and shifting of Duty Officer room at main fire station* | | | | *0.16* |
| *Expansion of remote domestic bussing boarding gate lounge by relocating AI-SATS office, creating minimum 2 more boarding gates and addition of about 400 seats* | | | | *2.70* |
| *Expenditure related to ASQ Survey* | | | | *0.05* |
| *Filter Press unit for STP-2 along with Shed for Equipment* | | | | *0.20* |
| *Fire Barrier for Cable, Pipe Openings at PTB, ATC* | | *1.20* | | |
| *Fire Protection system for Transformers* | | | *0.40* | |
| *FLEXI CHECK IN SYSTEM DBS* | | *2.12* | | |
| *FLEXI CHECK IN SYSTEM FOR DBS* | | *0.19* | | |
| *Flight information display at main and satellite fire station* | | | | *0.04* |
| *Furniture - GH-75* | | | | *0.01* |
| *Furniture - Level B & E Cafeterias* | | | | *0.02* |
| *Furniture & Fittings-Library Rack* | | | | *0.00* |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** |
|---|---|---|---|---|
| *Furniture Replacement - PSOB Cafeteria* | | | | *0.05* |
| *Furniture  for AEP Section* | | | | *0.02* |
| *Furnitures and other required fixtures in addition to given in S.No 14a* | | | | *0.45* |
| *GIS Software and Related Hardwares* | | | | *0.16* |
| *Guard Railing for Glasses and Wall cladding* | | *1.00* | | |
| *Gym Room – Vinyl Flooring* | | | | *0.03* |
| *Haj Canopy on the visitor's side* | | | | *0.10* |
| *Haj terminal Tar road* | | | | *0.20* |
| *Hand baggage measurement bins  (15 nos)* | | | | *0.02* |
| *Hydraulic Jack  (Vehicle Rescue kit)* | | | | *0.00* |
| *Hydraulic trolley for gears/motors unloading* | | | | *0.00* |
| *Improving aesthetics in the passenger washroom(Level F - 6 No.'s , level E - 6 No.'s , Level D - 4 No.'s ( Total 31 units )* | | | | *0.31* |
| *In phase -1 Replacement of existing Paver Block flooring  with granite flooring outside  Domestic bus gates ( BCM  observation)* | | | | *0.30* |
| *Increasing of Infeed Conveyors for belt 4&5* | | | *3.85* | |
| *Induction based Buffet Counter Se-up (Serving Dishes, Spoons, Tables, Frilling etc.)* | | | | *0.05* |
| *INTERNAL ROAD* | | | | |
| *International SHA* | | *7.42* | | |
| *Irrigation water connection from Sump-2 to Sump-1* | | *0.50* | | |
| *Kitchen and Dining utensils (800 SS Bowls, 400 SS Spoons and 400 SS Glasses)* | | | | *0.03* |
| *Laptop - 1no.s for CFL pool* | | | | *0.01* |
| *Laptops* | | | | *0.02* |
| *LCD TVs at Accommodation Center & GH - 72* | | | | *0.08* |
| *LCD/ LED Projector* | | | | *0.01* |
| *Loader (4 Nos) – For lifting of bags at Level 4 of HBS.* | | | | *0.04* |
| *Making of way for 36mts platform at Level B* | | | | *0.30* |
| *Misc* | | | | *0.10* |
| *Modification and creation of required furniture and fixture for AISATS staff at alternate location (s)* | | | | *0.30* |
| *Modification of Reception area at PSOB* | | | | *0.03* |
| *Multi-channel recording system* | | | | *0.25* |
| *Nomex Fire Suits* | | | | *0.25* |
| *Office furniture* | | | | *0.10* |
| *old duty free space renovation ( for rentals) total* | | | | *1.80* |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** |
|---|---|---|---|---|
| *area* | | | | |
| *OOG/service trolleys (50 nos)* | | | | *0.12* |
| *Paid porter billing machines (5 nos)* | | | | *0.05* |
| *Pallet Trolley* | | | | *0.01* |
| *Path Planner Licence* | | | | *0.15* |
| *Pedestrial Fans for Haj terminal (10 nos)* | | | | *0.02* |
| *Pneumatic lifting bags and RAMs* | | | | *0.15* |
| *Police Rest Room* | | | | *0.32* |
| *Portable fire pump* | | | | *0.15* |
| *Power Redundancy* | | *6.95* | | |
| *Printer* | | | | *0.01* |
| *Printer Cum Scanner - 1 No.s for D&L* | | | | *0.00* |
| *Procurement Bed Sheets/Pillow Covers, Almirahs etc* | | | | *0.05* |
| *Procurement of New Dining Tables/Chairs* | | | | *0.05* |
| *Procurement of Tread MillS - GYM at Accommodation center* | | | | *0.04* |
| *PTC modification* | | *0.25* | | |
| *Recovery equipment* | | | | *0.05* |
| *Redundant PLC for BHS* | | *0.48* | | |
| *Refrigerator for office use* | | | | *0.00* |
| *Relocation of Tops office to level H including COO's office* | | | | *0.10* |
| *Replacement of 03 desktops @ E-Level 0ffice & 01 at D&L Desk* | | | | *0.01* |
| *Replacement of 420 nos. HPSV lamps with LED lamps for street lighting -Energy Conservation Initiative* | | | | *0.35* |
| *Replacement of Chairs at AOCC- 20 No.* | | | | *0.02* |
| *Replacing F level lighting with Led lights* | | | | *3.00* |
| *Requirements to make RGIA a Silent Airport* | | | | *1.00* |
| *Roof top rainwater harvesting system for ALS buildings* | | | *2.00* | |
| *RT'S (Motorola) - 4 No's @ Rs 84000/- each* | | | | *0.03* |
| *Scaffolding* | | | | *0.03* |
| *SCM-UFIS connectivity* | | | | *0.85* |
| *Security check area improvement/ re-modification plan for Domestic/swing/international which includes shifting of Dy.CASO's to level-G & include that space for passenger movement along with new signage's as per BCM's instructions* | | | | *0.35* |

| *Project Name* | *2012-13* | *2013-14* | *2014-15* | *2015-16* |
|---|---|---|---|---|
| *Shifting of Screening machine to BMA* | | *0.70* | | |
| *Shopping trolleys ( 250 nos)* | | | | *1.00* |
| *Signages for Aero Towers Building* | | | | *0.05* |
| *SOFTWARE* | | | | |
| *Software(A-CAD Licence)* | | | | *0.02* |
| *Special tools for equipment maintenance* | | | | *0.00* |
| *Street lighting from central store to GMRVF* | | | | *0.23* |
| *Strengthening of rain water harvesting - Main Holding Tank bund* | | | | *0.06* |
| *Submersible pump (Spare) to transfer sewage from Equalization tank to Aeration tank at STP-1 & STP-2* | | | | *0.02* |
| *Suction pit at Fire station ( 4m X 4m X 10m)* | | | | *0.12* |
| *Tables for SLPC by airlines (10 Nos.)* | | | | *0.04* |
| *Tablet PC's 02 no's for CFL* | | | | *0.00* |
| *To develop physical activity ground at main fire station with fitness facilities.* | | | | *0.10* |
| *To make up budget deficiency to complete construction of 02 rooms at main fire station (Plastering, plumbing, Electrical work, etc.)* | | | | *0.12* |
| *To replace PLC system of DG/EB control system* | | | | *0.10* |
| *Torque Wrench* | | | | *0.01* |
| *Trolley scooters – 2 nos* | | | | *0.07* |
| *Up-gradation of present SCADA system at DG yard to analyse 33 KV incoming power.* | | | | *0.10* |
| *Utility Trench Drain pump* | | | | *0.02* |
| *Utilization of rain water collected in ponds in airside to connect to WTP and usage for flushing water by strengthening the HDPE Joints.* | | | | *0.60* |
| *VIP lobby modification / ambience improvement* | | | | *0.19* |
| *Visitor gallery chairs* | | | | *0.20* |
| *Water Coolers (Drinking Water)/ Hot & Cold Water Dispensers* | | | | *0.04* |
| *Water Dispensers for Bubble top 10 No's* | | | | *0.01* |
| *Water mist fire extinguisher and additional cartridges* | | | | *0.06* |
| *Water Proofing & Painting works* | | | | *0.05* |
| *Water Redundancy* | | | *0.83* | |
| *Wheel chairs ( 10 nos)* | | | | *0.03* |
| *(blank)* | | | | |
| *Car park shed at NOB* | *0.11* | | | |
| ***Grand Total*** | ***29.28*** | ***31.45*** | ***34.03*** | ***36.97*** |

| | | | | |
|---|---|---|---|---|
| **General capex - as per filing** | **29.01** | **31.10** | **33.84** | **36.73** |

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8.1.6.d. The Authority sought further clarification and justification for the items included in the Future Capital Expenditure and General Capital Expenditure in terms of details of each general capex item included in the table above. In response HIAL, in its letter dated 27.04.2013 submitted clarification / justification for few general capex items. The list with justification of each item has been reproduced as under,

*"Year Wise General Capex (fig. in Rs. Crores)*

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** | ***Justification*** |
|---|---|---|---|---|---|
| *Digital signage at the entry bridges of the departure forecourt .* | | | | *0.12* | *To distribute entry gate loads equally at both the gates during peak hours by displaying airline names . This arrangement will guide the passengers pre-hand & which will help in gates segregation , better traffic management on forecourt & easy understanding of RAXA staff /cab drivers and other users.* |
| *Modification/ contructions ,converting SDWT room @ level-E for Training room which will be also used by the stake holders* | | | | *0.24* | *In PTB we do not have full fledged training room which is also a requirement of the internal & external stake holders… We are currently using level-H space which is not adequate as per the training requirements… The prosposed TR will be rented out to the* |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** | ***Justification*** |
|---|---|---|---|---|---|
| | | | | | *stakeholders on hourly basis, under TOPS scope. Has been supported by Business case already.* |
| *Office for APHO at arrivals and departures* | | | | *0.25* | *Carried forwarded from 2011-12* |
| *Phase -2 International bus gates* | | | | *0.20* | *Similar arrangement like Domestic paver blocks* |
| *Increase in entry gates @ departures* | | | | *0.05* | *Realignment of the SS railings, making 4 lanes @ gate -1 & gate-2 each..the proposed modification will be made according to deptr extended plate plan..* |
| *12 Mtrs & 14 Mtrs Vertical Platform* | | | | *0.24* | *Part of the new equipment propsed for high rise cleaning* |
| *2 work-stations at level-2* | | | | *0.30* | |
| *AGL Redundancy for night operations of Secondary Runway* | | *4.20* | | | *To operate the parallel taxiway converted to runway during the night time, capex needs to be incurred on AGL. This will reduce dependency on main runway during emergency.* |
| *Air Curtains/ Pesto Flash (for Kitchen & Dining Hall)* | | | | *0.02* | |
| *AIRPORT VILLAGE CONCEPT DEVLOPMENT* | | | | | |
| *AIRPORT VILLAGE EXPANSION* | | *0.18* | | | |
| *Alteration/Construction of office cabins* | | | | *0.05* | *Provision of extra cabins within the exiting office space to accommodate airlines* |

| *Project Name* | *2012-13* | *2013-14* | *2014-15* | *2015-16* | *Justification* |
|---|---|---|---|---|---|
| *Arrival extended plate* | | | *15.00* | | *New commercial project to boost revenues* |
| *Automatic Fire suppression system for kitchen at B-level* | | | | *0.15* | *To control accidental Fire at kitchen area* |
| *Automobile Battery Tester* | | | | *0.00* | *For charging of vehicle battery units* |
| *BAGGAGE HANDLING FOR BELT NO 4 & 5* | | | | | *SUPPLY, INSTALLATION, TESTING AND COMMISSIONING OF REMOTE WORK STATION (MATRIX SERVER) FOR INTERNATIONAL ARRIVAL BAGGAGE HANDLING SYSTEM BELT 4 &5* |
| *Baggage reclaim belt 4 conversion for Domestic Operations* | | | | *1.50* | *To convert existing international belt for domestic usage* |
| *Baggage trolleys ( 250 nos)* | | | | *1.25* | *During peaks of arrival & departures there is more movement of trolleys . The entry points are congested hence retrieval of trolleys is hampered & to ensure availabilty of trolleys and meet the ASQ STD* |
| *Banquet Tables & Chairs* | | | | *0.02* | *06 Seater Banquet tables - 06 Nos. with 36 Nos.Chairs, frilling - 02 sets to make internal arrangement for Banquets than hiring from outside.* |
| *Bar code readers for CISF @ the start of departure entry to read the soft and E-tkts.* | | | | *0.08* | *to facilitate passeger carrying soft tkt & E tkts and reduce wait time at the entry gate* |
| *Battery Charger unit* | | | | | *For carrying out* |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** | ***Justification*** |
|---|---|---|---|---|---|
| | | | | *0.00* | *effective maintenance* |
| *Battery's Consol for forklift* | | | | *0.03* | *Existing forklift battery crossed 05 years & due for replacement* |
| *Bench Grinder* | | | | *0.00* | *For carrying out effective maintenance* |
| *Bench Wise* | | | | *0.00* | *For carrying out effective maintenance* |
| *BHS modification - Conversion of belt 2 & 3 to International Operations* | | | *3.40* | | *To operate domestic conveyors for international operations at present there is no inline screening system. Taken as an Operational Improvement* |
| *BHS modification – Increasing length of Departure carousel* | | *1.56* | | | *Frequent diebacks causing loss of time and affecting OTP. With this work 30 % more bags can be accommodated in make up carrousel.* |
| *Board Room Interior works - Begumpet Office* | | | | *0.03* | *Replacement of Furniture, Painting, Replacement of Doors etc.* |
| *Bubble cleaning equipment* | | | | *0.01* | *For Cleaning of Water Bubbles mechanized* |
| *Bus gate counters* | | *0.18* | | | |
| *Cabin with A/C for Transfer Screening area* | | | | *0.04* | |
| *Camera* | | | | *0.00* | *Current camera was pruchased 3 yrs back and multiple users and due to high wear and tear. The old camera is damaged* |
| *Camera for office* | | | | *0.00* | |
| *Car park software and system upgradation* | | *0.15* | | | *Upgradation of hardware as the* |

| Project Name | 2012-13 | 2013-14 | 2014-15 | 2015-16 | Justification |
|---|---|---|---|---|---|
| | | | | | existing network is inadequate |
| Cargo apron | 15.39 | | | | To upgrade existing cargo apron to handle heavy aircrafts |
| Cargo car-park | | 0.25 | | | New project to install a parking system for cargo village, for security reason |
| CCTV @ CONCESSIONARIES STORE | | 0.25 | | | To prevent revenue leakage |
| CCV Refurbication of Meeting room - Modification of AC Unit of 2 Ton capacity | | | | 0.02 | To avoid water seepage in CCV vehicle. |
| Ceiling rope Vehicle Rescue kit) | | | | 0.00 | For carrying out effective maintenance |
| CENTRAL IMAGE DATA ARCHIEVE - CIDA | | 0.40 | | | |
| Central Opening | 0.61 | | | | |
| Centralized monitoring of Critical systems | | | | 0.25 | System improvement |
| Chairs for Check in counters, Ticketing cunters, Hand baggage counters, Custom counters, Immigration & emigration counters- 250 chairs | | | | 0.20 | Chairs for Check in counters, Ticketing cunters, Hand baggage counters, Custom counters, Immigration & emigration counters . Excluding CISF chair requirement as the same is been captured by Security and control dept. Chairs for above locations were procured 6 years back and now 80 % chairs are beyond repairable condition |
| Close gate boarding for 34A /B- TSA requirement | | | | 0.70 | 1.To meet the requirements of TSA flight destined to the |

| *Project Name* | *2012-13* | *2013-14* | *2014-15* | *2015-16* | *Justification* |
|---|---|---|---|---|---|
| | | | | | *USA. Realignment of Glass barrication at 34 A/B, seating area and realignment of seating plan, creation of glass door to closed boarding gate and shifting of X ray machine kept for SLPC at Level E of the same Boarding gate ( Option 1 35 lacs )<br>2. Convert proposed Emirates lounge into close gate boarding for 34 A/B, contruction of staircase from level F to E and creation of glass door at level E, procurement of 180 - 220 seats* |
| *Common user warehouse* | | | *6.88* | | *Extension of current CSB to cater to customer demand* |
| *Communication systems for emergency purpose inter connection to CFR mains,satellite,AOCC & ATC* | | | | *0.20* | *Standalone system as redundancy as per ICAO guideline* |
| *CONSTRUCTION OF 2 ROOM & STORE* | | | | | |
| *Construction of additional parking bay at SFS* | | | | *0.90* | *To Prevent damage to costly fire tender and its equipment .<br>2. To create facility for proper storage of fire extinguishing media namely, Foam and Dry chemical powder (a stock of 200% should be maintained as per DGCA requirement.* |
| *Construction of road* | | | | | *To ensure a swift* |

| *Project Name* | *2012-13* | *2013-14* | *2014-15* | *2015-16* | *Justification* |
|---|---|---|---|---|---|
| *from crash gate 27 to srisailam highway* | | | | *0.80* | *response outside the crash gate 27 by ARFF appliances and other emergency vehicles during in case of any aircraft accident in the funnel area.* |
| *Conversion of T8 to T5 Lamps - PTB* | | | | *0.21* | *Energy conservation* |
| *Covering of Car Park Drains* | | *1.44* | | | *To avoid users of car park to fall into the drains, To eliminate safety hazards* |
| *CPS for Car park* | | *0.50* | | | *To reduce manpower & waiting time at car-park exit* |
| *CSB fire-safety recommendations* | | *1.53* | | | *Fire Safety recommendations; to safeguard CSB* |
| *CUSS cluster with platform excluding CUSS machines required if any* | | | | *0.25* | *To create a Cuss cluster @ two locations between row B&C, two locations btwn row E/D & tow locations btwn F/G.* |
| *Deepening of Main Holding Tank* | | | *1.67* | | *Storm water run off causing wall breaches. 1. To avoid wall breach 2. To increase the water storage for utilization* |
| *Departure extended plates improvement project.* | | | | *10.30* | *For terminal decongestion around entry gates* |
| *DEPARTURE TERMINAL MODIFICATION* | *13.16* | | | | *Remaining works at Domestic SHA* |
| *Desktop for E-learning & checking mails* | | | | *0.01* | |
| *DG set for GH 75* | | | | *0.03* | *Purchase of new small DG set for 75 Guest house* |
| *Dissolved Oxygen meter* | | | | | *To have standby DO* |

| Project Name | 2012-13 | 2013-14 | 2014-15 | 2015-16 | Justification |
|---|---|---|---|---|---|
| *(Spare) for STP-1 & STP-2* | | | | *0.02* | *meter for process monitoring closely.* |
| *DOT Matrix printer for D &L* | | | | *0.00* | *Automation of Delivery & Logistics Inward/ outward pass as part of CIP project* |
| *Earth removal from western side of ARFF Watch tower to have clear view from ARFF Watch Tower to Apron are* | | | | *0.15* | *ARFF watch tower controller can have clear view of apron and size up for emergency and initiate appropriate response actions quickly.* |
| *Emergency Auto Dialer* | | | | *0.05* | *This will reduce the message delivery time during emergency call out, standardize the content and keep all log records for the call out procedure which cannot be tampered with* |
| *Expansion of crew room and shifting of Duty Officer room at main fire station* | | | | *0.16* | *To provide adequate space in crew room by relocating the duty officer room and joining the same to the present crew room.*<br>*The duty officer room will be shifted to the existing operation store which visibility to operational area and quick access to vehicle bay. This is also a MAG observation and recommendation.* |
| *Expansion of remote domestic bussing boarding gate lounge by relocating AI-SATS office, creating* | | | | *2.70* | *We have been facing congestion during morning peaks at Domestic remote bussing lounge and* |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** | ***Justification*** |
|---|---|---|---|---|---|
| *minimum 2 more boarding gates and addition of about 400 seats* | | | | | *gate areas. Situation becomes worst in the events of delays and disruptions. The requirement was projected in 2011-12 as well but the project was kept on hold.* |
| *Expenditure related to ASQ Survey* | | | | *0.05* | |
| *Filter Press unit for STP-2 along with Shed for Equipment* | | | | *0.20* | *To convert wet sludge into cake form to use as manure for trees.* |
| *Fire Barrier for Cable, Pipe Openings at PTB, ATC* | | *1.20* | | | *Mandatory for fire safety,1. To restrict spreading of fire from one area to adjacent area.*<br>*2. To restrict spreading of smoke from one room to adjacent room.*<br>*3. To restrict movement of rodents* |
| *Fire Protection system for Transformers* | | | *0.40* | | *Mandatory as per statutory requirement and to prevent damage of transformer in case of fire* |
| *FLEXI CHECK IN SYSTEM DBS* | | *2.12* | | | *DESIGNING, MANUFACTURING, SUPPLYING, INSTALLING, TESTING AND COMMISSIONNING OF FLEXIBLE CHECK-IN BAGGAGE HANDLING SYSTEM AT DEPARTURE LEVEL - F - PTB-TS* |
| *FLEXI CHECK IN SYSTEM FOR DBS* | | *0.19* | | | *DESIGNING, MANUFACTURING, SUPPLYING,* |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** | ***Justification*** |
|---|---|---|---|---|---|
| | | | | | *INSTALLING, TESTING AND COMMISSIONNING OF FLEXIBLE CHECK-IN BAGGAGE HANDLING SYSTEM AT DEPARTURE LEVEL - F - PTB-TS* |
| *Flight information display at main and satellite fire station* | | | | *0.04* | *To get information through FIDs about the aircraft position. This is a recommendation of MAG.* |
| *Furniture - GH-75* | | | | *0.01* | *Sofa Set + Cots + Dining Table + A/c's + Light Fixtures etc.* |
| *Furniture - Level B & E Cafeterias* | | | | *0.02* | *There is space congestion which is observed during peak hours. In order to avoid inconvenience it is proposed to increase the seating numbers by adding additional furniture. 15 tables @ Rs.15000/- X 15 sets.* |
| *Furniture & Fittings-Library Rack* | | | | *0.00* | |
| *Furniture Replacement - PSOB Cafeteria* | | | | *0.05* | *Exisiting furniture is procured 03 years back as temporary requirement. Rs.15000/- per set (04 seater table + 04 chairs) - 30 sets* |
| *Furniture for AEP Section* | | | | *0.02* | |
| *Furnitures and other required fixtures in addition to given in S.No 14a* | | | | *0.45* | |
| *GIS Soaftware and Related Hardwares* | | | | *0.16* | |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** | ***Justification*** |
|---|---|---|---|---|---|
| *Guard Railing for Glasses and Wall cladding* | | *1.00* | | | *Glass and Cladding damages due to trolley movements. To restrict damages of Glass and Cladding* |
| *Gym Room – Vinyl Flooring* | | | | *0.03* | |
| *Haj Canopy on the visitor's side* | | | | *0.10* | *It has been long pending demand from the Haj committee and concern airline to provide canopy for visitors, meeters and greeters. On the northern side of Haj terminal . Carried forwarded from 2011-12* |
| *Haj terminal Tar road* | | | | *0.20* | *The vehicular movement path in front of the haj terminal needs to be of hard surface as there are regular errosions during rains.Carried forwarded from 2011-12* |
| *Hand baggage measurement bins (15 nos)* | | | | *0.02* | *For the different types of aircraft, the current machines were brought during the COD and have been exhaused due to high usage and wear and tear* |
| *Hydraulic Jack (Vehicle Rescue kit)* | | | | *0.00* | *For lifting of vehicle wheel base units for maintenance* |
| *Hydraulic trolley for gears/motors unloading* | | | | *0.00* | *For carrying out effective maintenance* |
| *Improving aesthetics in the passenger washroom(Level F - 6 No.'s , level E - 6 No.'s ,* | | | | *0.31* | *Instill Motion concept.* |

| *Project Name* | *2012-13* | *2013-14* | *2014-15* | *2015-16* | *Justification* |
|---|---|---|---|---|---|
| *Level D - 4 No.'s ( Total 31 units )* | | | | | |
| *In pahse -1 Replacement of exisiting Paver Block florring with granite flooring outside Domestic bus gates ( BCM observation)* | | | | *0.30* | *Entire pavement around bus gate boarding lounge paver blocks to be replaced by granite flooring.* |
| *Increasing of Infeed Conveyors for belt 4&5* | | | *3.85* | | *Space constraints for feeding bags at arrival conveyor at BMA area.*<br>*1. To improve the operation efficiency by easing the loading of baggage at infeed conveyor.*<br>*2. To decrease the idle running of arrival Baggage handling system.*<br>*3. Improve ASQ rating* |
| *Induction based Buffet Counter Se-up (Serving Dishes, Spoons, Tables, Frilling etc.)* | | | | *0.05* | |
| *International SHA* | | *7.42* | | | *Revamp of existing international terminal to provide a better passenger experience* |
| *Irrigation water connection from Sump-2 to Sump-1* | | *0.50* | | | *Water scarcity for landscaping during summer on western side of Airport*<br>*1. To utilize STP Water for landscaping during summer on western side of airport.*<br>*2. Cost saving.* |
| *Kitchen and Dining utensils (800 SS Bowls, 400 SS Spoons and 400 SS Glasses)* | | | | *0.03* | |
| *Laptop - 1no.s for CFL* | | | | | *For presentations for* |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** | ***Justification*** |
|---|---|---|---|---|---|
| *pool* | | | | *0.01* | *Training to Service Provider on safey , Security and Housekeeping etc.* |
| *Laptops* | | | | *0.02* | *replacements* |
| *LCD TVs at Accommodation Center & GH - 72* | | | | *0.08* | *The exisiting TV's are provided during 2004/05. In order to upgrade the facility it is proposed to replace the existing TV's with LCD's. 10 Rooms + 01 Common Hall @ Accomm Center; 10 Rooms + 02 Common Hall at Guest House No.72. Total - 23 Nos. @ Rs.35000/- each.* |
| *LCD/ LED Projector* | | | | *0.01* | *For presentations for Training to Service Provider on safey , Security and Housekeeping etc.* |
| *Loader (4 Nos) – For lifting of bags at Level 4 of HBS.* | | | | *0.04* | |
| *Making of way for 36mts platform at Level B* | | | | *0.30* | *Certain porion of the Façade Glass above Remote arrivals is not reachable. Need to cut and even out the mound at Level B.* |
| *Misc* | | | | *0.10* | |
| *Modification and creation of required furniture and fixture for AISATS staff at alternate location (s)* | | | | *0.30* | *Entire AISATS team would not like to be shifted to technical building, hence few options have been identified to relocate the AISATS operations staff as per scope and profile .* |
| *Modification of* | | | | | *Sprucing up of* |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** | ***Justification*** |
|---|---|---|---|---|---|
| *Reception area at PSOB* | | | | *0.03* | *Reception at PSOB to make it more visible - Total 30 Sq. mts. - One time exp.* |
| *Multi-channel recording system* | | | | *0.25* | *It is mandated by DGCA that the SMC and ATC frequency should be recorded 24X7 by the airport operator. This becomes one of the key investigation tool in any aircraft incident/accident. It is also preferred to record the company channel (TMRS) to enable us to do internal investigation in terms of action initiated by respective personnel* |
| *Nomex Fire Suits* | | | | *0.25* | *Nomex suit is an individual issue for exposure protection of fire personnel. The life of the nomex suit is 5 years and 30 such suits have out lived their life which needs to be replaced. To ensure that fire personnel have approved PPE for fire fighting.* |
| *Office furniture* | | | | *0.10* | |
| *old duty free space renovation ( for rentals) total area* | | | | *1.80* | *The entire erestwhile space to be modified, fixtures& fittings to be changed and keep the area ready to use/rent out for concessionaire's dry storage, back up* |

| *Project Name* | *2012-13* | *2013-14* | *2014-15* | *2015-16* | *Justification* |
|---|---|---|---|---|---|
| | | | | | *office use of concessionaires & as per the feasibility convert available area into a world class arrival lounge.* |
| *OOG/service trolleys (50 nos)* | | | | *0.12* | *Would like to give one each to airlines, concessionaires and other agencies housed in PTB so as to avoid issues of regular baggage trolleys and shopping trolleys. Can be looked into on charging basis* |
| *Paid porter billing machines (5 nos)* | | | | *0.05* | *As backup when the machines fail, takes time to repair* |
| *Pallet Trolley* | | | | *0.01* | *For transferring of heavy items like gear box units* |
| *Path Planner Licence* | | | | *0.15* | *To be used along with GIS software* |
| *Pedestrial Fans for Haj terminal (10 nos)* | | | | *0.02* | *The need has been felt for the last 2 years by the employees of Immigration, Customs, CISF who work there during Haj operations. Alternatively pedestal fans can be procured on rental basis to avoid capex* |
| *Pneumatic lifting bags and RAMs* | | | | *0.15* | *To ensure quick rescue during the accidents and also to remove the aircraft from runway and its associated areas in case of any undercarriage related* |

| Project Name | 2012-13 | 2013-14 | 2014-15 | 2015-16 | Justification |
|---|---|---|---|---|---|
| | | | | | emergencies. |
| Police Rest Room | | | | 0.32 | To ensure quick rescue during the accidents and also to remove the aircraft from runway and its associated areas in case of any undercarriage related emergencies. |
| Portable fire pump | | | | 0.15 | To ensure quick relay of water to remote fire areas during firefighting operations where there is no accessibility for fire appliances and also for dewatering purpose. |
| Power Redundancy | | 6.95 | | | To ensure uninterrupted power supply to airport operations as a Business Continuity Plan. |
| Printer | | | | 0.01 | |
| Printer Cum Scanner - 1 No.s for D&L | | | | 0.00 | Automation of Delivery & Logistics Inward/ outward pass as part of CIP project |
| Procurement Bed Sheets/Pillow Covers, Almirahs etc | | | | 0.05 | |
| Procurement of New Dining Tables/Chairs | | | | 0.05 | |
| Procurement of Tread MillS - GYM at Accommodation center | | | | 0.04 | |
| PTC modification | | 0.25 | | | Modification of PTC ground floor for better retail opportunities |
| Recovery equipment | | | | | |

| *Project Name* | *2012-13* | *2013-14* | *2014-15* | *2015-16* | *Justification* |
|---|---|---|---|---|---|
| | | | | *0.05* | |
| *Redundant PLC for BHS* | | *0.48* | | | |
| *Refrigerator for office use* | | | | *0.00* | |
| *Relocation of Tops office to level H including COO's office* | | | | *0.10* | |
| *Replacement of 03 desktops @ E-Level 0ffice & 01 at D&L Desk* | | | | *0.01* | |
| *Replacement of 420 nos. HPSV lamps with LED lamps for street lighting -Energy Conservation Initiative* | | | | *0.35* | *Energy conservation* |
| *Replacement of Chairs at AOCC- 20 No.* | | | | *0.02* | |
| *Replacing F level lighting with Led lights* | | | | *3.00* | *Energy conservation* |
| *Requirements to make RGIA a Silent Airport* | | | | *1.00* | *As part of Initiatives to make RGIA a silent airport, need is felt for procurement/installation of new FIDS, reorientation of existing FIDS and sufficient number of signages at vital locations of PTB.* |
| *Roof top rainwater harvesting system for ALS buildings* | | | *2.00* | | *Rain water harvesting* |
| *RT'S (Motorola) - 4 No's @ Rs 84000/- each* | | | | *0.03* | *Replacement @ RT's 05 Years old* |
| *Scaffolding* | | | | *0.03* | *Part of the new equipment propsed for high rise cleaning* |
| *SCM-UFIS connectivity* | | | | *0.85* | *This connectivity will lead to enhance safety, delink manual interface and capturing data like off chocks, air borne* |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** | ***Justification*** |
|---|---|---|---|---|---|
| | | | | | *time, on chocks there by bringing the probability on revenue leakage to zero. It will also help in implementation of A-CDM* |
| *Security check area improvement/ re-modification plan for Domestic/swing/international which includes shifting of Dy.CASO's to level-G & include that space for passenger movement along with new signage's as per BCM's instructions* | | | | *0.35* | *Re designing the current layout to accommodate 4 XBIS at domestic & International..and 5 XBIS at swing and 4 XBIS at International. Demolishing the current Dy. CASO's office from Swing area and relocating to Level G. Arc for signages, Corean sheets on SRA boxes and other preparatory tables ..Increase the roller lengths & view cutter of monitors , have a guard for lights indicators etc.* |
| *Shifting of Screening machine to BMA* | | *0.70* | | | *1. To increase the screening time from maximum 10 seconds to maximum 20 seconds.*<br>*2. To avoid/reduce the dieback situations of arrival BHS system.*<br>*3. To improve the speedy delivery of baggage* |
| *Shopping trolleys ( 250 nos)* | | | | *1.00* | *With the new retail enhancement we are falling short of these trolleys.* |
| *Signages for Aero Towers Building* | | | | *0.05* | *NOB main building Signage* |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** | ***Justification*** |
|---|---|---|---|---|---|
| *SOFTWARE* | | | | | |
| *Software(A-CAD Licence)* | | | | *0.02* | |
| *Special tools for equipment maintenance* | | | | *0.00* | *For carrying out effective maintenance* |
| *Street lighting from central store to GMRVF* | | | | *0.23* | *To provide lighting at road leading Raxa/GHIAL accommodation centres and to avoid accidents* |
| *Strengthening of rain water harvesting - Main Holding Tank bund* | | | | *0.06* | *To strengthen the bund walls to avoid any wall breaches* |
| *Submersible pump (Spare) to transfer sewage from Equalization tank to Aeration tank at STP-1 & STP-2* | | | | *0.02* | *To have standby pump facility at STP* |
| *Suction pit at Fire station ( 4m X 4m X 10m)* | | | | *0.12* | *To ensure functioning of suction capability of various fire tenders so that the pumps can be tested and functionality ensured for emergency requirement.*<br>*2. To meet statutory requirement and maintain records.* |
| *Tables for SLPC by airlines (10 Nos.)* | | | | *0.04* | |
| *Tablet PC's 02 no's for CFL* | | | | *0.00* | |
| *To develop physical activity ground at main fire station with fitness facilities.* | | | | *0.10* | *To develop an earth hardened physical activity ground at Main fire station with physical fitness facilities such as Rope climbing, parallel bar, chin up bar etc. so that drills, physical training, driving* |

| ***Project Name*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** | ***Justification*** |
|---|---|---|---|---|---|
| | | | | | *training, rating test etc. can be conducted safely as per standard.* |
| *To make up budget deficiency to complete construction of 02 rooms at main fire station (Plastering, plumbing, Electrical work, etc.)* | | | | *0.12* | *The structural work of 02 additional rooms at main fire station is nearing completion. PMT has not included certain works like plastering, plumbing, electrical etc. in the initial approval. Therefore additional budget is required to make up the budget deficiency to complete the work.* |
| *To replace PLC system of DG/EB control system* | | | | *0.10* | *Present PLC system to be replaced with new PLC model* |
| *Torque Wrench* | | | | *0.01* | *Regular Maintenance* |
| *Trolley scooters – 2 nos* | | | | *0.07* | |
| *Up-gradation of present SCADA system at DG yard to analyse 33 KV incoming power.* | | | | *0.10* | *To record fluctuations of incoming voltage for analysis & corrections.* |
| *Utility Trench Drain pump* | | | | *0.02* | *To prevent stagnation of water and to reuse the accumulated water.* |
| *Utilization of rain water collected in ponds in airside to connect to WTP and usage for flushing water by strengthening the HDPE Joints.* | | | | *0.60* | *Water Management & Conservation* |
| *VIP lobby modification / ambience improvement* | | | | *0.19* | |
| *Visitor gallery chairs* | | | | *0.20* | *For seats in visitors gallery* |
| *Water Coolers (Drinking* | | | | | *Replacement* |

| *Project Name* | *2012-13* | *2013-14* | *2014-15* | *2015-16* | *Justification* |
|---|---|---|---|---|---|
| *Water)/ Hot & Cold Water Dispensers* | | | | *0.04* | |
| *Water Dispensers for Bubble top 10 No's* | | | | *0.01* | *05 for HAJ & 05 for replacement in PTB which are 04 years OLD* |
| *Water mist fire extinguisher and additional cartridges* | | | | *0.06* | *To provide a quick and effective fire fighting equipment to carry out fire fighting in areas difficult to access and to control fire fast and minimum water damage.* |
| *Water Proofing & Painting works* | | | | *0.05* | |
| *Water Redundancy* | | | *0.83* | | *Scarcity of Water due to insufficient quantity supplied by HMWSSB,hence To create Zero tolerance system with redundancy levels* |
| *Wheel chairs ( 10 nos)* | | | | *0.03* | *the previous WHCR are beyond repair which were purchased 3 yrs back* |
| *Car park shed at NOB* | *0.11* | | | | |
| ***Grand Total*** | ***29.28*** | ***31.45*** | ***34.03*** | ***36.97*** | |

*."*

8.1.7. Apron Infrastructure in SEZ: In its submission dated 14.12.2012, HIAL stated that it has constructed an Apron in the SEZ to enable the operations of MRO. HIAL also stated that it gets rental from MRO operator for the usage of this Apron. Further, HIAL submitted as under,

*"We have built an Apron to enable operations of MRO. We get rentals from MRO operator for the usage of this apron*

| ***(All Fig in INR Crore)*** | | | |
|---|---|---|---|
| ***Particulars*** | ***Project Cost*** | ***Capitalised value (Mar-12)*** | ***CWI P/future capex*** |
| *Apron* | *12.97* | *12.86* | *0.11* |

*."*

8.1.8. Land Development in SEZ: In its submission dated 14.12.2012, HIAL stated that it is developing land in order to enable the SEZ to operate. Further HIAL stated as under,

*"In the SEZ, the following amounts are being spent for the development of the land. This activity is a pre-requisite to enable SEZ to operate. Current projects undertaken are as under:*

| ***(All Fig in INR Crores)*** | | | |
|---|---|---|---|
| ***Particulars*** | ***Project Cost*** | ***Capitalised value (Mar-12)*** | ***CWI P/future capex*** |
| *Land Development* | *14.89* | *9.23* | *5.66* |

*."*

8.1.9. Utilities in SEZ: In its submission dated 14.12.2012, HIAL stated that it is developing utilities for the operations of SEZ. Further HIAL stated as under,

*"SEZ development also requires provision of amount of development for utilities (water & electricity) in the SEZ. The capex undertaken for the same is as under*

| ***(All Fig in INR Crores)*** | | | |
|---|---|---|---|
| ***Particulars*** | ***Project Cost*** | ***Capitalised value (Mar-12)*** | ***CWI P/future capex*** |
| *Utilities* | *32.96* | *0.07* | *32.89* |

*."*

8.1.10. Roads & Buildings for overall development of SEZ: In its submission dated 14.12.2012, HIAL stated that it is constructing roads and buildings in the SEZ. Further HIAL stated as under,

*"SEZ development also requires amount on development of roads and buildings in the SEZ. The capex undertaken for the same is as under*

| ***(All Fig in INR Crores)*** | | | |
|---|---|---|---|
| ***Particulars*** | ***Project Cost*** | ***Capitalised value (Mar-12)*** | ***CWI P/future capex*** |
| *Roads & Buildings* | *28.79* | *5.14* | *23.65* |

*."*

8.1.11. General Expenditure for overall development of SEZ: In its submission dated 14.12.2012, HIAL stated that it is carrying out some ancillary work associated with the SEZ. Further HIAL stated as under,

*"There are many ancillary works associated with development of SEZ and the expenditure planned for the same is as under*

| ***(All Fig in INR Crores)*** | | | |
|---|---|---|---|
| ***Particulars*** | ***Project Cost*** | ***Capitalised value (Mar-12)*** | ***CWI P/future capex*** |
| *General Expenditure* | *15.79* | *1.90* | *13.89* |

*."*

8.1.12. Future capex - Hotel: In its submission dated 14.12.2012, HIAL stated that hotel business will entail some capital expenditure and thus provided the historical and forecasted hotel capex as under,

*"Hotel is business which requires many small capex based on the trend in the industry. Historically, the following amount has been spent on the capex:*

- *March -10 Rs. 4.52 Crs*
- *March – 11 Rs. 2.49 Crs*
- *March – 12 Rs. 0.45 Crs*

*Based on the above, we have considered the future capex as under*

| ***31-Mar-13*** | ***31-Mar-14*** | ***31-Mar-15*** | ***31-Mar-16*** | ***Total (Rs. Crs)*** |
|---|---|---|---|---|
| *0.40* | *2.00* | *2.00* | *2.00* | *6.40* |

*."*

8.1.13. Future capex – Duty Free: In its submission dated 14.12.2012, HIAL stated that Duty Free business will entail some capital expenditure and thus provided the forecasted Duty Free capex as under,

*"The additional capex for duty free is required as under*

| ***31-Mar-13*** | ***31-Mar-14*** | ***31-Mar-15*** | ***31-Mar-16*** | ***Total (Rs. Crs)*** |
|---|---|---|---|---|
| *1.15* | *0.40* | *1.50* | *-* | *3.05* |

*Rs 1.15 Cr, is the actual capex incurred during the period April to September 2012. Rs.0.40 Cr in 2013-2014 is towards last minute shoppee*

*at Departures. Rs.1.50 Cr in 2014-2015 is towards a big new store at proposed at belt no: 6."*

8.1.14. Fuel Farm Future capex – In its submission dated 12.02.2013, HIAL stated that it requires a future capital expenditure of Rs. 0.40 Cr for 2012-13, Rs. 4.40 Cr for 2013-14, Rs. 7.60 Cr for 2014-15 and Rs. 3.15 Cr for 2015-16 for Fuel Farm. Further, HIAL stated as under,

*"While arriving at the CAPEX calculation following points were taken into consideration in accordance with RIL*

- *In the agreement with RIL we were supposed to provide them with 12 dispensers in 2008 whereas we procured only 9 which means that existing dispensers are used extensively.*
- *Existing Dispenser replacement is proposed to be taken up in three successive years with an addition of two more in taking the total numbers to 14. (4-6-2-2). By the time we start replacing the Dispensers in 2013-14 each of them would have completes 200,000 KL delivery and would get replaced in the 6th and 7th years respectively by which time the existing units would have outlived their useful life . The industry benchmark for these dispensers is replacement every 5 years and in our case the usage is extensive. One more factor to be considered is once we give order for replacement of dispensers it takes minimum 8 months for fabricate and put the same into operations.*
- *As MRO starts getting more aircraft we may have to factor into getting additional Refueller for servicing their customers without hindering the main operations.*

*Based on the above, the following table depicts future capex requirement*

| ***Details*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** |
|---|---|---|---|---|
| *Dispenser Replacement (Nos)* | | *4* | *6* | *2* |
| *Refueller Replacement (Two 35 KL and Two 16KL)* | | | *1* | *1* |
| *Gantry Expansion (Addition of 2 bays)* | | | *2* | |

| ***Details*** | ***2012-13*** | ***2013-14*** | ***2014-15*** | ***2015-16*** |
|---|---|---|---|---|
| ***Future Capex Required in Fuel Farm (All costs in Lakhs)*** | | | | |
| *Internal drain and road work* | *40* | | | |
| *Cost of Replacement of Dispenser* | *-* | *440* | *660* | *220* |
| *Cost of Replacement of Refueller* | *-* | *-* | | *95* |
| *Gantry Expansion* | *-* | *-* | *100* | *-* |
| *Total* | *40* | *440* | *760* | *315* |

*."*

**b Authority's Examination of HIAL Submissions on Future Capital Expenditure**

**8.2.** The Authority has carefully examined HIAL submissions noting that they pertain to two categories namely, (a) Future Capital Expenditure and (b) General Capital Expenditure. The Authority has noted that the expenditure under both the categories have been segregated into various heads corresponding to respective assets. These are given below:

8.2.1. Future Capital Expenditure as planned by HIAL on support infrastructure

8.2.1.a. Airport Connectivity from North: The Authority understands from the HIAL submissions that this road connectivity is within the airport boundary and is over and above the connectivity provided to the Airport by the GoAP under the State Support Agreement. The GoAP has undertaken to provide relevant airport connectivity outside the airport boundary. The Authority has noted that HIAL has done a broad estimation of this expenditure at Rs. 30 crores as the design activity for this development is not yet completed.

8.2.1.b. Water Supply Capacity Augmentation: The Authority understands from HIAL submissions that designing for this water supply capacity augmentation has not been undertaken yet and accordingly a broad estimation of Rs. 30 crores has been made by HIAL.

8.2.1.c. Flood Control & Rainwater Harvesting: The Authority understands from HIAL submissions that an area of around 45 acres is planned to be utilized for development of pond at an expenditure of Rs. 67 lakhs per acre. This activity has not been undertaken yet and thus the actual expenditure may vary from the estimated number of Rs. 30 crores.

8.2.1.d. Sustainability through Renewable Energy (Solar): The Authority understands from HIAL submissions that Rs. 40 crores are estimated to be spent on development of a solar plant of a capacity of 4 MW through an EPC turnkey contract. The Authority observed an inconsistency in HIAL submissions in that the solar plant was said to have capacity of 4 MW in one of the submissions and of 5 MW in another submission. The Authority sought clarification in this respect and HIAL clarified that on the basis of a reassessment done by HIAL, the project capacity was enhanced to 5 MW at the revised cost estimates of Rs. 8 Cr/ MW. However the Authority notes that HIAL has apparently not yet prepared any detailed plan for this solar plant. The estimation of expenditure thus appears to be made on normative basis.

8.2.1.e. Power Capacity Augmentation: The Authority notes from HIAL submissions that HIAL plans to augment the capacity of main sub-station and distribution sub-station to meet the future requirements of the Airport including the Concessionaires and other related establishments. The Authority further notes that an estimated Rs. 20 crores are planned to be spent towards this augmentation, however the technical design for this is not yet finalized.

8.2.2. **General Capital Expenditure**: The Authority notes from HIAL submissions that this head of expenditure covers the expenditure required for maintenance of assets created through capital expenditure. The Authority has also noted that this list contains more than 150 items with expenditure for such items ranging from Rs. 7,000/- to more than Rs. 15 crores. The Authority had sought more details on these items from HIAL and HIAL has submitted the details vide its submissions dated 04.04.2013 and 27.04.2013. It was observed that in the list of capital expenditures all the items were under Rs. 50 crores. It observed a similar case for the other future capital expenditures projected by HIAL as discussed above. The Authority sought clarification from HIAL on whether segregation of the works into such smaller components can be avoided and some of these items qualify to be considered together under single works. HIAL submitted a Management

Certification in this respect stating that *"We hereby confirm that the year on year project wise breakup of future general capex items (adding up to an amount of Rs. 131.73 Cr), provided by GHIAL vide email dated 27th April 2013, are independent works and none will form part of or be combined with other items as a single work in future".*

8.2.3. Future capital expenditure planned for 100% subsidiaries or other businesses: The Authority notes from HIAL submissions that as it has included the businesses under its 100% subsidiaries in the MYTP, it has also included the future capital expenditure planned for these businesses in the current MYTP. These are detailed hereunder,

8.2.3.a. Apron Infrastructure in SEZ

8.2.3.b. Land development in SEZ

8.2.3.c. Utilities in SEZ

8.2.3.d. Roads & Buildings for overall development of SEZ

8.2.3.e. General Expenditure for overall development of SEZ

8.2.3.f. Future capex – Hotel

8.2.3.g. Future capex – Duty Free

8.2.3.h. Future capex – Fuel Farm

8.2.4. Based on the schedule submitted by HIAL in respect of each of the above planned capital expenditure items, the Authority notes that the capitalization schedule for the above items is as under,

**Table 14: Future Capital Expenditure proposed by HIAL in current MYTP submissions**

| (In Rs. crores) | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|
| **1. Future Capital Expenditure** | | | | |
| Airport Connectivity from North | 0.00 | 0.00 | 10.00 | 10.00 |
| Water Supply capacity augmentation | 0.00 | 5.00 | 15.00 | 10.00 |
| Flood Control & Rainwater Harvesting | 0.00 | 0.00 | 10.00 | 10.00 |
| Sustainability through Renewable Energy | 0.00 | 40.00 | 0.00 | 0.00 |

| (In Rs. crores) | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|
| (Solar) | | | | |
| Power Capacity Augmentation | 0.00 | 5.00 | 10.00 | 5.00 |
| **2. General Capital Expenditure (Projected Maintenance etc)** | | | | |
| General Capital Expenditure | 29.28 | 31.45 | 34.03 | 36.97 |
| **3. Future Capital Expenditure in subsidiaries (assets not in the books of HIAL)** | | | | |
| Future capex in SEZ | 27.56 | 48.63 | 0.00 | 0.00 |
| Future capex in Hotel | 0.40 | 2.00 | 2.00 | 2.00 |
| Future capex in Duty Free | 1.15 | 0.40 | 1.50 | 0.00 |
| **4. Future Capital Expenditure (assets reflected in the books of HIAL)** | | | | |
| Future capex in Fuel Farm | 0.40 | 4.40 | 7.60 | 3.15 |

**8.3.** The Authority has noted that for the items, proposed by HIAL to be included in Future Capital Expenditure (items in Group 1 in Table 14), even designing of the proposed development has not been undertaken. Thus, the estimates submitted by HIAL in respect of these items appear to be only broad estimations based on assumptions. Therefore the Authority, at present juncture proposes not to include these Future Capital Expenditure. Further the Authority proposes to consider these expenditures at the time of determination of tariffs in the next control period, in case these are incurred by HIAL and evidential submissions along with auditor certificates thereof are submitted by HIAL based on the approach adopted for inclusion or exclusion of assets in Regulatory Asset Base.

**8.4.** As discussed in Para 3.4 above, the Authority proposes to include the future capex proposed by HIAL in respect of only the standalone entity HIAL. Thus the proposed future capex (items in Group 3 in Table 14) in respect of the subsidiaries of Hotel, SEZ and Duty Free by HIAL has not been considered for calculation of aeronautical tariff for the current control period.

**8.5.** Further the Authority notes the details and remarks / explanations submitted by HIAL in respect of general capital expenditure (items in Group 2 in Table 14). As per these details, the total General Capital Expenditure has been proposed by HIAL as per Table 15 below, which totals to Rs. 131.73 crores. For the present, the Authority has considered this proposed capital expenditure for the calculation of aeronautical tariff for the current control period.

**Table 15: General Capital Expenditure proposed by HIAL in current MYTP submissions**

| Project Name | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|
| **General Capital Expenditure** | **29.28** | **31.45** | **34.03** | **36.97** |

**8.6.** The Authority further notes that the actual General Capital Expenditure (items in Group 2 in Table 14) incurred by HIAL may vary from this proposed figure. The Authority thus proposes to true-up the difference between the General Capital Expenditure considered now and that actually incurred based on evidential submissions along with auditor certificates thereof at the time of determination of aeronautical tariff for the next control period, based on the approach adopted for inclusion or exclusion of assets in Regulatory Asset Base.

**8.7.** As far as items in Group 4 in Table 14 are concerned, the Authority notes that these are included in the tariff proposal submitted by HIAL in respect of fuel farm services provided by HIAL itself. For the calculation of ARR and Yield Per Passenger, the income from this service has been factored as aeronautical income for the purpose of determination of aeronautical tariff both under single and dual till approaches.

**Proposal No. 4. Regarding Future Capital Expenditure**

**4.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. Not to include the Future Capital Expenditure (Refer items in Group 1 and items in Group 3 in Table 14) as submitted by HIAL for the purpose of the determination of tariff for aeronautical services during the current control period.**

**ii. To include the General Capital Expenditure (Refer items in Group 2 in Table 14 details of which are given in Table 15) as submitted by HIAL for the present, for the purpose of the determination of tariff for aeronautical services during the current control period.**

iii. **To true-up the difference between the General Capital Expenditure (Refer items in Group 2 in Table 14 details of which are given in Table 15) considered now and that actually incurred based on evidential submissions along with auditor certificates thereof at the time of determination of aeronautical tariff for the next control period, based on the approach adopted for inclusion or exclusion of assets in Regulatory Asset Base**

iv. **The future capital expenditure (Refer items in Group 1 in Table 14) for FY 14, FY 15 and FY 16, actually incurred by HIAL during the balance control period, based on the audited figures and evidence of stakeholder consultation, as may be required, be reckoned at the time of determination of aeronautical tariffs for the next control period commencing from 01.04.2016 - based on the approach adopted for inclusion or exclusion of assets in Regulatory Asset Base during the current control period.**

**8.8.** The impact on the YPP after excluding Future Capital Expenditure items has been analysed as under:

**Table 16: Sensitivity – Impact on YPP after excluding Future Capital Expenditure items as per the Authority's Tentative Decision**

| Single Till | | | |
|---|---|---|---|
| YPP as per the Base Model* | 861.99 | YPP as per the Base Model after excluding Future Capital Expenditure as per Authority | 827.39 |
| Dual Till | | | |
| YPP as per the Base Model* | 1042.41 | YPP as per the Base Model after excluding Future Capital Expenditure as per Authority | 1014.29 |
| * - Base Model – Refer to Para 1.41 | | | |

# 9. Regulatory Asset Base (RAB)

## a HIAL Submission on Regulatory Asset Base (RAB)

**9.1.** As per its submissions dated 31.07.2011 and 13.09.2011, HIAL submitted that it has computed the RAB for each year by adding the Projected Capital Investment for a year to the Opening Balance of the RAB at the start of the year and then subtracting the Projected Depreciation to arrive at the Closing Balance RAB for respective period. Further HIAL submitted as under,

*"The following principle has been used to compute RAB. RAB is representing the total assets and the same is calculated as below:*

*RAB at the start of a year/period (Opening RAB)*

*+*

*Projected capital investment*

*-*

*Projected depreciation*

*=*

*RAB at the end of a year/period (Closing RAB)*

*."*

**9.2.** HIAL further stated in its submissions dated 31.07.2011 and 13.09.2011 that FY 2008-09 has been taken as the first year of the Control Period and opening RAB has been firmed up by aggregating total assets other than hotel and fuel farm assets at book value on the last day of the previous year (2007-08). Further, HIAL stated as under,

*"Following approach has been adopted for firming up the RAB during the regulatory control period:*

*a) Financial year 2008-09 has been taken as the first year of the control period.*

*b) Opening RAB has been firmed up by aggregating the total assets other than hotel and fuel farm assets, at book value on the last day of the previous year.*

*c) Addition and deletion has been taken as per audited financial statements.*

*d) For the financial year 2011-12 to 2015-16, Capex is projected and added to the respective year."*

**9.3.** Regarding Adjustments to RAB, HIAL, in its submission dated 31.07.2011, has stated that the Advanced Development Fund Grant (ADFG) of Rs. 107 Cr (refer Clause 2.3 (a) Financial and Fiscal Support of the SSA) has been proportionately excluded from aero and non-aero assets - as on March 2009 along with the corresponding depreciation. Further, HIAL stated that Fuel Farm assets have been excluded from RAB and separate filing has been prepared for the same. Further, HIAL submitted as under,

***"Adjustments to RAB****: The following adjustments have been done to RAB*

*a) Advance Development fund grant of Rs 107 Cr has been excluded from assets as of March -09. RAB and the corresponding depreciation also have been excluded.*

*b) Fuel farm assets have been excluded from RAB and separate filing has been prepared."*

**9.4.** In its submission dated 13.09.2011, HIAL reiterated its points regarding ADFG and Fuel Farm as above. HIAL further stated that as per the Airport Guidelines, HIAL has alienated 200 acres of land with the value of Rs. 90 crores and has reduced the same from RAB. Depreciation corresponding to this land has also been reduced and related revenues and expenditure have also not been considered. Further HIAL submitted as under,

***"Adjustments to RAB****: The following adjustments have been done to RAB*

*a) Advance Development fund grant of Rs 107 Cr has been excluded from assets as of March -09. RAB and the corresponding depreciation also have been excluded.*

*b) Fuel farm assets have been excluded from RAB and separate filing has been prepared.*

*c) Land Adjustments:- In line with the tariff guidelines issued by AERA as regards to Ring fencing of the land we hereby submit to alienate 200* *acres from the land available with GHIAL. The 200 acres of land has been valued at an estimated rate of Rs 45 Lakhs per acre. The aggregate value of 200 acres amounting to Rs 90 crore has been reduced from RAB. Proportionate reduction in depreciation also has been affected for the purpose of tariff calculation. The corresponding revenues and expenditure related to such 200 acres of land have also not been considered in the calculation of yield"*

**9.5.** HIAL in its 13.09.2011 submission also submitted that investment in subsidiaries or any joint ventures and any subsequent investment income from these have also not been considered as part of RAB. Further HIAL submitted as under,

*"We have not considered investment in subsidiaries or joint ventures as part of RAB. Accordingly any investment incomes arising pursuant to such holding in form of dividend income have not been considered for purpose of cross subsidization. This is based on principle that investment activity is outside airport activity and as such outside regulations."*

**9.6.** Pursuant to this, HIAL, in its submission dated 14.12.2012, stated that for firming up the RAB, HIAL has taken the actual numbers of FY 2011-12 and the same has been updated in the tariff model provided along with the submission. Also, as per the earlier submission dated 13.09.2011, HIAL stated that opening RAB has been firmed up by aggregating total assets other than fuel farm assets at book value on the last day of the previous year (2010-11) and ADFG of Rs. 107 crores has been excluded from the asset base.

**9.7.** Further, in the submission dated 14.12.2012, HIAL stated that assets for fully owned subsidiaries namely GMR Hotels and Resorts Limited (GHRL), GMR Hyderabad Aviation SEZ Limited (GHASL), and Hyderabad Duty Free Retail Limited have been included in the RAB calculations. HIAL stated as under,

*"Consolidated Gross block for GHIAL including Hotel, SEZ and Duty Free is as under:*

| ***Gross Block*** | ***31-Mar-08*** | ***31-Mar-09*** | ***31-Mar-10*** | ***31-Mar-11*** | ***31-Mar-12*** |
|---|---|---|---|---|---|
| *GHIAL as per FAR* | *2,301* | *2,363* | *2,520* | *2,596* | |
| *Add: Investment 100% owned* | | | | | |

| *Gross Block* | *31-Mar-08* | *31-Mar-09* | *31-Mar-10* | *31-Mar-11* | *31-Mar-12* |
|---|---|---|---|---|---|
| *subsidiary* | | | | | |
| *GHRL-As per audited financials* | *-* | *239* | *243* | *246* | *246* |
| *GHASL-As per audited financials* | *-* | *-* | *-* | *5* | *29* |
| *HDFRL-As per audited financials* | *-* | *-* | *-* | *10* | *13* |
| *Total Gross Block* | *2,301* | *2,602* | *2763* | *2,857* | *2,950* |

*RAB determined by aggregating GHIAL, Hotel, SEZ and Duty Free assets has been considered for YPP calculation."*

***Inclusion of "Forex Loss Adjustment as per AS 11***

**9.8.** HIAL has included Forex Loss Adjustment as per AS 11 as part of RAB.

**9.9.** HIAL, in its tariff model, has fully depreciated the yearly additions to the forex account. In its response to the clarification sought by the Authority, HIAL stated as under,

*"Forex additions are assumed to be incurred in the beginning of the financial year and hence, depreciation for full year is considered"*

***Inclusion of 100% operational subsidiaries of HIAL***

**9.10.** HIAL, in its initial submission dated 13.09.2011, had not included its subsidiaries. However vide its submission dated 14.12.2012, HIAL stated that its 100% operational subsidiaries for HIAL namely GMR Hyderabad Aviation SEZ Limited, GMR Hotels and Resorts Limited and Hyderabad Duty Free Retail Limited have been included in the tariff proposal. HIAL highlighted that it is not in accordance with the submission made earlier. The rationale, as provided by HIAL, for inclusion of these subsidiaries, is that the activities performed by these subsidiaries are valuable activities required for a long term growth of the airport. Further, to support this, HIAL stated as under,

*"The SEZ will give an impetus to GHIAL being a preferred HUB die to presence of environment which attracts the airline and ancillary companies. In the long run it will give a huge benefit to the airport*

*A good hotel is a must for any airport and a worldwide accepted phenomenon and as such it is an integral part of development of any airport development. This is a business which takes time to establish and progressively it will give huge benefit to the airport.*

*Duty Free was initially concessioned out model but since the response has been poor GHIAL had to resort to running this business on its own."*

***Rationale for inclusion of Hotel Asset***

**9.11.** In its submission dated 14.12.2012, HIAL presented a rationale for the inclusion of hotel assets in the RAB. HIAL in its submission stated that Hotels are required near the Airport to meet the requirements of Transit Passengers, Airline Crew and Other Business and MICE (Meeting/Incentive/ Conference/Exhibition) Travellers. For this, Airport hotels are mostly developed by Airport Companies (as part of the Airport project) or by 3rd party developers on the land leased by the Airport Company. These hotels play a crucial role in facilitating the Airport for emerging as a regional transit hub for both passenger and cargo. Keeping this as support, HIAL stated that GMR has developed a 5 Star Airport Hotel as part of the Hyderabad International Airport project. The hotel is operated by a reputed global operator "Accor" under its Novotel brand and started its operations in the year 2008. HIAL further stated that the hotel was developed primarily to cater to the requirements from the RGI Airport and also to provide a good venue for conferences and events near to airport considering the ease for outstation audience. HIAL further stated that the Airport Hotel is also an integral part of the Airline emergency Evaluation Plan for the passengers and airline staff.

**9.12.** Further, HIAL stated as under,

*"During the 4 year period of 2009 to 2012:*

- *Individual Airport Travellers contributed about 120,000 room-nights (54% of total occupancy)*
- *Groups for Meetings/Incentives/Conferences contributed about 42,000 room-nights (17% of total occupancy). Annually over 150 such events are held at the Hotel by large corporates and event organisers. Most of these guests come from outstation location as air travellers and also contribute to the growth of the regional economy*

- *Airline Crew contributed about 48,000 room-nights (22% of the occupancy)*
- *High profile wedding & events contributed 6,000 room-nights (3% of total occupancy). These weddings have few hundreds of outstation travellers occupying rooms for 1-3 days. Some of bigger weddings also have several private aircrafts / charters using the Airport"*

**9.13.** Taking support of the above arguments, HIAL stated that the Airport Hotel has significant synergy with the Airport and has both directly and indirectly benefitted the Airport and Air Travellers and thus should be included in the RAB.

***Rationale for inclusion of SEZ***

**9.14.** In its submission dated 14.12.2012, HIAL presented a rationale for the inclusion of SEZ assets in the RAB. HIAL, in its submission, stated that SEZ has been planned to enhance the business activities and traffic of the airport and to create a larger multiplier economic impact in the region. It further stated that it is developing the GMR Aerospace Park with the intention of building an aerospace cluster that would become an engine of growth and provide thrust to the Airport Business. It stated that currently there are 2 operating units in the SEZ namely MRO service and Engine Maintenance Training. Further, HIAL stated as under,

*"We have undertaken development of SEZ and the capex being incurred is mainly on account of the following;*

- *Earth and Levelling work-Required to enable usage of land*
- *Construction of roads-Required to enable access*
- *Chain line fencing for boundary wall in SEZ Area-The boundary wall is a must requirement for the SEZ units and hence there is requirement of the chain line fencing.*
- *Supply, Testing and Commissioning of Power Distribution Works at SEZ Area-To enable supply of electricity.*
- *Construction of Apron- To enable usage in MRO*

- *Drain Works in SEZ Area- as part of Basic infrastructure requirement.*
- *CFM building etc.-Building given of lease.*

*The presence of various aerospace units in aerospace cluster within the park creates advantages of synergy in terms of resources such as skilled manpower, Special purpose machines, Training etc. and it makes aerospace units more competitive. This ultimately become a key engine for development and thereby provide the much required impetus and boost to the Airport Business.*

*SEZ units would attract incremental ATM's into the MRO unit since the MRO would be competitive and would attract many domestic airlines to get their aircraft serviced within India as against the current practice of sending them overseas thereby being a valuable proposition.*

*In the long run presence of facilities such as MRO, FTZ, Aviation Training Centres, Aerospace Manufacturing and Assembly Units in GMR Aerospace Park shall contribute significantly in Hyderabad Airport becoming a HUB."*

***Rationale for inclusion of Duty Free***

**9.15.** In its submission dated 14.12.2012, HIAL presented a rationale for the inclusion of Duty Free assets in the RAB. HIAL, in its submission, stated that the Duty Free business was earlier run by Nuance Group but they were not able to run the business successfully and HIAL had to enter into a settlement to take over the assets and operations of the store. HIAL, in its submission, also stated that it tried to concession out this business to other entities but none was selected and later HIAL had to operate the business on its own and build the necessary systems, processes and people capability required. Further, HIAL stated that the Duty Free operations stabilized in 2010-12 and the stores were expanded/modified for a better shopping experience and with a view to introduce more products.

**9.16.** Taking support of the above arguments HIAL stated that Duty Free should be included as part of RAB.

***HIAL submission in respect of land***

**9.17.** HIAL has made submissions regarding the land leased by the GoAP to HIAL for the purpose of airport project. It has stated *"that land has been given for making project feasible (and that) its earnestly requested not to take away this incentive*". The Authority is also copied on a letter written by Mr Siddharth Kapur, President & CFO - Airports, for GMR Hyderabad International Airport Limited to the Hon'ble Minister for Civil Aviation. In this letter, the HIAL has written to Ministry with the request presented below,

> *"CONCLUSION ON LAND USAGE*
>
> *1. It is clear that the purpose of Land lease is twofold i.e. for (a) Airport and (b) Non- Airport activities as mentioned in the Land Lease Agreement.*
>
> *2. As per the provisions of the AERA Act, the Regulator is authorised to determine charges pertaining to the aeronautical charges at the Airport. Hence, the Regulator has no jurisdiction over the Land earmarked for Non-Airport activities.*
>
> *3. Under the concession agreement HIAL or the service provider have been given unrestricted right to determine the charges in respect to the activities other than the Regulated Charges as mentioned in Schedule 6 of the Concession Agreement. There is no provision as regards to cross-subsidizing the aero revenue using the revenues from NonAirport Activities/real estate. Nor is there any mention about assigning a market value to land and reducing it from RAB. In fact the GoAP had given the land on lease as the project (which also includes Non-Airport Activities) was not feasible if the promoters were to acquire the Land on its own for the Project. By assigning a value to the land and reducing the same from the RAB AERA is contemplating an action which is not envisaged ¡n the Concession Agreement and also goes against the intended purpose of the Land Lease Agreement and would significantly affect the feasibility of the Non-Airport activity component of the project*
>
> *Hence we request to leave the usage and treatment of the Land to the GoAP and GHIAL being Lessor and Lessee respectively. It may be*

*appreciated that GoAP had already clarified to AERA that the reduction of Land value from RAB was not envisaged."*

**9.18.** HIAL has also attached a report from NERA on Land Treatment. Providing reference to the Authority's Airport Order, NERA stated as follows:

*"In this context, RIAL has asked us to carry out an analysis of land treatment, providing examples of regulation in other jurisdictions. Our analysis will present international evidence and will draw some conclusions.*

*Airport land can be used for both aeronautical activities and non aeronautical activities. The international evidence on land used for non aeronautical activities varies across jurisdiction as a single rule does not apply.*

*The use of land for non aeronautical activities comprises a variety of commercial activities like retail shops, car parking and real estate development. The real estate development is defined as the development and management of different kind of airport areas, for example hotels, conference centers and shopping malls.*

*In case where a dual till regulation applies, non-aeronautical activities are excluded from regulation. In case where a single till regulation applies, in many instances, the regulation allows some non aeronautical activities to be excluded from the regulatory till. In case where a hybrid till regulation applies, only some non-aeronautical activities are included in the regulatory till and only part of their profits is included in the till.*

*Another issue related to the treatment of land concerns the treatment of surplus airport land, i.e. land in excess of what is needed for aeronautical use. This land, in some instances, can be sold and the airport operator can retain all revenues."*

**9.19.** NERA has also provided some international examples on the treatment of land under different regulatory regimes. Taking support from the above grounds, HIAL, vide its letter dated 20.04.2013, has requested the Ministry to issue direction to AERA under Section 42 of the AERA Act as regards to,

*"....*

*2. Keep the land earmarked for Non-Airport Activities outside its purview in consonance with Concession Agreement, Land Lease Agreement and State Support Agreement.*

*3. Not to assign any value (whether notional or otherwise) to the Land earmarked for Non-Airport Activities and not to reduce such purported value from the RAB.*

*...."*

**a Authority's Examination of HIAL Submissions on Regulatory Asset Base (RAB)**

**9.20.** The Authority has carefully examined the calculation of RAB and HIAL submissions in this regard. The Authority's examination of HIAL submissions is as follows:

**9.21.** The Authority had sought for auditor's certificate for the class wise asset additions, deletions and depreciation in historical periods from HIAL. The auditor certificate certifying the historical depreciation of assets was submitted by HIAL on 04.04.2013 and the auditor certificate certifying the historical asset additions and deletions was submitted by HIAL as on 09.05.2013. Accordingly, the Authority has updated the tariff model in line with the numbers provided as per the auditor certificates submitted by HIAL.

**9.22.** With regard to the issue of land and HIAL's submission that land has been given for making the project feasible, the Authority has considered the provisions in the Land Lease Agreement dated 30.09.2003, entered in to between the GoAP and HIAL. According to Authority's reading, Recital 'B' refers to the **"Airport"** as *defined hereafter on a build, own and operate basis (Project)".* The '**Project'** has been defined to have meaning assigned to it in Recital 'B'. Recital 'C' refers to the project being of prime importance to the State of Andhra Pradesh and refers to the policy of the lessor (State of Andhra Pradesh) to encourage and provide industrial development, tourism, passengers, cargo movement and general economic and social development of the State of Andhra Pradesh. The same Recital also speaks about the provision of financial support to assist the project. Recital 'E' explicitly states that *"the project is feasible only* *with State Support of the lessor".* Under the Land Lease Agreement, "**Airport"** has also been defined as

> *"the Greenfield international airport to be constructed and operated by the lessee at Shamshabad near Hyderabad and includes all buildings, equipments, facilities and systems, aeronautical and non-aeronautical and airport-centric activities and includes without limit, where the circumstances so required, any expansion of the airport from time to time."*

**9.23.** The Authority upon combined reading of these recitals felt that land was given to make the project (namely, the Airport) feasible. It, therefore, appears to the Authority that any revenues obtained from commercialization of land in excess of the project requirements are required to be ploughed into the project. The GoAP had also made available State support for the project to make it feasible through the State Support Agreement (ADFG and IFL). Hence the Authority had thought of the mechanism to reduce RAB by the market value of such commercial activities generally outside the terminal building (except what clearly are aeronautical services). This, in view of the Authority, would establish the nexus between the purpose of grant of land (to make the project feasible) and lowering the charges on the passengers. The Authority, in any case, is mandated to determine tariffs for aeronautical services (including amount of Development Fees) taking into consideration the economic and viable operation of the major airports. Hence, after determining such aeronautical tariffs (as well as UDF), the airport would become viable in terms of financial returns. Any amount obtained through commercial exploitation of land would then be over and above what is required for such economic viability or feasibility. According to the understanding of the Authority, land in excess of the airport requirement was leased out to make the 'Project' (namely, the Airport) feasible through commercial exploitation. Upon going through the purpose of grant of lease (Clause 3.1(b)), the Authority noted that some of the purposes are related to hotels, resorts, commercial and residential complexes, industrial facilities, and any other lawful commercial activity. According to Authority's understanding, the disposal of land acquired for a 'public purpose' is normally not given for pure commercial or residential activities unless revenue generated from such activities is utilized for making some other public purpose feasible. In the extant case, therefore, the Authority felt that the revenues from such commercial activities should flow to the airport (public purpose). One of the mechanisms that the Authority had thus contemplated was to reduce the market value from RAB so as to lower the charges on the passengers which, in its view, is consistent with the scheme of the grant of lease to HIAL for the project.

**9.24.** The issue of incentive is relevant if in normal course the airport operator is unable to get fair rate of return on his investments only by airport operations and requires additional source of funds to recoup the short-fall. The process of tariff determination undertaken by the Authority in accordance with the mandate of the AERA Act ensures that the airport operator would get the fair rate of return. The concession agreement dated 20.12.2004 between MoCA and HIAL also has a clause regarding UDF under Schedule 6, which states that the UDF is not only to top-up the revenue short-fall that may arise in its absence so as to give a fair rate of return to the airport operator but even for capital expenditure. The UDF directly impinges on the passengers. Hence the regulatory framework fully addresses the issue of fair rate of return to the airport operator. The reduction in RAB on account of land monetisation is only a mechanism to give effect to the nexus between grant of land in excess of the airport requirements made to HIAL and the express objective of such grant mentioned in the Lease Deed viz. to make the project (namely airport) feasible. . The Authority does not consider it to be the objective of grant of excess land to the airport operator that he can get additional revenue over and above what is considered and determined as a fair rate of return. It can be said that so doing may be **construed as unjust enrichment of the airport operator**.

**9.25.** As far as NERA Economic Consulting's report on the treatment of land is concerned, the Authority notes that the purpose of grant of land as well as permitted non-airport activities thereon do not form part of the Concession Agreement. They form part of the Land Lease Deed signed between Govt. of Andhra Pradesh and HIAL as well as in the provisions of the State Support Agreement and have been duly addressed by the Authority at the respective position.

**9.26.** The land of 5450 acres has been acquired by the State Govt. from the cultivators under the relevant provisions of Land Acquisition Act (and leased to the airport). The Authority notes that the rent for land is taken at 2% based on Rs. 155 crores which the Authority understands may be the acquisition cost under the Land Acquisition Act. The Authority thus understands that the rental of 2% does not make distinction between different uses permitted on this land, namely, the airport activities and the other commercial activities, including hotel, shops, F&B, etc. The Authority understands that land for commercial purposes is generally based on certain well-defined principles of disposal including that of auction and, at any rate, attracts a higher lease rental.

**9.27.** The Authority understands that land would have been granted by the State Govt under the relevant land disposal rules. The lease rental, generally, varies depending on the user and is substantially higher than 2% for any commercial exploitation. The Authority, therefore, reasonably concludes that the lease rental of 2% is on account of the land made available only for the stated public purpose like airport and further especially to make the airport feasible. As has been indicated above, the Authority has made the airport feasible primarily through UDF. Hence any receipts from the commercial exploitation of land outside the terminal building should go to reduce the incidence of passenger charges namely UDF. In Authority's view, one of the definitive and transparent mechanism of doing so is to reduce the value of land used for such commercial exploitation (outside the terminal building) from RAB.

**9.28.** HIAL in its letter dated 03.05.2013 to the Authority has given its interpretation of GoAP position on land (page 12 of the letter). According to it, GoAP has categorically clarified that the *"land given was for the economic and social development of the State and by reducing its market value from the RAB the desired objective will not be achieved".* The Authority's reading of the Land Lease, as mentioned above in Para 9.22 above, indicated that the land was given for the project and that the project is defined as an airport. According to lease deed, it would appear that the project (airport) is important for overall social development of the state. If the project is feasible, the overall social and economic development of the state would follow. The link between the social and economic development of the state and grant of land is thus through the project (airport). It therefore does not appear that land is given bereft of any reference to the feasibility of the project.

**9.29.** The grant of land is one of the elements of assistance to make the project feasible. The project is the development of airport which also is defined in the Lease agreement. As has been indicated in Para 6.2 above, one of the items that the Authority is required to take into consideration while determining aeronautical tariffs is "revenue from services other than aeronautical". This would indicate that under the AERA Act such revenues from services other than aeronautical need to be taken into account while determining aeronautical tariffs. To the extent the provisions of the AERA Act take primacy over this or any agreement, etc., the provisions of Concession Agreement would need to be construed accordingly. However, the Authority's decision of subtracting the share market value of such lands under commercial exploitation from RAB is based on its understanding of the Lease Deed signed between GoAP and HIAL. If the land in excess of the airport development is used for commercial exploitation, but according to the letter of GoAP the revenues therefrom are not to be used to cross-subsidise the aeronautical tariffs, it is not clear to the Authority in what manner the excess land is to be understood to have been given to make the airport feasible. This is quite apart and distinct from the circumstance that under its mandate, the Authority is required to make the operations of the airport economically viable even if there are no revenue/capital proceeds from the commercial exploitation of land in excess of airport requirements. In such a scenario, it would appear that the proceeds from the commercial exploitation of lands in excess of airport requirement would accrue to airport operator without requiring of him to use it for the airport operations. Alternatively, it would appear that the land acquired by GoAP in excess of the airport requirements and leased out to HIAL at what appears to be a concession rental @2%, has been used by the airport operator purely for commercial activities indicated in Part 2 of Schedule 3, and further that the proceeds of which are permitted to be retained by the airport operator.

**9.30.** As has been indicated elsewhere, the Authority under its delimitation of RAB boundary, normally, would not take the proceeds of real estate development into determination of aeronautical tariffs (though under the express provisions of the Act, it may be required to do so). In the extant case, however, subtracting the market value of such land commercially exploited for purposes mentioned in Schedule-3, Part-2 from RAB is to give effect to the nexus between aeronautical tariff determination and the express covenants of the lease deed that such lands have been given to HIAL to "*make the project feasible*".

**9.31.** For the time being, the Authority has noted that HIAL has used land in excess of airport requirement for commercial exploitation for Hotel (around 5 acres or so). It has also sub-leased land ad measuring 251.85 acres for purposes of developing an Aviation related Special Economic Zone (Aviation SEZ) at the airport and that in this Aviation SEZ, a Joint Venture company has taken a lease of land admeasuring 14.81 acres for establishment of Maintenance, Repair and Overhaul (MRO) facility. The MRO company has also agreed to exercise the right to take up to another 8.785 acres of land subject to certain conditions.

**9.32.** HIAL has indicated that according to it, the valuation of land is of the order of Rs.45 lakhs per acre. Having regard to the totality of the circumstances, the Authority, for the purposes of the calculation of aeronautical tariff presented in this consultation paper, has not subtracted the value of these lands from the RAB. On considering the stakeholders' response, it will make appropriate final decision. The Authority has therefore not found it necessary for the purposes of consultation paper to independently assess the fair market value of these lands used for real estate development (outside terminal building) by HIAL.

**9.33.** The Authority, in its Airport Guidelines, has provided for a mechanism for calculation of Regulatory Asset Base, wherein the Initial RAB takes into consideration original value of fixed assets, accumulated depreciation, accumulated capital grants, subsidies or user contribution, and adjustment for value of land excluded from the scope of RAB.

**9.34.** The Authority has noted that RGI Airport, Hyderabad commenced its commercial operations on 23.03.2008. The Authority has observed from the tariff model submitted by HIAL that it has computed the Initial RAB as on 31.03.2008 as under,

**Table 17: Gross Block as on 31.03.2008 as calculated by HIAL**

| **Assets as on 31.03.2008** (Figures in Rs. Cr) | **Aero Additions** | **Aero Deletions** | **Total Aero** | **Non-Aero Additions** | **Non-Aero Deletions** | **Total Non-Aero** |
|---|---|---|---|---|---|---|
| Buildings | 635 | 0 | 635 | 192 | 0 | 192 |
| Electrical Installations | 173 | 0 | 173 | 10 | 0 | 10 |
| Furniture and Fixtures | 29 | 0 | 29 | 8 | 0 | 8 |
| Improvements to Leasehold Land | 107 | 0 | 107 | 4 | 0 | 4 |
| IT Systems | 141 | 0 | 141 | 2 | 0 | 2 |
| Office Equipment | 8 | 0 | 8 | 4 | 0 | 4 |
| Other Roads | 79 | 0 | 79 | 44 | 0 | 44 |
| Plant and Machinery | 357 | 0 | 357 | 25 | 0 | 25 |
| Runways | 377 | 0 | 377 | - | 0 | - |
| Software | 15 | 0 | 15 | 1 | 0 | 1 |
| Vehicles | 3 | 0 | 3 | 0 | 0 | 0 |
| **Total** | 1,924 | 0 | **1,924** | 291 | 0 | **291** |
| **Gross Block** | | | | | | **2,214** |

**9.35.** The Authority has noted from the tariff model, submitted by HIAL, that HIAL has calculated RAB at the end of a tariff year as below,

*RAB at the start of a year/period + Actual Capital Investment (Subject to user consultation provisions and incentive adjustments) – Projected Depreciation – Disposals at Fair Value = RAB at the end of a year/period*

**9.36.** As per the Airport Guidelines issued by the Authority, RAB for the purpose of determination of ARR is to be calculated as the average of the RAB value at the end of a tariff year and the RAB value at the end of the preceding tariff year. The Authority has observed from the tariff model, submitted by HIAL, that it has computed RAB by taking the average of the Opening RAB of the current year and the closing RAB of the current year, which yields the same value as that calculated by the approach mentioned in the Airport Guidelines.

**9.37.** The Authority has noted that HIAL received an Advanced Development Fund Grant of Rs. 107 Cr from the Government of Andhra Pradesh and, in the tariff model, HIAL has proportionately excluded the assets funded out of the Advanced Development Fund Grant from aero and non-aero assets along with the corresponding depreciation. The Authority sought clarifications from HIAL on the terms and conditions on which this Grant was provided by the State Government to HIAL. The Authority additionally had reference to the State Support Agreement, which stated in Clause 2.3 (a) in respect of the Advance Development Fund Grant as under,

> *"(i) GoAP shall provide HIAL with an ADFG in the sum of Rupees 107 Crores. ADFG shall not in any circumstances attract interest payments nor shall it be repayable.*
>
> *(ii) ADFG shall be made available to HIAL by the GoAP in three equal annual instalments, and the first instalment shall be drawn down at Financial Close. Each instalment shall be paid into a construction proceeds trust and retention account to be established and operated in accordance with the Financing Agreements."*

**9.38.** The Authority notes from the State Support Agreement that this amount of Rs. 107 crores is neither to be repaid nor shall attract any interest. The Authority thus considers this to be treated as a Grant in the calculations of RAB. Accordingly this amount should not form part of the RAB. Thus, Rs. 107 crores should be subtracted from the RAB and correspondingly the depreciation should also be calculated.

**9.39.** The Authority observed that one of the heads under capital expenditure, considered by HIAL in its tariff model, is *"Forex Loss Adjustment as per AS 11".* HIAL explained that this head captures the amount, which is on account of losses / gains due to the ECB loan from Abu Dhabi Commercial Bank, as part of RAB.

**9.40.** The Authority understands that sourcing of funds is a conscious business decision of the airport operator. Thus, the Authority proposes not to consider any adjustments related to foreign exchange variations in its determination of tariff for aeronautical services and accordingly proposes to disallow the amounts considered by HIAL under the head *"Forex Loss Adjustment as per AS 11"* as well as from ECB Loan facility.

**9.41.** As regards the inclusion of 100% subsidiaries of HIAL in the RAB, the Authority has noted from the tariff model submitted by HIAL that HIAL has provided the segregation of assets into aeronautical assets and non-aeronautical assets (discussed in Para 7 above). The Authority has further noted that HIAL has included its 100% subsidiaries namely, GMR Hotels and Resorts Limited (GHRL), GMR Hyderabad Aviation

SEZ Limited (GHASL), and Hyderabad Duty Free Retail Limited in the RAB in the current MYTP.

**9.42.** The value of RAB for HIAL under single till and dual till as per the tariff model submitted by HIAL is presented below,

**Table 18: Determination of RAB under Single Till – as per model submitted by HIAL**

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| | Single Till | | | | | | | |
| Opening RAB | 2,099 | 2,300 | 2,332 | 2,299 | 2,267 | 2,236 | 2,250 | 2,226 |
| Commissioned Assets | 301 | 149 | 103 | 111 | 94 | 132 | 82 | 74 |
| Depreciation and Amortization | 100 | 116 | 127 | 123 | 126 | 118 | 106 | 109 |
| Disposals | 0 | 0 | 9 | 20 | 0 | 0 | 0 | 0 |
| Closing RAB | 2,300 | 2,332 | 2,299 | 2,267 | 2,236 | 2,250 | 2,226 | 2,191 |
| RAB for calculating ARR | 2,200 | 2,316 | 2,315 | 2,283 | 2,251 | 2,243 | 2,238 | 2,209 |

**Table 19: Determination of RAB under Dual Till – as per model submitted by HIAL**

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| | Dual Till | | | | | | | |
| Opening RAB | 1,824 | 1,756 | 1,724 | 1,694 | 1,656 | 1,615 | 1,596 | 1,587 |
| Commissioned Assets | 21 | 60 | 69 | 71 | 55 | 67 | 66 | 60 |
| Depreciation and Amortization | 89 | 91 | 98 | 94 | 96 | 86 | 74 | 77 |
| Disposals | 0 | 0 | 0 | 16 | 0 | 0 | 0 | 0 |
| Closing RAB | 1,756 | 1,724 | 1,694 | 1,656 | 1,615 | 1,596 | 1,587 | 1,570 |
| RAB for calculating ARR | 1,790 | 1,740 | 1,709 | 1,675 | 1,635 | 1,605 | 1,592 | 1,579 |

**9.43.** As regards inclusion and non-inclusion of assets in the RAB, the Authority has outlined the principles of RAB boundary and ring-fencing, it has been stated position of the Authority that the assets, which are integral to the Airport or the activities pertaining to it or are integral for the functioning of the airport should form part of the RAB. The assets in respect of those activities, which are not integral or non-related to the airport, should be excluded from the RAB. The considerations of RAB Boundary are discussed in Para 3.7 above. Further as discussed in Para 6.5 above, the RAB to be considered in case of single till and that to be considered in dual till will be different.

**9.44.** As per the submissions of HIAL, the Authority notes that in addition to the airport operator entity HIAL, it has three 100% subsidiaries namely, GMR Hotels and Resorts Limited (GHRL), GMR Hyderabad Aviation SEZ Limited (GHASL), and Hyderabad Duty Free Retail Limited. Of these subsidiaries, GHRL is the subsidiary, which owns and operates the hotel located at the airport site. This hotel is located on the land side outside the terminal building. The Authority, in this regard, has noted HIAL's submission that the hotel is required near the Airport to meet the requirements of Transit Passengers, Airline Crew and Other Business and MICE (Meeting/Incentive/ Conference/Exhibition) Travellers. However the Authority notes that this hotel is used even by non-passenger clients also. GMR Hyderabad Aviation SEZ Limited is the entity that is operating a Maintenance, Repair and Overhaul (MRO) facility and the facility is not used by the Airport Users. Regarding Hyderabad Duty Free Retail Limited, the Authority notes that the assets of this subsidiary form an integral part of the airport terminal building and are used exclusively by the passengers.

**9.45.** For the purpose of determination of RAB under single till, the Authority proposes to include the assets that are integral to the airport. In view the above, under single till RAB would include the aeronautical assets and non-aeronautical assets of the standalone entity HIAL (refer Para 3.4 above). However under dual till, the Authority proposes to consider only the aeronautical assets of the standalone entity HIAL (refer Para 3.4 above) for the purpose of determination of RAB.

**9.46.** Accordingly the value of RAB for HIAL as calculated by the Authority under single till and dual till is presented below:

**Table 20: Calculation of RAB under Single Till (excluding Hotel, SEZ, Duty Free assets and Capitalization of Forex Loss Adjustments)**

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| | Single Till | | | | | | | |
| Opening RAB | 2,099 | 2,061 | 2,102 | 2,014 | 1,902 | 1,825 | 1,809 | 1,803 |
| Commissioned Assets | 62 | 144 | 26 | 14 | 29 | 81 | 79 | 72 |

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| Depreciation and Amortization | 100 | 104 | 105 | 105 | 106 | 97 | 85 | 87 |
| Disposals | 0 | 0 | 9 | 20 | 0 | 0 | 0 | 0 |
| Closing RAB | 2,061 | 2,102 | 2,014 | 1,902 | 1,825 | 1,809 | 1,803 | 1,788 |
| RAB for calculating ARR | 2,080 | 2,081 | 2,058 | 1,958 | 1,864 | 1,817 | 1,806 | 1,795 |

**Table 21: Calculation of RAB under Dual Till (excluding Hotel, SEZ, Duty Free assets and Capitalization of Forex Loss Adjustments)**

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| | Dual Till | | | | | | | |
| Opening RAB | 1,824 | 1,756 | 1,724 | 1,652 | 1,557 | 1,490 | 1,475 | 1,470 |
| Commissioned Assets | 21 | 60 | 20 | 12 | 24 | 67 | 66 | 60 |
| Depreciation and Amortization | 89 | 91 | 92 | 91 | 92 | 82 | 70 | 73 |
| Disposals | 0 | 0 | 0 | 16 | 0 | 0 | 0 | 0 |
| Closing RAB | 1,756 | 1,724 | 1,652 | 1,557 | 1,490 | 1,475 | 1,470 | 1,458 |
| RAB for calculating ARR | 1,790 | 1,740 | 1,688 | 1,604 | 1,523 | 1,482 | 1,473 | 1,464 |

**9.47.** Further to the above, the value of RAB under single till and dual till as considered by the Authority on account of considering other tentative proposals (for e.g. the tentative proposal for not considering future and general capex and other tentative proposals) is presented below:

**Table 22: RAB under Single Till as considered by Authority**

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| | Single Till | | | | | | | |
| Opening RAB | 2,099 | 2,061 | 2,102 | 2,014 | 1,902 | 1,826 | 1,750 | 1,696 |
| Commissioned Assets | 62 | 144 | 26 | 14 | 29 | 31 | 34 | 37 |
| Depreciation and Amortization | 100 | 104 | 105 | 105 | 106 | 107 | 87 | 83 |
| Disposals | 0 | 0 | 9 | 20 | 0 | 0 | 0 | 0 |
| Closing RAB | 2,061 | 2,102 | 2,014 | 1,902 | 1,826 | 1,750 | 1,696 | 1,650 |
| RAB for calculating ARR | 2,080 | 2,081 | 2,058 | 1,958 | 1,864 | 1,788 | 1,723 | 1,673 |

**Table 23: RAB under Dual Till as considered by Authority**

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| | Dual Till | | | | | | | |
| Opening RAB | 1,824 | 1,756 | 1,724 | 1,652 | 1,557 | 1,490 | 1,423 | 1,379 |
| Commissioned Assets | 21 | 60 | 20 | 12 | 24 | 26 | 28 | 31 |
| Depreciation and Amortization | 89 | 91 | 92 | 91 | 92 | 93 | 72 | 68 |
| Disposals | 0 | 0 | 0 | 16 | 0 | 0 | 0 | 0 |
| Closing RAB | 1,756 | 1,724 | 1,652 | 1,557 | 1,490 | 1,423 | 1,379 | 1,341 |
| RAB for calculating ARR | 1,790 | 1,740 | 1,688 | 1,604 | 1,523 | 1,456 | 1,401 | 1,360 |

**Proposal No. 5. Regarding Regulatory Asset Base (RAB)**

**5.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

i. **To include the assets - both aeronautical and non-aeronautical assets, of the standalone entity of HIAL (refer Para 3.4 above) in RAB for the purpose of determination of aeronautical tariffs for the current control period under single till.**

ii. **To include only the aeronautical assets of the standalone entity of HIAL (refer Para 3.4 above) in RAB for the purpose of determination of aeronautical tariffs for the current control period under dual till.**

iii. **To note that HIAL has capitalized the Forex Loss Adjustment as per AS 11. However the Authority tentatively proposes to exclude the same for calculation of RAB under single till and dual till for the current control period.**

iv. **To calculate the RAB for each year as the average of the opening and closing RAB and calculate the return for each year on the average RAB.**

v. **Accordingly to consider the value of RAB as per Table 22 for determination of aeronautical tariff under single till and as per Table 23 for determination of aeronautical tariff under dual till.**

vi. **To work out the difference between the value of Return on RAB calculated based on actual date of commissioning/ disposal of assets and that calculated considering such asset has been commissioned/ disposed half way through the tariff year. The Authority further proposes to consider and adjust this difference at the end of the current Control Period considering Future Value of the differences for each year in the current Control Period.**

vii. **To presently calculate RAB without subtracting the fair market value of real estate development (outside the terminal building), and has presented the calculations of tariff determination accordingly. Based on the stakeholder's comments, the Authority will appropriately make a decision in this regard at the time of final Order.**

**9.48.** The following Table gives, under both single and dual till, the calculation of YPP based on the Base Model given by HIAL (as per Para 1.41 above) after making adjustments with respect to Hotel, SEZ, Forex Adjustments and Duty Free shopping as relevant to Single and Dual Till.

**Table 24: Sensitivity – Impact on YPP after excluding Hotel assets, SEZ Assets, Duty Free Assets and Forex adjustments from RAB**

| | | | |
|---|---|---|---|
| Single Till | | | |
| YPP as per the Base Model* | 861.99 | YPP as per the Base Model after Excluding Hotel, SEZ, Duty Free and Forex adjustments from RAB but including non-aeronautical assets which are integral to the airport terminal building and considering revenue share from duty free (being a non-aeronautical revenue generated at the airport) | 686.87 |
| Dual Till | | | |
| YPP as per the Base Model* | 1042.41 | YPP as per the Base Model after Excluding Hotel, SEZ, Duty Free and Forex adjustments from RAB and also not including non-aeronautical assets which are integral to the airport terminal building (being dual till) | 1015.33 |
| * - Base Model – Refer to Para 1.41 | | | |

## 10. Cost of Debt

### a HIAL Submission on Cost of Debt

**10.1.** As per its submission dated 13.09.2011, HIAL submitted that Cost of debt has been calculated considering actual Cost of Debt for previous years and increasing it by 50 basis points every year for each of the financial years from FY 2012-13 up to 2015-16 and 1.75% for ECB from 01.10.2011. Further, HIAL has also assumed an Interest Free loan (IFL) of Rs. 315 crores to be part of total debt with 0% cost. Further HIAL submitted as under,

> *"**Cost of Debt** is considered at actual for previous years and seeing the hardening trend of interest rates, we have forecasted a nominal increase of 50 basis points every year for each of the FY 2012-13 up to 2015-16 and an increase of 1.75% basis points for ECB from 01st October 2011.*
>
> ***Cost of IFL**: - Interest Free Loan of Rs. 315 Crs. has been assumed as part of total debt with 0% cost.*
>
> *"*

**10.2.** In its 14.12.2012 submission, HIAL submitted that Cost of debt for FY 2011-12 and FY 2012-13 is considered as per actuals (including the debt of respective subsidiaries). Further, HIAL submitted that they have assumed an increase of 50 basis points on the Rupee Term Loan for a period of 2 years during FY 2013-14 and FY 2014-15 and an increase of 100 basis points on the ECB Term Loan with effect from April 2012. HIAL also stated that it has considered an Interest Free Loan of Rs. 315 Cr with 0% cost. Further, HIAL stated as under,

> *"Cost of Debt for 2011-12 and 2012-13 is considered as per actuals. Debt of respective subsidiaries has been considered at current actual rates. Seeing hardening trend in interest rates, we have forecasted a nominal increase of 50 basis points for rupee term loan for a period of 2 years during FY 2013-14 and FY 2014-15. Additionally, GHIAL has taken ECB loan of USD 125 million during 2007 at an interest rate of L+1.75%. Due to continuously hardening in the interest rates, ECB lender has been insisting for minimum 1% increase in the interest rate. Therefore, an*

*increase of 1% interest has been considered in the ECB outstanding loan with effect from April 2012.*

| *Company* | *2011-12* | *2012-13* | *2013-14* | *2014-15* | *2015-16* |
|---|---|---|---|---|---|
| *GHIAL (Rupee loans)* | *12.58%* | *11.85%* | *12.35%* | *12.85%* | *12.85%* |
| *GHIAL ECB loan* | *7.68%* | *7.68%* | *9.43%* | *9.43%* | *9.43%* |
| *Hotel* | *13.00%* | *12.75%* | *13.25%* | *13.75%* | *13.75%* |
| *GHASL* | *13.00%* | *12.75%* | *13.25%* | *13.75%* | *13.75%* |
| *HDFRL* | *13.00%* | *12.75%* | *13.25%* | *13.75%* | *13.75%* |

*Cost of IFL: - Interest Free Loan of Rs. 315 Crs. has been assumed as part of total debt with 0% cost."*

**10.3.** Pursuant to the above, in its submission dated 06.02.2013, HIAL submitted the basis for increase in the interest rate for rupee term loan as under,

*"SBI PLR:*

*Similarly the SBI PLR also has increased 1.75% (from 12.75% to 14.50%) since June 2008. The details of increases are given hereunder. This is approximately on an average increase of 0.5% year on year over four years.*

*STATE BANK OF INDIA*

| *Date* | *Prime Lending Rate (SBAR - State Bank Advance Rate)* |
|---|---|
| *27-Sep-12* | *14.50* |
| *13-Aug-11* | *14.75* |
| *11-Jul-11* | *14.25* |
| *12-May-11* | *14.00* |
| *25-Apr-11* | *13.25* |
| *14-Feb-11* | *13.00* |
| *03-Jan-11* | *12.75* |
| *21-Oct-10* | *12.50* |
| *17-Aug-10* | *12.25* |
| *29-Jun-09* | *11.75* |
| *01-Jan-09* | *12.25* |

| *Date* | *Prime Lending Rate (SBAR - State Bank Advance Rate)* |
|---|---|
| *10-Nov-08* | *13.00* |
| *12-Aug-08* | *13.75* |
| *27-Jun-08* | *12.75* |

*ICICI Bank prime Lending rate (I-Bar):*

*Similarly the ICICI bank PLR ( I-BAR) also has increased 2.0% (from 16.50% to 18.50%) since July 2008. This is on an average increase of 0.5% year on year over four years.*

*The details of increases are given hereunder:*

| *Date* | *Prime Lending Rate (I-BAR - ICICI Bank Benchmark Advance Rate)* |
|---|---|
| *23-Apr-12* | *18.50* |
| *13-Aug-11* | *18.75* |
| *04-Jul-11* | *18.25* |
| *07-May-11* | *18.00* |
| *24-Feb-11* | *17.50* |
| *03-Jan-11* | *17.00* |
| *06-Dec-10* | *16.75* |
| *18-Aug-10* | *16.25* |
| *05-Jun-09* | *15.75* |
| *22-Apr-09* | *16.25* |
| *01-Jan-09* | *16.75* |
| *01-Aug-08* | *17.25* |
| *01-Jul-08* | *16.50* |

*Source:http://in.reuters.com/article/2013/01/28/india-plr-idINL4N0AX2JQ20130128?type=companyNews"*

**b Authority's Examination of HIAL Submissions on Cost of Debt**

**10.4.** The Authority has carefully examined the submissions from HIAL in respect of cost of debt considered for the purpose of determination of tariff.

**10.5.** The Authority has noted HIAL submission that it has considered actual cost of debt till FY 2013 and an increase of 50 basis points afterwards. The Authority sought from HIAL the Auditor's certificate(s) supporting their submissions on the rates of interests for the Rupee Term Loan as well as their ECB Facility.

**10.6.** HIAL, vide their submission dated 04.04.2013, submitted the auditor certificate certifying the rates of interest for rupee term loans and the external commercial borrowing from Abu Dhabi Commercial Bank.

**10.7.** The weighted average cost of debt as per model submitted by HIAL is presented below:

**Table 25: Impact of considering dual till on calculation of Cost of Debt in Control Period**

| | **Single Till** | **Dual Till** |
|---|---|---|
| Weighted Average Cost of Debt for the current control period | 9.78% | 9.54% |

**10.8.** The Authority, in its Airport Order and Airport Guidelines, has mentioned its approach for consideration of cost of debt in the determination of tariff as under,

*"For estimating the cost of debt, the Authority will consider the forecast cost of existing debt likely to be faced by the airport, subject to the Authority being assured of the reasonableness of such costs based on review including of the sources, procedure and method through which the debt was raised. For future debt likely to be raised over the control period or debt which is subject to a floating rate, the Authority may use forecast information on the future cost of debt, subject to the Authority being assured of the reasonableness of such costs, based on a review including of its sources, procedures and methods to be used for raising such debts."*

**10.9.** In view of the above approach and the actual cost of Rupee Term Loan till 2012-13 as certified by HIAL's Statutory Auditors, the Authority proposes to consider the same (i.e. the actual cost of Rupee Term Loan for 2012-13) - as the cost of debt till FY 2012-13 and also to consider it as base for forecast of future cost of debt.

**10.10.** As regards the interest free loan from the GoAP, the Authority has noted from HIAL submission as well as the State Support Agreement that this loan is to be repaid in 5 equal instalments from the 16th anniversary of the Commercial Operations Date. The Commercial Operations Date for RGI Airport, Hyderabad is 23.03.2008 and thus the 16th anniversary of the same will fall on 23.03.2024. Thus the repayment of the interest free loan will not commence in the current control period. Extract of the State Support Agreement in this respect is as under,

> *"(b) Interest Free Loan ("IFL")*
>
> *(i) GoAP shall make available to the HIAL, an IFL in the sum of Rs. 3,15,00,00,000 (Rupees three hundred and fifteen crores). IFL shall not in any circumstances attract interest repayments. GoAP agrees and accepts that the IFL may be adjusted pro-rata upwards or downwards on completion of the DPR, if the determination is made that such pro-rata adjustment is required as a result of change to the Project cost and so as to maintain equity internal rate of return at 18.33 %.*
>
> *(ii) IFL shall be drawn down in accordance with a Schedule at Annex 2. Each instalment shall be paid into a construction proceeds trust and retention account which shall be established and operated in accordance with the Financing Agreements.*
>
> *(iii) GoAP agrees that the IFL shall be repaid in five (5) equal annual instalments, the first instalment of which shall be on the 16th anniversary of the Commercial Operations Date."*

**10.11.** The Authority has observed from the tariff model, submitted by HIAL, that HIAL has considered reset dates for all the Rupee Term Loans and at such reset dates, HIAL has considered an upward revision of 0.5% p.a. in the interest rates for Rupee Term Loans for a period of 2 years during FY 2013-14 and FY 2014-15 and has kept it constant thereafter.

**10.12.** The Authority has noted HIAL's justification for the above assumption, which according to HIAL is the continued trend of hardening of the interest rates in the domestic market and quoting the increase in SBI PLR and ICICI Bank Prime Lending Rate by 0.5% p.a. since Mid-2008. The Authority has noted that the highest rate of interest applicable for HIAL currently stands at 12.10% for the Rupee Term Loan facility. The Authority has had reference to the latest Mid-Quarter Monetary Policy of Reserve Bank of India (RBI). In its —Mid Quarter Monetary Policy Review: March, 2013, RBI has reduced the repo rate by 25 basis points to 7.50%. As reported, this reduction in repo rate was passed on by most of the banks to its customers and experts from various banks expected further easing in this year. Further, RBI stated in its review that,

> *"……………….The foremost challenge for returning the economy to a high growth trajectory is to revive investment. A competitive interest rate is necessary for this, but not sufficient…………."*

**10.13.** In view of the above, the Authority felt that it is not possible to take a definitive view in this matter. However, considering the RBI review and the current rate of interest applicable for HIAL, the Authority felt that the debt contracted by HIAL appears to be at an interest level, above which presently there appears to be little possibility of the cost of debt moving further up. The Authority is cognizant of the fact that while the current highest rate of interest for HIAL is at 12.10%, the loans from other banks are at current rates of interest of 11.85% or less. Considering allowing for some head room, the Authority proposes to put a ceiling to the cost of debt for HIAL at 12.50%. In view of the above and for the purpose of determination of aeronautical tariffs, the Authority proposes not to accept an uniform increase of 0.5% each year in the rate of interest of rupee term loan as proposed by HIAL as its future cost of debt.

**10.14.** As regards the cost of debt for the External Commercial Borrowing from Abu Dhabi Commercial Bank, the Authority has noted from the auditor certificate that the rate of interest includes LIBOR plus 1.75% plus withholding tax as applicable, which, as on 31.08.2012, translates to 7.68%. The Authority has noted from the tariff model submitted by HIAL that this rate of interest is being increased by 100 basis points and accordingly HIAL has considered in its tariff model an increased rate of interest of 8.68% from FY 2013-14 onwards. Having reference to the news from Reuters dated 02.05.2013 (http://in.reuters.com/article/2013/05/02/ecb-ratesidINDEE94105U20130502), the Authority notes that European Central Bank has cut the interest rates. The news item from Reuters reports as under,

> *"Responding to a drop in euro zone inflation well below its target level and rising unemployment, the ECB lowered its main rate by a quarter percentage point to a record low 0.50 percent…*
>
> *… Acknowledging that, the ECB said it would prime banks with as much liquidity as they need until at least July 2014 and look at ways to boost lending to smaller companies"*

**10.15.** In line with the above referred news item, while the Authority feels that it would not be in a position to take a definitive view on this matter also. It also notes that the possibility of hardening of international commercial borrowing interest rates appears to be unlikely. Thus, while the Authority is not in a position to forecast the rate of interest for the ECB loan, allowing for some head room, it proposes to presently put a ceiling on the rate of interest for the ECB loan at 8.00%. Accordingly any upward adjustment of rate of interest for ECB loan, as proposed by HIAL, is not being considered by the Authority for the present.

**10.16.** The Authority further proposes to true-up the cost of debt for the current control period with actual values (determined as weighted average rate of interest for the individual tranches of loan) subject to the proposed ceiling of 12.50% for the Rupee term Loan of HIAL and 8.00% for the ECB loan of HIAL. The Authority may review this ceiling upon reasonable evidence that HIAL may present to the Authority in this behalf.

**10.17.** US Dollar Exchange Rate: The Authority observed that HIAL has considered an exchange rate of Rs.54.74 per USD in its tariff application. The Authority noted that this rate is being used in the tariff model submitted by HIAL for conversion of dollar denominated ECB Loan. The Authority referred to RBI published rates for exchange rate of USD to INR for latest 6 months, available till 15.05.2013, which worked out to Rs. 54.30. The Authority has considered this exchange rate to determine the tariff for the current control period.

**10.18.** In view of recent trend of sharp movements in the exchange rate, the Authority may review this aspect further and would use the latest rates (trends) as may be available to it at the stage of final determination.

**10.19.** The Authority has noted from the tariff model, submitted by HIAL, that the weighted average cost of debt considered in the tariff model is higher in case of single till than that in case of dual till. This is on account of inclusion of the three subsidiaries namely, GMR Hotels and Resorts Limited (GHRL), GMR Hyderabad Aviation SEZ Limited (GHASL), and Hyderabad Duty Free Retail Limited. The cost of debt contracted for these subsidiaries is higher than that of HIAL as a standalone entity (refer Para 3.4 above) as per the details given by HIAL reproduced below:

**Table 26: Cost of Debt for HIAL and its subsidiaries – As submitted by HIAL**

| Company | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| GHIAL (Rupee loans) | 12.58% | 11.85% | 12.35% | 12.85% | 12.85% |
| GHIAL ECB loan | 7.68% | 7.68% | 9.43% | 9.43% | 9.43% |
| Hotel | 13.00% | 12.75% | 13.25% | 13.75% | 13.75% |
| GHASL | 13.00% | 12.75% | 13.25% | 13.75% | 13.75% |
| HDFRL | 13.00% | 12.75% | 13.25% | 13.75% | 13.75% |

**10.20.** . The Authority has tentatively proposed to exclude the financials of the two subsidiaries (GHRL and GHASL) in the calculation of tariff determination of HIAL under single till. With this exclusion, the weighted average cost of debt under single till works out lower than that submitted by HIAL under single till.

**10.21.** The Authority has considered the following cost of debt in respect of HIAL (after considering no increase in interest rates for future periods, excluding Hotel, SEZ and Duty Free assets / loans, excluding forex adjustments due to exchange rate variations in ECB loan):

**Table 27: Weighted Average Cost of Debt as considered by Authority– Single Till**

| Particular | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 |
|---|---|---|---|---|
| Outstanding Debt (Rs. Cr.) | 1,652.29 | 1,551.76 | 1,410.87 | 1,266.91 |
| Cost of Debt - % | 11.52% | 11.57% | 11.65% | 11.75% |

**Table 28: Weighted Average Cost of Debt as considered by Authority– Dual Till**

| Particular | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 |
|---|---|---|---|---|
| Outstanding Debt (Rs. Cr.) | 1,372.88 | 1,289.35 | 1,172.29 | 1,052.67 |
| Cost of Debt - % | 11.52% | 11.57% | 11.65% | 11.75% |

**10.22.** The Weighted average cost of debt for HIAL as considered by Authority on account of considering all tentative proposals by the Authority under single till and dual till is presented below

**Table 29: Impact of considering no increase in interest rates for future periods and Average Exchange rate for latest 6 months on calculation of Cost of Debt**

| | Single Till | Dual Till |
|---|---|---|
| Weighted Average Cost of Debt | 9.44% | 9.44% |

**Proposal No. 6. Regarding Cost of Debt**

**6.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To consider the actual cost of Rupee Term Loan and ECB Loan, paid by HIAL, for FY 2011-12 and FY 2012-13 towards the cost of debt for FY 2011-12 and FY 2012-13**

**ii. To consider a ceiling in respect of the cost of debt for rupee term loan availed by HIAL at 12.50%.**

**iii. Not to accept the proposed increase of 0.5% in the rate of interest of rupee term loan for calculation of future cost of debt for the FY 2013-14, FY 2014-15 and FY 2015-16.**

**iv. To true-up the cost of debt for the current control period with actual values (determined as weighted average rate of interest for the individual tranches of loan drawn within the control period) subject to the ceiling of 12.50% for the Rupee Term Loan and 8.00% for the ECB Loan.**

**v. To review this ceiling upon reasonable evidence that HIAL may present to the Authority in this behalf.**

**vi. To use the RBI reference exchange rate for exchange of USD into INR for latest 6 month period till 15.05.2013, which worked out to Rs. 54.30 for conversion of ECB Loan amount.**

**10.23.** The impact of not considering the increase in interest rates for rupee term loan and ECB term loan on the YPP has been analysed as under:

**Table 30: Sensitivity – Impact on YPP after assuming no increase in interest rates for rupee term loan and ECB loan for future periods**

| | | | |
|---|---|---|---|
| Single Till | | | |
| YPP as per the Base Model* | 861.99 | YPP as per the Base Model after assuming no increase in interest rates for rupee term loan and ECB loan for future periods | 844.86 |
| Dual Till | | | |
| YPP as per the Base Model* | 1042.41 | YPP as per the Base Model after assuming no increase in interest rates for rupee term loan and ECB loan for future periods | 1028.35 |
| * - Base Model – Refer to Para 1.41 | | | |

**10.24.** The impact of assuming the average exchange rate of USD to INR for latest 6 months on the YPP has been analysed as under:

**Table 31: Sensitivity – Impact on YPP after assuming average exchange rate for latest 6 months**

| | | | |
|---|---|---|---|
| Single Till | | | |
| YPP as per the Base Model* | 861.99 | YPP as per the Base Model after assuming average Exchange rate for latest 6 months | 861.15 |
| Dual Till | | | |
| YPP as per the Base Model* | 1042.41 | YPP as per the Base Model after assuming average Exchange rate for latest 6 months | 1041.47 |
| * - Base Model – Refer to Para 1.41 | | | |

## 11. Cost of Equity

### a HIAL Submission on Cost of Equity

**11.1.** As per its initial submission dated 13.09.2011, HIAL submitted that it has considered Cost of Equity as 24% based on a study conducted by consultancy firm Jacobs. Further HIAL submitted as under,

> *"**Cost of Equity: -** Given the importance of an accurate estimate of the cost of equity, GHIAL had mandated an independent study by consultancy firm Jacobs for this purpose. The study of Jacobs based on CAPM Model considers in detail, the risk free rate in India, the risk premiums and airport betas. The report is attached as **Annexure "A1"** In line with this recommendation, we have taken cost of equity as 24%."*

**11.2.** Pursuant to this, HIAL, in its 14th submission dated 14.12.2012, re-iterated that Cost of Equity is considered as 24% based on the study conducted by consultancy firm Jacobs.

**11.3.** As per Jacob's report, submitted by HIAL, the Cost of Equity has been computed based on CAPM model. The relevant extracts from the Jacob's report on the methodology of computation of Cost of Equity are as under,

> *"Although there are, in principle, a number of methods for estimating the cost of capital including the dividend growth model, and Fama French and other capital arbitrage based methodologies, by far the dominant approach to setting the cost of capital is the Capital Asset pricing Model (or CAPM). This assesses the cost of systematic or non-diversifiable risk associated with equity by a simple formula:-*
>
> *re = rfr + (1+β) X Mrp*
>
> *where,*
>
> - *re is the cost of equity*
> - *rfr is a notional rate of interest for a 'risk free' asset - conventionally taken as the interest rate on Government debt*

- *β is a measure of systematic risk – the covariance between the movements of a quoted share equivalent to the company concerned and the stock market*
- *Mrp is the market risk premium – the average difference between returns on the (risky) market as a whole and the risk free rate."*

**11.4.** In respect of Risk Free Rate, Jacob's report submitted by HIAL, mentions that it has computed the risk free rate based on Fisher's formula which takes the effect of inflation on nominal risk free rate into consideration. Further, the report states that,

*"CAPM formula assumes that there is an underlying long term risk free rate of debt – normally regarded as that of Government gilt edged securities - which reflects the real long term preferences of savers. The nominal risk free debt rate incorporates the effects of inflation which will vary over time. The equivalent real rate can be calculated through the Fisher formula as:*

*rfr real = (1 + rfr nominal) / (1+ i) – 1"*

**11.5.** For computing the value of Risk Free Rate used to compute the Cost of Equity, Jacob's report submitted by HIAL has taken the research paper "A First Cut Estimate of the Equity Risk Premium in India" by Varma and Barua as their basis which estimates an underlying risk free rate for India over 25 years from 1980 to 2005. Further, Jacob's report submitted by HIAL states that the research paper states the following,

*"…………………….Varma and Barua in their paper 'A First Cut Estimate of the Equity Risk Premium in India' have, however estimated an underlying risk free rate for India over the 25 years from 1980 to 2005. They split this period into the period up to the onset of major economic reforms in 1991, and the period subsequent to those reforms from 1991 – 2005. Up to 1991 the estimate incorporates substantial adjustments to the one year bank deposit rate to allow for, what they describe as 'interest rate*

*repression': beyond 1991 the estimates is based primarily on direct evidence from 364 day treasury bills (allowance is made for a transition period leading up to 1995). Since Varma and Barua's prime intention to deal with the risk premium (see later) they are content to show the risk free rate figures in nominal terms.*

*Exhibit 1 below shows their results together with inflation over the same period, and the implications for the real risk free rate. All series are shown in arithmetic and geometric terms*

*EXHIBIT 1*

*RISK FREE RATE ACROSS INDIA SINCE 1981*

| | ***Arithmetic*** | | | ***Geometric*** | | |
|---|---|---|---|---|---|---|
| | ***Risk Free Rate*** | ***Inflation*** | ***Real Risk Free*** | ***Risk Free Rate*** | ***Inflation*** | ***Real Risk Free*** |
| *1981-1991* | *12.0%* | *9.0%* | *2.8%* | *12.0%* | *8.9%* | *2.8%* |
| *1991-2005* | *9.5%* | *6.9%* | *2.4%* | *9.5%* | *6.8%* | *2.5%* |
| *Whole Period* | *10.6%* | *7.8%* | *2.6%* | *10.5%* | *7.7%* | *2.6%* |

*The figure of 2.6% is numerically consistent with the 2.5% recommended for UK regulators in a major study by Smithers & Co and also used by the Irish regulator for the Dublin determination. We would have expected a higher rate to apply in the Indian context, and it is likely that the use of 1 year bills in India rather than 10 year bonds (which is standard in the UK) has depressed the risk free rate for this purpose (long bonds typically have a higher inflation and other risks leading to a premium which amounts to 0.5 to 1% for UK and US bonds). We have, however, left the real risk free rate unchanged so that it is consistent with the estimate used later for the equity risk premium, derived from the same source."*

**11.6.** In respect of Market Risk Premium, Jacob's report submitted by HIAL, mentions that Jacob's has computed the Market Risk Premium based on research paper "A First Cut Estimate of the Equity Risk Premium in India" by Varma and Barua, the same as that used for computation of Risk Free Rate. Based on their analysis Jacob's has assumed Market Risk Premium of 11% for the computation of Cost of Equity. Further, Jacob's report submitted by HIAL states that,

*"Consistent with our use of a relatively low risk free rate of 2.6% derived from Varma and Barua, we have adopted the equity risk premium figures from the same source shown in Exhibit 6. This gives an estimate of the risk premium of between 8.75 and 12.51%.*

*These estimates are high compared with typical risk premia from other sources covering developed countries. However the results are supported by, for example Mehra, who reports a risk premium between 1991 and 2004 of 9.7%. Mehra also gives figures for developed countries shown in Exhibit 7.*

**EXHIBIT 6**

MARKET RISK PREMIUMS FOR EQUITY

| | ***Arithmetic*** | | | ***Geometric*** | | |
|---|---|---|---|---|---|---|
| | ***Equity Returns*** | ***Risk Free Rate*** | ***Market Risk Premium*** | ***Equity Returns*** | ***Risk Free Rate*** | ***Market Risk Premium*** |
| *1981-1991* | *23.2%* | *12.0%* | *11.2%* | *21.00%* | *12.0%* | *9.0%* |
| *1991-2005* | *23.0%* | *9.5%* | *13.5%* | *18.10%* | *9.5%* | *8.6%* |
| *Whole Period* | *23.1%* | *10.6%* | *12.5%* | *19.30%* | *10.5%* | *8.8%* |

**EXHIBIT 7**

MARKET RISK PREMIUMS FOR EQUITY

| ***Country*** | ***Period*** | ***Risk Premium*** |
|---|---|---|
| *United Kingdom* | *1947-1999* | *4.60%* |
| *Japan* | *1970-1999* | *3.30%* |
| *Germany* | *1978-1997* | *6.60%* |
| *France* | *1973-1998* | *6.30%* |
| *Sweden* | *1919-2003* | *5.50%* |
| *US* | *1889-2004* | *6.50%* |
| *Australia* | *1900-2000* | *8.70%* |

*……………….Whilst the risk premiums estimates for India given are relatively high we have accepted them for current purposes as being consistent with the relatively low risk free rate applied.*

*As noted before academic research has generally supported the use of the arithmetic risk premium as the best unbiased estimate of the risk* *premium going forward, though there is also evidence suggesting that in certain circumstances this could be an overestimate. We have assumed an estimate of 11% which is significantly below the upper end of the scale."*

**11.7.** In respect of Beta, Jacob's report submitted by HIAL, mentions that it has assumed the comparable international airport Betas for the purpose of estimation of Beta for Hyderabad Airport. Also, for calculation purposes, Jacob's has assumed that the airport company betas are broadly representative of the airport's aeronautical activities. Further, they have used the Miller formula to estimate the Beta for Hyderabad Airport. Further, the report states that,

*"A standard approach is to use the Miller formula, which is applicable in conditions where the debt remains constant.*

$\beta e = \beta a \; X \; (1+D/E)$

*Where,*

*$\beta e$ is the equity beta; and*

*$\beta a$ is the asset beta*

*It should be noted that this formula follows the standard approach of assuming that the underlying beta of debt is insignificant. It is possible to extend the formula to include specific debt betas though these are very difficult (if not impossible) to measure under normal circumstances and have relatively little impact on the final result in most applications (though it will affect interim calculations of asset betas).*

*Where betas are estimated from comparable airport shares, the resulting beta will strictly speaking apply to the whole airport company - rather than to aeronautical activities in isolation. In some applications, attempts have been made to isolate the aeronautical components by treating the overall beta as a weighted average of activities comprising the aeronautical activities themselves together with a basket of companies* *which together represent non-aeronautical activities including retail companies (which typically have a high beta) and property investment companies (which have lower betas than airports). The results of these approaches have, in our experience, proved inconclusive and contentious, and for present purposes we have assumed that the airport company betas are broadly representative of the airport's aeronautical activities."*

**11.8.** Further, to calculate Beta, Jacob's report submitted by HIAL has taken the Debt/Equity ratio as 2.65 which is calculated based on financing structure assumed for Hyderabad airport. Further, with regards to Debt/Equity ratio, Jacob's report submitted by HIAL states that,

*"The airport financing structure for Hyderabad is made more complex by the presence of Government grants and an interest free loan from the state Government (which is to be paid off between 15 and 20 years after the opening of the airport). The grant is non-refundable and is in the nature of equity. The interest free loan is subordinated to term debt and is in the nature of quasi-equity.*

*The long term lenders of Hyderabad Airport have treated both of these as quasi-equity and this treatment has been followed here, resulting in a debt equity ratio of 2.65 as shown in Exhibit 2 below.*

**EXHIBIT 2**

HIAL DEBT / EQUITY RATIO

| *Country* | *INR Crs* |
|---|---|
| *Equity* | *378* |
| *Interest Free Loan from GoAP* | *315* |
| *Advanced Development Fund Grant* | *107* |
| *Total Equity* | *800* |
| | |
| *Term Loan 2005* | *960* |
| *Term Loan 2007* | *718* |
| *Additional Term Loan Required* | *442* |
| *Total Debt* | *2120* |
| | |
| *Debt/Equity* | *2.65* |

"

**11.9.** However, Jacob's report submitted by HIAL further states for the purpose of calculation of cost equity, it has assumed Debt/Equity ratio of 1:1 throughout the period. Further, the report states that,

*"In this case we have taken a financial structure of 50% debt 50% equity throughout the period, which we have assumed will be consistent with investment grade debt over the long term."*

**11.10.** Jacob's report submitted by HIAL computes the value of asset Beta as 0.75. As per the report, this figure is based on a comparison made between Beta values of Airports across the world. The analysis in the report gives a range for airport betas between 0.60 and 0.67. However, the report assumes that at this stage, the Hyderabad airport is in the development stage and is significantly more risky. Thus, a premium to the airport Beta range of 0.60 and 0.67 is added to arrive at an initial beta of 0.75. Further, Jacob's report submitted by HIAL states that,

*"Beta has been estimated for airports in a range in a range of regulatory and other applications. Beta evidence has been used in three major determinations at Dublin, Copenhagen, and Stansted. Evidence on quoted airport betas derived from submissions to the Dublin process is shown below in Exhibit 3.*

**EXHIBIT 3**

BETA VALUES AT AIRPORTS ACROSS THE WORLD

| | ***Daily*** | | | | ***Monthly*** | | |
|---|---|---|---|---|---|---|---|
| | ***Last 6 months*** | ***Last year*** | ***Last 2 Yeats*** | ***Last 5 Years*** | ***Last Year*** | ***Last 2 Years*** | ***Last 5 Years*** |
| *Vienna* | *0.52* | *0.57* | *0.58* | *0.64* | *0.58* | *0.6* | *0.69* |
| *Frankfurt* | *0.52* | *0.57* | *0.63* | *0.67* | *0.66* | *0.69* | *0.72* |
| *Copenhagen* | *0.35* | *0.38* | *0.41* | *0.4* | *0.49* | *0.46* | *0.43* |
| *Paris* | *0.75* | *0.76* | *0.76* | *0.72* | *0.74* | *0.76* | *0.73* |
| *Venice* | *0.41* | *0.45* | *0.35* | *0.48* | *0.54* | *0.53* | *0.56* |
| *Florence Airport* | *0.43* | *0.42* | *0.42* | *0.46* | *0.44* | *0.45* | *0.48* |
| *Auckland* | *0.76* | *0.77* | *0.87* | *0.86* | *0.83* | *0.86* | *0.85* |
| *Ljubljana* | *1.16* | *1.16* | *1.09* | *1.07* | *1.17* | *1.11* | *1.07* |
| *Zurich* | *0.36* | *0.38* | *0.4* | *0.32* | *0.44* | *0.44* | *0.36* |
| *Mexico (Aeroportuario del Pacifico)* | *0.67* | *0.7* | *0.73* | *0.72* | *0.75* | *0.79* | *0.81* |

| | *Daily* | | | | *Monthly* | | |
|---|---|---|---|---|---|---|---|
| | ***Last 6 months*** | ***Last year*** | ***Last 2 Yeats*** | ***Last 5 Years*** | ***Last Year*** | ***Last 2 Years*** | ***Last 5 Years*** |
| *Mexico (Aeroportuario del Sureste)* | *0.68* | *0.69* | *0.67* | *0.65* | *0.56* | *0.61* | *0.63* |
| *Average* | *0.60* | *0.62* | *0.63* | *0.64* | *0.65* | *0.66* | *0.67* |

*Taken together this gives a range for 'typical' airport betas of between 0.60 and 0.67. Even if Ljubljana is excluded (as an outlier) the range would be 0.55 to 0.63. These figures are consistent with the Copenhagen regulator's estimate of 0.63 as an average beta for airports aeronautical activities in isolation derived from a sample of 7 comparator airports (including Thailand and Malaysia) and the Dublin Airports decision to use 0.61.*

*……………………..*

*Exhibit 5 outlines the relative systematic risk (relevant to beta) of Hyderabad compared with major airports in general.*

**EXHIBIT 5**

HIAL DEBT / EQUITY RATIO

| ***Source of Risk*** | ***Relative Risk Faced by Hyderabad compared to Typical Airport*** | ***Comment*** |
|---|---|---|
| *Traffic Risk* | *High* | *Traffic growth crucially dependent on rapid recovery and subsequent growth of the Indian economy* |
| *Domestic Exposure* | *High* | *Hyderabad has a high proportion of domestic traffic which is fully exposed to the national economy* |
| *Low Cost Airlines* | *Medium* | *Hyderabad will have a limited proportion of low cost traffic.*<br>*Although leisure traffic is sensitive to the economy, low cost airlines have shown themselves better able to deal with cyclical risk than full fare operators* |
| *Non-aeronautical business* | *Low/Medium* | *Low level of aeronautical business means that growth risks are not diversified* |

| ***Source of Risk*** | ***Relative Risk Faced by Hyderabad compared to Typical Airport*** | ***Comment*** |
|---|---|---|
| *Capital Cycle Risk* | *High* | *Major capital expenditure in anticipation of traffic growth. No opportunities for lower risk incremental growth.* |
| *Proportion of Fixed Costs* | *High* | *Partly as a result of the capital cycle, and the limited activities undertaken, very large elements of Hyderabad's costs are fixed further leveraging exposure to economic growth.* |
| *Political Risk* | *High* | *The current issue of split of the state, if it materialises, may potentially impact traffic and the growth of revenues.* |

*……………………….*

*However for present purposes we have used a relatively modest premium to the airport range of 0.60-0.67 to arrive at an initial beta of 0.75."*

**11.11.** As Jacob's report submitted by HIAL, and after considering all the computed values as described above i.e. asset beta of 0.75, debt equity ratio of 1:1, nominal risk free rate of 7.7% and a market risk premium of 11%, the Cost of Equity as calculated in the report is 24%.

**11.12.** With regard to equity contribution by HIAL in the three subsidiaries namely, GMR Hotel and Resorts Limited (GHRL), GMR Aviation SEZ Limited, Hyderabad Duty Free Retails Limited, HIAL submitted an auditor certificate stating as under,

*"………we certify the investments in 100% subsidiaries i.e. GMR Hotel and Resorts Limited (GHRL), GMR Aviation SEZ Limited, Hyderabad Duty Free Retails Limited have been made either from the debt funds or from the internal accruals of GHIAL"*

**11.13.** With regard to equity contribution for GMR Aviation SEZ Limited and Hyderabad Duty Free Retails Limited, HIAL submitted an auditor certificate stating as under,

*"Equity investment in GMR Aviation SEZ Limited and Hyderabad Duty Free Retails Limited are funded through internal accruals of GHIAL"*

**11.14.** For equity investment in GMR Hotel and Resorts Limited, HIAL submitted an auditor certificate stating as under,

*"GMR Hotel and Resorts Limited was funded as part of GHIAL project through 100% debt. Subsequently upon demerger of hotel property, Rs. 130 Crores was transferred as debt and Rs. 110 Crores as Equity. The debt was subsequently raised by GHRL and was repaid to GHIAL and GHIAL in turn repaid to its lenders."*

**11.15.** Further HIAL, in its submission dated 04.04.2013, submitted an auditor certificate stating the debt and equity standing of the hotel business as on 31.03.2012. The auditor certificate stated as under,

*"Debt and Equity of Company as on March 31, 2012*

| ***Particulars*** | ***As on Mar 2012*** |
|---|---|
| *Debt (Secured term loan form Bank)* | *138.64* |
| *Equity (Issued and fully paid)* | *109.66* |
| *Total* | *248.30* |

*."*

**11.16.** Further, HIAL, in its submission dated 04.04.2013, submitted another auditor certificate which stated that the hotel assets acquired at time of demerger is Rs. 238.66 Cr. (FY 2009-10) and after relevant additions and deletions to assets in the subsequent years, the gross asset base of GMR Hotel and Resorts Limited stood at Rs. 246.13 Cr. as on FY 2011-12.

**11.17.** Further, HIAL, in its submission dated 04.04.2013, submitted loan documents for GMR Hotel and Resorts Limited where in the total equity in GMR Hotel and Resorts Limited was considered as Rs. 110 Cr. and the debt sanctioned for GMR Hotel and Resorts Limited was considered as Rs. 140 Cr. – with a total hotel cost of Rs. 250 Cr.

## b Authority's Examination of HIAL Submissions on Cost of Equity

**11.18.** The Authority has carefully examined HIAL submissions on the cost of equity. The Authority's examination of the issue is as follows:

***Quantum of Equity***

**11.19.** The Authority has noted from HIAL submissions that the equity invested by the promoters in HIAL is said to be Rs. 378 crores. The Authority further noted that HIAL has made investments into its 100% subsidiaries namely, GMR Hotel and Resorts Limited (GHRL), GMR Aviation SEZ Limited, Hyderabad Duty Free Retails Limited.

**11.20.** The Authority has noted from the tariff model submitted by HIAL that the equity investment in GHRL, in GMR Aviation SEZ Limited and in Hyderabad Duty Free Retails Limited is as follows:

**Table 32: Equity investment in 100% subsidiaries of HIAL as submitted by HIAL**

| **Rs. in crores** | **FY 2011-12** | **FY 2012-13** | **FY 2013-14** | **FY 2014-15** | **FY 2015-16** |
|---|---|---|---|---|---|
| GMR Hotel and Resorts Limited | 109.66 | 109.66 | 109.66 | 109.66 | 109.66 |
| GMR Aviation SEZ Limited | 25.00 | 30.00 | 36.89 | 36.89 | 36.89 |
| Hyderabad Duty Free Retails Limited | 4.95 | 4.95 | 4.95 | 4.95 | 4.95 |

**11.21.** The Authority sought clarifications / certifications from HIAL on the source of equity investment into these subsidiaries. With regard to the equity investment in these 100% subsidiaries, HIAL stated that equity investments in 100% subsidiaries have been funded either via debt or via internal accruals of HIAL. HIAL submitted auditor certificates to this effect, which are presented in Para 11.12 above to 11.17 above.

**11.22.** The Authority noted differences in numbers certified by HIAL w.r.t. GMR Hotel and Resorts Limited. The Authority observed that one of the auditor certificates submitted by HIAL stated that the equity in GHRL stands at Rs. 109.66 Cr. and another certificate stated that it stands at Rs. 110 Cr. The Authority felt that the figure of Rs. 110 Cr. has been provided after rounding off and has thus considered the equity investment into GHRL at Rs. 109.66 Cr. for further analysis.

**11.23.** The Authority also noted from the auditor certificate submitted by HIAL that at the time of demerger of the hotel business into GHRL, the assets being demerged were worth Rs. 238.66 crores. HIAL further stated vide the auditor certificate that this project was fully debt-funded, so at the time of demerger, Rs. 140 crores (a rounded-off figure) was considered as debt outstanding for GHRL and Rs. 110 crores (a rounded-off figure for Rs. 109.66 crores) was considered as equity investment into GHRL. The Authority thus noted from the auditor certificates that HIAL has used debt to fund the equity investment of Rs. 109.66 crores into GHRL.

**11.24.** As regards the equity investment into other two 100% subsidiaries namely, GMR Aviation SEZ Limited and Hyderabad Duty Free Retails Limited, the Authority noted from the auditor certificates from HIAL that the amount of Rs. 41.74 crores has been invested into these two subsidiaries from the internal accruals of HIAL. As noted by the Authority in its Consultation Paper No 22/2012-13 dated 11.10.2012, the *"internal accruals"* is not a defined term and it may be used loosely to mean to include the net profits (profit after tax), depreciation and cash & bank balance. Accordingly the Authority sought clarification from HIAL on what HIAL meant when it mentioned internal accruals in this respect. The response from HIAL is awaited.

**11.25.** The Authority notes that there is a difference in the treatment accorded to net profits (profit after tax) and depreciation in the financial statements. In a normal course the profit after tax, available after distribution of dividends, would have been reflected in retained earnings (or Reserves and Surplus head of the Balance Sheet). Once reflected in the retained earnings, this value would have been available for the equity investors and would have been considered as equity investment by the investors in the airport / HIAL. On the other hand, depreciation would not form part of the retained earnings and thus would not be part of the equity investment by the investors in the airport / HIAL. Hence it is important for the Authority to know whether the equity investment into GMR Aviation SEZ Limited and Hyderabad Duty Free Retails Limited came from profit after tax or from depreciation and such a clarification / certification was sought from HIAL. HIAL clarified that such investments have come from depreciation and not from profit after tax. Accordingly, the Authority has assumed that equity investment into GMR Aviation SEZ Limited and Hyderabad Duty Free Retails Limited can be considered not to have come from the equity base of HIAL.

**11.26.** Further the Authority also sought the clarification / certification from HIAL on whether the amount of Rs. 378 crores brought-in as equity into HIAL has solely been used for payments in respect of the airport project at Hyderabad. In response to the same, HIAL produced an auditor certificate stating that the amount of Rs. 378 crores has been solely used for payments in respect of airport project at RGI Airport, Hyderabad.

**11.27.** Based on the above auditor certificates submitted by HIAL, the Authority has come to the view that the equity of Rs. 378 crores, invested in HIAL, has been solely utilized for the payments in respect of airport project at RGI Airport, Hyderabad. The equity invested in the 100% subsidiaries of HIAL namely, GMR Hotel and Resorts Limited (GHRL), GMR Aviation SEZ Limited, Hyderabad Duty Free Retails Limited has not come from the equity investment of Rs. 378 crores, is rather sourced from other sources including debt and internal accruals (depreciation as is considered by the Authority for the time being). While the equity of Rs. 109.66 crores, invested in GMR Hotel and Resorts Limited has come from debt raised by HIAL, equity of Rs. 41.74 crores, invested in GMR Aviation SEZ Limited and Hyderabad Duty Free Retails Limited has come from the internal accruals of HIAL.

**11.28.** As mentioned in Para 5.a above, the Authority proposes not to include the asset of the hotel business (GMR Hotel and Resorts Limited) and the SEZ business (GMR Aviation SEZ Limited) into the determination of aeronautical tariff. Accordingly, the Authority proposes not to consider the equity corresponding to these businesses in the calculation for cost of equity.

**11.29.** Considering the above, the Authority has tentatively proposed to consider the total equity investment in HIAL at Rs. 378 crores

***Cost of Equity***

**11.30.** The Authority had, in its Consultation Paper No. 03/2009-10 dated 26.02.2010 (on the Regulatory Philosophy and Approach in Economic Regulation of Airports and Air Navigation Services), stated that it recognizes that the assessment of the cost of equity will be highly material to the Authority’s reviews of airport charges. The Authority considers that the CAPM is the most appropriate approach for determining the cost of equity. However, the CAPM approach will potentially result in a wide range of results, depending on assumptions made around different components of CAPM and where the range of results derived from CAPM is considerable, the Authority will consider the application, where appropriate, of benchmarks for the cost of equity, most notably from other regulatory estimates, but recognising the differences in risk profiles between sectors.

**11.31.** In addition, as stated in the Order No. 06/2010-11 as on 26.10.2010, the Authority has in the past noted that none of the private airports are listed companies and therefore the equity betas for these companies are not available and would have to be assessed through comparison with a comparator set that is listed. The Authority observed that the estimation of cost of equity (RoE) is a technical matter and requires expert assessment and computation. In this background, the Authority had requested the National Institute of Public Finance and Policy (NIPFP), New Delhi to estimate the expected cost of equity for the private airports, including RGI Airport, Hyderabad. NIPFP is a centre for advanced applied research in public finance and public policy. It is an autonomous society which is used as a think tank by the Ministry of Finance and other Government departments/ agencies.

**11.32.** Director, NIPFP has, vide DO letter dated 13.12.2011, forwarded the Report to the Authority for its review. The salient features of the Report submitted by NIPFP in respect of cost of equity are as under

11.32.1. Keeping in view the Authority's decision, the CAPM has been used for estimating the cost of equity.

11.32.2. The Risk free rate (Rf) has been assessed as percentage (%) on the basis of arithmetic average of daily yields on 10-year Government of India bonds over the period from January 01, 2001 to December 31, 2010. The average yield of 10 year Government of India bonds during this time period was 7.35% and NIPFP has recommended considering this as the risk free rate. NIPFP stated that it has considered 10-years Government of India bonds as they are the appropriate benchmarks for longer term horizon of investments as expected for airports.

11.32.3. The Equity risk premium (Rm – Rf) has been assessed as percentage (%) taking into account the historical risk premium of 4.31% for the US markets (geometric average of premium for stocks over treasury bonds over the period of 1928-2010) and a default risk spread of 2.4% for India (given the local currency sovereign rating of Ba1). Thus the equity risk premium estimated by NIPFP is 6.71%.

11.32.4. NIPFP considered a comparator set consisting of 27 listed airports, both from developed and developing regions. It then proceeded to calculate the equity beta for each of the airports. It also estimated the market capitalization as well as the book values of debt and equity. Its table indicates the results of these calculations. Finally it suggested as asset beta of 0.51 as the median value for the airports contained in the comparator set. Thereafter it considered the various risk mitigating measures especial to HIAL and suggested an asset beta of 0.4 as appropriate having regard to the totality of the circumstances and the risk profile of HIAL, considering that the risk factors effecting beta are been taken care of by truing up the traffic and using the user development fee as a revenue enhancing measure to give to the airport operator the required return on his equity.

11.32.5. NIPFP took reference to a report published by Bank of America – Merrill Lynch, which valued the market value of equity for the Hyderabad Airport at Rs. 2,022 Cr and the current debt levels as per the report are 2,376 Cr. Thus the leverage comes out to be 0.54 (2,376/(2,376+2022)=0.54)

11.32.6. Considering the above stated asset beta of 0.4 and re-levering it, the equity beta comes out to be 0.87 (=0.4/(1-0.54)=0.87)

11.32.7. Considering all the above factors, the cost of equity for HIAL comes out to be 13.2% (7.35 (rf) + 6.71 (rm - rf) * 0.87 (equity beta) = 13.2%)

**11.33.** In view of its significance, the Authority has given a detailed consideration to the issue of cost of equity at hand. It has also noted the range of estimates of RoE as calculated by NIPFP in accordance with the CAPM framework adopted by the Authority.

**11.34.** Accordingly as discussed in detail in the tariff determination orders in respect of Delhi and Mumbai airports (Chapter 26 of Order No. 03/2012-13 dated 20.04.2012 and Chapter 13 of Order No. 32/2012-13 dated 15.01.2013), the Authority proposes to consider the following to estimate the cost of equity in respect of HIAL.

11.34.1. Determination of Asset beta of the airport based on the appropriately chosen comparator set.

11.34.2. The asset beta of the airport to be re-levered using the notional Debt – Equity ratio of 1.5 (equivalent to gearing of 60%).

11.34.3. To calculate equity beta according to CAPM framework.

11.34.4. WACC calculation to be made based on the book values of Debt and Equity.

**11.35.** The Authority notes that the cost of equity as calculated by the NIPFP report is 13.2% (considering an asset beta of 0.4) after considering the market value of HIAL equity. The Authority also noted that even if the Authority considers an asset beta of 0.51, i.e. the Authority does not consider the reduction of asset beta to 0.4 on account of mitigation of risk factors by the Authority, and follows the calculation of NIPFP, the cost of equity comes out to be 14.79%. Further, if the Authority assumes a normative debt equity ratio of 1.5:1 and not the NIPFP assumption of 1.17:1 (i.e. debt of Rs. 2,376 Cr and equity at market value of Rs. 2,022 Cr), then the cost of equity comes out to be 15.91%. The Authority therefore observes that its methodology and estimation of cost of equity appear to be sufficiently robust. Rounding it to 16% thus appears to the Authority an appropriate fair estimate of the cost of equity for HIAL.

**11.36.** The Authority has also noted the cost of equity calculations made by M/s Jacobs and presented to the Authority by Rajiv Gandhi International Airport, Shamshabad, Hyderabad in its tariff proposal. The comparator set chosen by M/s Jacobs had 11 airports of which 9 were from developed economies (Vienna, Frankfurt, Copenhagen, Paris, Venice, Florence, Auckland, Ljubljana and Zurich) and 2 from the developing economies (Mexico). The 5 year beta of Mexican airports is lower than that of some of the developed country airports. It is thus clear to the Authority that Hyderabad Airport was thought to be comparable to other airports from developed economies.

**11.37.** With regards to the selection of comparator set, it is clear to the Authority that different stakeholders have quite different estimates on the asset betas. The Authority has relied upon the report of NIPFP to arrive at a fair rate of return on equity at 16%.

**11.38.** Risk Mitigating Measures: Return on equity is based on the risk profile of a particular project or airport. The Authority has carefully considered the factors impacting the riskiness of HIAL as also the de-risking measures proposed to be adopted in respect of HIAL. The Authority notes that in addition to the many de-risking measures contained in this Consultation Paper and presented below (that are not available for airports in the comparator set), land for monetization (made available by the State

Government), as discussed above, can also be considered as an important specific measure aimed at reducing the risk associated with raising capital for the project: The various risk mitigating measures that the Authority has proposed in the consultation paper for stakeholders' consultation include:

11.38.1. Truing-up of traffic: (This transfers the risk of economic downturn from airport to the passengers)

11.38.2. Truing-up of non-aeronautical revenue,

11.38.3. Review of cost of debt on reasonable evidence, if provided by HIAL,

11.38.4. Review of capital expenditure,

11.38.5. Truing-up of certain operating costs namely, utilities expense and property tax

**11.39.** Determination of UDF at a level that assures the airport operator a fair rate of return (which includes return on equity consistent with the risk profile)In addition to the above the Government of India and GoAP have also granted certain fiscal as well as infrastructure assistance to HIAL as under:

11.39.1. Closure of commercial and civil operations at the existing airport at Begumpet guaranteeing traffic at the airport

11.39.2. Support from the State Government in fiscal terms with Interest Free Loan of Rs. 315 crores and Advance Development Fund Grant of Rs. 107 crores

11.39.3. Support from the State Government in infrastructure in terms of road access, power supply and water supply

11.39.4. Airport land made available at concessional rental

11.39.5. Concession fee (to be paid by HIAL to the Government of India) being a nominal value of 4% and that too payable from $10^{th}$ year onwards and treated as a cost pass through

**11.40.** The Authority has considered the report of M/s Jacob Consultancy. The Authority had also requested NIPFP to go into the question of appropriate cost of equity of HIAL. NIPFP calculations are discussed in Paras 11.32.1 to 11.32.7. NIPFP is considered as an expert financial body under the Ministry of Finance. The basis of its estimation of these parameters is given in its report. As regards the calculation of the measure of risk viz. β (beta), Jacob report has taken a comparative set of 11 countries consisting of both developed and developing regions. NIPFP has taken into account a wider set consisting of 27 countries also from both developed and developing regions. NIPFP's calculation show the asset beta of 0.4, which the Authority considers as a more robust estimation.

**11.41.** The Authority notes that M/s Jacob has based their calculations of equity beta on gearing of 72% (taking both the ADFG and IFL as components of equity) and asset beta of 0.75. M/s Jacob have stated that the asset beta range for 'typical' airport betas is between 0.60 and 0.67 and that even if Ljubljana is excluded (as an outlier) the range would be 0.55 to 0.63. It has further added a premium of 0.17 and estimated the asset beta for HIAL at 0.75. The Authority does not believe that the airports in the comparator set chosen by M/s Jacob would have comparable risk mitigating measures and support that Government of India, GoAP and the Authority have put in place in case of HIAL. Hence, the Authority does not believe that any premium is warranted and in fact there is a strong case for discount. The Authority therefore believes that the estimate of asset beta made by NIPFP of 0.40 can be taken as the lower bound and that the median value of 0.51 gives an adequate allowance for some of the uncertainties in estimation of the different parameters going into the CAPM model.

**11.42.** The Authority notes that an equity beta of 1.275 (considering gearing at 60:40 and asset beta of 0.51) indicates that the risk measure of HIAL airport is higher than the market as a whole (by definition equity beta of the market is 1). The Authority notes that this can be taken as a somewhat generous allowance because the Authority has also introduced substantial risk mitigating measures for HIAL airport. These have been listed in Para 11.38 above and are explained below:

11.42.1. From the date of opening of RGI Airport, Hyderabad, the functioning at AAI's Begumpet Airport was closed down to ensure passenger traffic and cargo volumes at the new airport.

11.42.2. The GoAP gave substantial financial aid of Rs. 315 crores as interest free loan and Rs.107 as advance development fund grant (grant-in-aid). This needs to be viewed against the amount of equity of Rs. 378 crores wherein AAI and Govt. of Andhra Pradesh put together have a share of Rs. 98.28 crores. Hence, the private equity at HIAL airport is of the order of Rs. 279.72 cr. The Govt. of Andhra Pradesh gave financial assistance in terms of subsidy and interest free loan to give amount of Rs. 422 crores which is higher than the total equity in HIAL. The basic purpose of GoAP infusing of financial assistance into the project was to mitigate the financing risk during the construction of the project. At the same time, the debt burden has also been brought down by the interest free loan.

11.42.3. The GoAP has leased land of around 5450 acres after acquiring the same from private cultivators. In the lease deed between the GoAP and HIAL it has been mentioned that the land is leased to make the airport feasible. Hence this is another factor which mitigates the risk in terms of revenue accruing to the airport as well as any future capital needs for expansion, as and when they arise. In fact the Authority's aeronautical tariff determination makes the airport feasible even without taking the revenues from the commercial exploitation of the excess land.

11.42.4. The Govt. of India has expressly provided that User Development Fee can be charged both for revenue as well as capital requirements. This, in fact, substantially mitigates the risk to which the airport is exposed. The Govt. as well as the Authority have actually used this measure and granted appropriate UDF for domestic and international passengers.

11.42.5. The Govt. of India has stipulated that no new or existing airport shall be permitted by GoI to be developed as, improved or upgraded into an international airport within an aerial distance of 150 kms of the airport before the 25th anniversary of the Airport Opening Date. Similar stipulation has also been made for domestic airport. These stipulations have mitigated the threat of competition for HIAL. It has also, therefore, given it a kind of monopoly within an aerial distance of 150 kms. This measure has been taken by the Govt. of India to assure HIAL of traffic both in terms of passengers and cargo. On the part of the Authority, it has also been tentatively proposed to true up passenger traffic so that the risk to the airport on this account would get completely mitigated.

11.42.6. The Authority has also tentatively proposed to true up the non-aeronautical revenues under single till so that its fluctuations will not affect the returns that HIAL will get.

11.42.7. Operation of UDF ensures that HIAL would be able to get fair rate of return since UDF is a revenue enhancing measure and can be considered a kind of "top up" of the revenue which enables the airport operator to get a fair rate of return.

11.42.8. The Authority has also proposed to take into account the interest cost which may be incurred by HIAL (subject albeit to reasonable evidence thereof).

**11.43.** The Authority notes that the report of Varma and Barua as well as Jacob taking into account the asset betas of the comparative set consisting of 11 airports may not have correspondingly equivalent risk mitigating measures. The Authority, while considering Jacob's report, has noted that according to Jacob, the Govt. grants and interest free loan "may make the airport financing structure more complex". The reason given by Jacob is that the interest free loan needs to be returned between 15th to 20th years after opening of the airport. First, the Authority has admitted depreciation on all the airport assets, excluding the ADFG i.e. the grant as it is subtracted from RAB, but including those that can notionally/proportionately represent the interest free loan of the GoAP. The average annual depreciation rate of HIAL is of the order of 4.5% and hence yearly depreciation should take care of the repayments of the interest free loan. Loans and grant-in aid are, in the opinion of the Authority fairly standard means of financing. In DIAL for example, there were similar means of financing in terms of Development Fee, interest free refundable (after 57 years) security deposits etc. but this has not made the financing structure any more complex. Secondly, even assuming for sake of argument that Govt. grants and interest free loan may have made the financing structure more complex, this is a business and financial decision of HIAL and passengers should not be made to pay for the same. The Authority has therefore taken a normative debt to equity ratio of 1.5:1 for the purposes of re-levering of asset beta of HIAL into equity beta.

**11.44.** Jacob has also indicated that the "grant is not refundable and is in the nature of equity". The Authority notes that equity, as is commonly understood, are shareholders' funds and contributed by them. GoAP has already given funds to the extent of Rs. 49 crores representing 13% of the equity and these have been reckoned as equity in the statement of accounts of HIAL. Under the regulatory determinations, grant or subsidy by the Govt. is treated in accordance with Accounting Standard No. 12 and, therefore, needs to be subtracted from RAB. HIAL in its submissions has treated it accordingly and reduced the grant amount from RAB. The Authority proposes to accept reduction of amount of grant or subsidy by GoAP from RAB. Interest free loan advanced by GoAP is not proposed for reduction from RAB. However, the Authority notes that M/s Jacob in its report has stated that *"The grant is non-refundable and is in the nature of equity. The interest free loan is subordinated to term debt and is in the nature of quasi-equity. The long term lenders of Hyderabad Airport have treated both of these as quasi-equity and this treatment has been followed here, resulting in a debt equity ratio of 2.65"*. It appears to the Authority that M/s Jacob has juxtaposed three separate concepts: (i) the total equity, (b) the treatment of grants in regulatory accounts and (iii) the calculation of debt equity ratio by the banks and lenders. The Authority is aware that the banks or the lenders may have a certain approach consistent with their lending policies as well as incidence of burden of the payment on HIAL. The Authority also does not believe that presence of interest free loan and grant has in any manner made the airport financing structure more complex. In airports of Delhi (DIAL) and Mumbai (MIAL), for example, the determination of development fee has not increased the complexities in the financial structure of these two companies. In the tariff / UDF determinations, the Authority can and has determined the average cost of debt based on the different elements thereof and arrived at Weighted Average Cost of Debt and therefrom also calculated Weighted Average Cost of Capital (WACC) (which includes the cost of equity or the return on equity).

**11.45.** The Authority also notes that M/s Jacob has added a premium to the asset beta considering the relative riskiness of Hyderabad airport. As indicate above, numerous risks mitigating measures, in Authority's assessment, should in fact result in risk discount and not any risk premium.

***Risk Elements***

**11.46.** M/s Jacob's study has identified certain sources of risks in respect of RGI Airport, Hyderabad. M/s Jacob may have identified these sources of risk as the study is prior to the tentative proposals of the Authority regarding risk mitigating factors. For example, the traffic risk as well as domestic exposure would get practically eliminated on account of truing up of passenger volumes. Similar argument is with respect to non-aeronautical business, which is also tentatively proposed to be trued up. As far as the capital cycle risk is concerned, as of now Hyderabad airport is designed to handle traffic of around 12 million passengers. Its current traffic is around 7.5 million passengers. Hence major capital expenditure in anticipation of traffic growth is not a source of risk during the current control period. If and when the airport needs expansion, the covenants of Concession Agreement regards UDF being levied for capital expansion as one of the purposes is adequate to meet such a requirement. Hence passengers and not the airport operator would be bearing this risk if any. Commercial exploitation of land in excess of the airport requirements can also be expected to contribute to the capital as and when needed for expansion. Since the traffic is proposed to be trued-up, the downside risk would get mitigated.

**11.47.** Jacob has referred to Capital Cycle risk and has stated that *"Major capital expenditure in anticipation of traffic growth. No opportunities for lower risk incremental growth".* The Authority understands that what Jacob means is that if there is incremental growth then the risk is lower. Hence the argument that HIAL does not have "opportunities for lower risk incremental growth" is also not applicable.

**11.48.** Jacob has indicated a *"likely split of the state"* as a source of political risk. The Authority is unable to agree with Jacob that reorganization of state, if and when done, constitutes a political risk. Furthermore, the Authority is also unable to appreciate that mere reorganizing the state would have any adverse impact on the catchment area of RGI Airport, Hyderabad. In the AERA Act also, there is a specific provision of revisiting tariff determination "in public interest". The Authority has also noted that the impact of traffic is tentatively proposed to be trued up as would be the consequent growth of revenues. At any rate, Govt. of India has stated that it will not allow any new airport within the radius of aerial distance of 150 kms. Hence in the analysis of the Authority, Jacob does not appear to have factored the risk mitigating measures put in place by the Govt. of India, the GoAP and the Authority and, therefore, Jacob's estimates of asset beta appear to have an upward bias. Furthermore Para 13.7.1 of the Concession Agreement also speaks specifically about political risk insurance, if any, raised by HIAL in the context of transfer of the Airport upon expiry of the term.

**11.49.** As regards the item of high proportion of fixed costs leading to increased risks, M/s Jacob has felt that this increases the risk on account of lower economic growth. The Authority has tentatively proposed to true up both traffic as well as non-aeronautical revenue that can be said to be dependent on economic growth. Hence, the Authority does not feel that high proportion of fixed costs would lead to increased risk on HIAL since this would get completely eliminated on account of proposed truing up. The same reasoning applies to alleged high risk on account of *"domestic exposure"*.

**11.50.** M/s Jacob has reasoned under the item "Low Cost Airlines" that "*Hyderabad will have a limited proportion of low cost traffic. Although leisure traffic is sensitive to the economy, low cost airlines have shown themselves better able to deal with cyclical risk than full fare operators*". Jacobs therefore appears to argue that if an airport has lesser low cost airlines, its riskiness is higher. Conversely, if an airport has greater proportion of Low cost airlines, its riskiness is lower. However M/s Jacob has not given relative percentages of low cost airlines in other airports in the comparator set. At any rate the Authority has tentatively proposed to true up the traffic and hence this item cannot add any premium to riskiness of HIAL. Furthermore, Low Cost Airlines are more sensitive to passenger charges like UDF since the proportion of airport charges to their operating costs is higher than that in full fare airlines. Hence if a regulatory till (single or dual till) enhances UDF, it will have an adverse impact on the Low Cost Airlines operating at that airport. Hence to increase the proportion of Low Cost Airlines, choice of regulatory till (single or dual) should be such as would result in lower UDF.

**11.51.** Considering all the alleged risk elements that, according to M/s Jacob, should add a premium to the riskiness of HIAL, it would appear that, subject to stakeholder's consultation if the Authority's tentative proposals of truing up various parameters are accepted, then the risks would get effectively almost mitigated / eliminated. Hence none of these risks, in that case, would be relevant for HIAL. In the light of the above and considering that in the current control period, the Authority has proposed to give some allowance for the uncertainties in estimation of different parameters, the Authority proposes to consider the Cost of Equity at 16%. The Authority feels that the rate proposed is reasonable for the current control period and provides for sufficiently generous allowance for any uncertainty in estimation of various parameters.

**11.52.** The Authority also notes that there will be no impact of considering a dual till regime on the cost of equity calculations.

**Proposal No. 7. Regarding Cost of Equity**

**7.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To calculate asset beta for RGI Airport, Hyderabad based on the comparable airports as per the report by NIPFP and thus proposes to consider asset beta for RGI Airport, Hyderabad at 0.51 as an upper bound since this does not discount for the various risk mitigating measures.**

**ii. To re-lever the asset beta of HIAL at the notional Debt-Equity Ratio of 1.5:1.**

**iii. To calculate equity beta according to CAPM framework**

**iv. To consider Return on Equity (post tax Cost of Equity) as 16% for the WACC calculation – both under single till and dual till.**

**11.53.** The impact of considering the revised cost of equity (at 16%) as per the Authority's proposal as against 24% considered by HIAL in the Base Model, on the YPP has been analysed as under:

**Table 33: Sensitivity – Impact of considering revised cost of equity as per the Authority's proposal on cost of equity at 16%**

| | | | |
|---|---|---|---|
| Single Till | | | |
| YPP as per the Base Model* | 861.99 | YPP as per the Base Model after considering cost of equity at 16% | 683.51 |
| Dual Till | | | |
| YPP as per the Base Model* | 1042.41 | YPP as per the Base Model after considering cost of equity at 16% | 891.36 |
| *- Base Model – Refer to Para 1.41 | | | |

## 12. Weighted Average Cost of Capital (WACC)

### a HIAL Submission on Weighted Average Cost of Capital (WACC)

**12.1.** As per its initial submission dated 31.07.2011, HIAL submitted that the Weighted Average Cost of Capital / Fair Rate of Return for the control period has been determined based on Cost of Equity of 24% which is as per the independent study conducted by consultancy firm Jacobs. The Cost of debt has been calculated considering actual Cost of Debt for previous years and increasing it by 50 basis points every year for each of the FY 2012-13 up to 2015-16 and 1.75% for ECB from 01.10.2011. Further, HIAL has assumed Interest Free Loan (IFL) of Rs. 315 Crores to be part of total debt with 0% cost and have not considered ADFG for the purpose of Weighted Average Cost of Capital (WACC) calculations. Further HIAL submitted as under,

*"We have determined a Fair Rate of Return (FRoR) for the control period as under:*

***Cost of Equity****: - Given the importance of an accurate estimate of the cost of equity, GHIAL had mandated an independent study by consultancy firm Jacobs for this purpose. A copy of the report of Jacobs is enclosed as Annexure E. The study of Jacobs is based on CAPM Model and considers in detail, the risk free rate in India, the risk premiums and airport betas. The study is specific to GHIAL and the recommended cost of equity is 24%. In line with this recommendation, we have taken cost of equity as 24%.*

***Cost of Debt*** *is considered at actual for previous years and seeing the hardening trend of interest rates, we have forecasted a nominal increase of 50 basis points every year for each of the FY 2012-13 upto 2015-16 and an increase of 1.75% basis points for ECB from FY 2012-13*

***Cost of IFL:*** *- Interest Free Loan of Rs. 315 Crs. has been assumed as part of total debt with 0% cost.*

***ADFG: -*** *Advance Development Fund Grant has not been considered for the purpose of WACC calculation. Similarly, RAB has been reduced by the amount of ADFG of Rs. 107 Crores.*

*FRoR= (g x Rd) + ((1-g) x Re)*

## Fair Rate of Return (WACC)

| *Particulars* | *2009* | *2010* | *2011* | *2012* | *2013* | *2014* | *2015* | *2016* |
|---|---|---|---|---|---|---|---|---|
| *Debt* | *1803* | *2167* | *2061* | *1915* | *1832* | *1730* | *1604* | *1455* |
| *IFL* | *315* | *315* | *315* | *315* | *315* | *315* | *315* | *315* |
| *Equity* | *378* | *378* | *378* | *378* | *378* | *378* | *378* | *378* |
| *Debt + Equity (C)* | *2496* | *2860* | *2754* | *2608* | *2525* | *2423* | *2297* | *2148* |
| *Cost of Debt (Kd)* | *9.9%* | *9.9%* | *9.6%* | *11.3%* | *12.3%* | *12.6%* | *13.0%* | *13.4%* |
| *Cost of IFL* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| *Cost of Equity (Ke)* | *24.0%* | *24.0%* | *24.0%* | *24.0%* | *24.0%* | *24.0%* | *24.0%* | *24.0%* |
| *Individual year Gearing (G)* | *84.9%* | *86.8%* | *86.3%* | *85.5%* | *85.0%* | *84.4%* | *83.5%* | *82.4%* |
| | ***2008-09o 2010-11*** | | | | ***2011-12 to 2015-16*** | | | |
| *Weighted Average Gearing (WG)* | *86.0%* | | | | *84.3%* | | | |
| *Weighted Average Cost of Debt (Rd)* | *8.4%* | | | | *10.5%* | | | |
| *Cost of Equity (Re)* | *24%* | | | | *24%* | | | |
| *Fair Rate of Return* | ***10.6%*** | | | | ***12.6%*** | | | |

"

**12.2.** In its subsequent submission on 13.09.2011, HIAL reiterated that the Weighted Average Cost of Capital (WACC) for the control period has been determined based on Cost of Equity of 24%, Interest Free Loan (IFL) of Rs. 315 Crores and Cost of debt which has been calculated considering actual Cost of Debt for pervious years and increasing it by 50 basis points every year for each of the FY 2012-13 up to 2015-16 and further stated that interest rate for ECB loan is increased by 1.75% from *01st October 2011*.

**12.3.** Further to this, vide its submission dated 04.04.2013, HIAL stated the future projects will be funded via internal accruals in place of 100% debt assumption made earlier in the tariff model. This change was reflected in the tariff model and the revised weighted average cost of capital came out to be 12.01% for the current control period.

**12.4.** The WACC calculations as per the revised tariff model after incorporating changes as per auditor certificates and meetings with HIAL is as under,

**Table 34: WACC as per Base Model (refer Para 1.41) submitted by HIAL – Single Till**

| Particulars | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Debt** | 1,918 | 2,082 | 2,183 | 2,112 | 2,097 | 2,010 | 1,861 | 1,676 |
| **IFL** | 315 | 315 | 315 | 315 | 315 | 315 | 315 | 315 |
| **Equity** | 378 | 378 | 378 | 378 | 407 | 508 | 587 | 659 |
| **Debt + Equity (C)** | 2,611 | 2,775 | 2,876 | 2,805 | 2,819 | 2,833 | 2,763 | 2,650 |
| **Cost of Debt (Kd)** | 9.3% | 10.3% | 9.7% | 11.1% | 10.7% | 11.5% | 11.9% | 11.9% |
| **Cost of IFL** | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Cost of Equity (Ke)** | 24.0% | 24.0% | 24.0% | 24.0% | 24.0% | 24.0% | 24.0% | 24.0% |

| Particulars | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Individual year Gearing (G)** | 85.5% | 86.4% | 86.9% | 86.5% | 85.6% | 82.1% | 78.8% | 75.1% |
| | **2008-09 to 2010-11** | | | | **2011-12 to 2015-16** | | | |
| **Weighted Average Gearing (WG)** | 86.27% | | | | 81.70% | | | |
| **Weighted Average Cost of Debt (Rd)** | 8.4% | | | | 9.78% | | | |
| **Cost of Equity (Re)** | 24% | | | | 24.00% | | | |
| **Fair Rate of Return** | **10.62%** | | | | **12.39%** | | | |

**Table 35: WACC as per Base Model (refer Para 1.41) submitted by HIAL – Dual Till**

| Particulars | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Debt** | 1,595 | 1,730 | 1,696 | 1,615 | 1,580 | 1,500 | 1,380 | 1,237 |
| **IFL** | 262 | 262 | 262 | 262 | 262 | 262 | 262 | 262 |
| **Equity** | 314 | 314 | 314 | 314 | 338 | 422 | 488 | 548 |
| **Debt + Equity (C)** | 2,171 | 2,306 | 2,272 | 2,191 | 2,180 | 2,185 | 2,130 | 2,047 |
| **Cost of Debt (Kd)** | 9.3% | 10.3% | 9.7% | 11.1% | 10.7% | 11.3% | 11.7% | 11.6% |
| **Cost of IFL** | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Cost of Equity (Ke)** | 24.0% | 24.0% | 24.0% | 24.0% | 24.0% | 24.0% | 24.0% | 24.0% |
| **Individual year Gearing (G)** | 85.5% | 86.4% | 86.2% | 85.7% | 84.5% | 80.7% | 77.1% | 73.2% |
| | **2008-09 o 2010-11** | | | | **2011-12 to 2015-16** | | | |
| **Weighted Average Gearing (WG)** | 86.03% | | | | 80.34% | | | |
| **Weighted Average Cost of Debt (Rd)** | 8.46% | | | | 9.54% | | | |
| **Cost of Equity (Re)** | 24.00% | | | | 24.00% | | | |
| **Fair Rate of Return** | **10.63%** | | | | **12.38%** | | | |

## b Authority's Examination of HIAL Submissions on Weighted Average Cost of Capital (WACC)

**12.5.** The Authority has duly considered and analysed HIAL submissions on cost of debt and cost of equity in Para 10 and 11 above respectively, and then has examined the calculation of WACC submitted by HIAL. The Authority's examination of the issue is as follows:

**12.6.** The Authority, in its Airport Guidelines and Airport Order, has outlined the principles for calculation of WACC as part of the exercise of determination of tariff for aeronautical services. The Authority has provided that the fair rate of return for a control period, as its estimate of weighted average cost of capital for an airport operator, is to be considered as follows:

$$FRoR = (g * R_d) + ((1 - g) * R_e)$$

Where g is gearing (i.e. debt / debt + equity)

$R_d$ is the pre-tax cost of debt

$R_e$ is the post-tax cost of equity

**12.7.** In the Airport Guidelines, the Authority has further provided that a weighted average gearing in a control period will be determined for the purpose of determination of FRoR. The determination of such weighted average gearing has reference to actual and projected quantum of debt submitted by the Airport Operator. The calculation of such weighted average gearing is based on the forecast quantum of debt and equity for each Tariff Year in a Control Period. The calculation of weighted average gearing is as follows:

- $Weighted\ average\ gearing = \sum_{t=1}^{5}(C_t \times G_t) / \sum_{t=1}^{5} C_t$

*Where, t = 1 to 5 denotes each Tariff Year in the Control Period*

**12.8.** The Authority has considered the issue of calculation of WACC. It is cognizant of the fact that this should reflect the audited figures of the company as appearing in the financial statements as well as, to the extent feasible, have regard to Generally Accepted Accounting Principles. The Authority is informed that WACC is regarded as weighted average cost of the application of funds for fixed assets as are reflected in the balance sheet.

**12.9.** The Authority has noted in the balance sheet of HIAL that it has recorded Rs. 107 crores received as Advance Development Fund Grant from the Government of Andhra Pradesh as “Capital Reserve”. In this respect, a note has mentioned in the “Notes to Financial Statements for the year ended March 31, 2012”. This note states as under,

*“k. Government grant*

*Grants and subsidies from the government are recognized when there is reasonable assurance that the grant / subsidy will be received and all attaching conditions will be complied with. Government grant in the nature of capital subsidy is treated as capital reserve.”*

**12.10.** Government Grant is to be adjusted from the Regulatory Asset Base. This treatment finds support in Accounting Standard 12, which is in respect of Accounting for Government Grants. Since the audited balance sheet of HIAL reflects the Advance

Development Fund Grant under Capital Reserve, this amount will need to be adjusted while considering the equity base for HIAL in a given year. So while the Authority is of the view that WACC is calculated based on the audited balance sheet item like debt, equity, Reserve & Surplus as well any other means of finance, it has noted in respect of HIAL that suitable adjustment will need to be accorded to the Government grant considered in HIAL's balance sheet as capital reserve.

**12.11.** The Authority's tentative proposals in respect of cost of debt and cost of equity is presented in Para 10 above and Para 11 above.

**12.12.** As stated earlier in Tentative Decision No. 7.a above, the Authority has proposed considering the Cost of Equity at 16% and that the equity investment made in HIAL be considered at Rs. 378 crores.

**12.13.** Further as noted by the Authority in Para 10.21 above, the cost of debt under single till and dual till in respect of HIAL is same. Also, the cost of equity in both tills remains the same. Thus WACC under single till and dual till will turn out to be the same (refer Table 36 and Table 37).

**12.14.** Based on the above approach and all tentative proposals of the Authority, the Authority proposes to compute the Weighted Average Cost of Capital for HIAL under single till and dual till as under,

**Table 36: WACC calculation for HIAL by the Authority under Single Till**

| Particulars | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Debt** | 1,556 | 1,756 | 1,826 | 1,775 | 1,695 | 1,602 | 1,481 | 1,339 |
| **IFL** | 315 | 315 | 315 | 315 | 315 | 315 | 315 | 315 |
| **Equity** | 378 | 378 | 378 | 378 | 407 | 439 | 473 | 510 |
| **Debt + Equity (C)** | 2,249 | 2,449 | 2,519 | 2,468 | 2,418 | 2,356 | 2,269 | 2,164 |
| **Cost of Debt (Kd)** | 9.5% | 10.3% | 9.2% | 10.0% | 11.6% | 11.6% | 11.7% | 11.8% |
| **Cost of IFL** | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Cost of Equity (Ke)** | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% |
| **Individual year Gearing (G)** | 83.2% | 84.6% | 85.0% | 84.7% | 83.2% | 81.4% | 79.2% | 76.4% |
| | **2008-09 to 2010-11** | | | | **2011-12 to 2015-16** | | | |
| **Weighted Average Gearing (WG)** | 84.28% | | | | 81.10% | | | |
| **Weighted Average Cost of Debt (Rd)** | 8.15% | | | | 9.44% | | | |
| **Cost of Equity (Re)** | 16.0% | | | | 16.00% | | | |
| **Fair Rate of Return** | **9.39%** | | | | **10.68%** | | | |

**Table 37: WACC calculation for HIAL by the Authority under Dual Till**

| Particulars | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Debt** | 1,293 | 1,459 | 1,517 | 1,474 | 1,409 | 1,331 | 1,231 | 1,112 |
| **IFL** | 262 | 262 | 262 | 262 | 262 | 262 | 262 | 262 |
| **Equity** | 314 | 314 | 314 | 314 | 338 | 365 | 393 | 424 |
| **Debt + Equity (C)** | 1,868 | 2,035 | 2,093 | 2,050 | 2,009 | 1,957 | 1,885 | 1,798 |
| **Cost of Debt (Kd)** | 9.5% | 10.3% | 9.2% | 10.0% | 11.6% | 11.6% | 11.7% | 11.8% |
| **Cost of IFL** | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Cost of Equity (Ke)** | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% |
| **Individual year Gearing (G)** | 83.2% | 84.6% | 85.0% | 84.7% | 83.2% | 81.4% | 79.2% | 76.4% |
| | **2008-09 o 2010-11** | | | | **2011-12 to 2015-16** | | | |
| **Weighted Average Gearing (WG)** | 84.28% | | | | 81.10% | | | |
| **Weighted Average Cost of Debt (Rd)** | 8.15% | | | | 9.44% | | | |
| **Cost of Equity (Re)** | 16.0% | | | | 16.00% | | | |
| **Fair Rate of Return** | **9.39%** | | | | **10.68%** | | | |

**Proposal No. 8. Regarding Weighted Average Cost of Capital (WACC)**

**8.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. to calculate WACC, for the purposes of calculating Average Revenue Requirement, based on the audited balance sheet items like debt, equity, Reserve & Surplus as well as any other means of finance (adjusted to the extent of Capital Reserve of Rs. 107 crores)**

**ii. To calculate WACC at 10.68% (based on 16% cost of equity) for the purpose of determination of aeronautical tariffs during the current control period. The Authority has already given its tentative proposal regarding the ceiling on cost of debt at 12.50% in its Proposal No. 6**

**12.15.** The impact of change in weighted average cost of capital on account of change in cost of debt and cost of equity of the standalone entity of HIAL (refer Para 3.4 above) on the YPP has been analysed as under:

**Table 38: Sensitivity – Impact of change in WACC on YPP**

| Single Till | | | |
|---|---|---|---|
| YPP as per the Base Model* | 861.99 | YPP as per the Base Model after change in WACC on account of change in cost of debt and cost of equity | 667.24 |
| Dual Till | | | |

| | | | |
|---|---|---|---|
| YPP as per the Base Model* | 1042.41 | YPP as per the Base Model after change in WACC on account of change in cost of debt and cost of equity | 878.05 |
| * - Base Model – Refer to Para 1.41 | | | |

# 13. Depreciation

## a HIAL Submission on Depreciation

**13.1.** As per its initial submission dated 31.07.2011 and its subsequent submission dated 13.09.2011, HIAL submitted that it has considered depreciation rates as per schedule XIV of the Companies Act 1956. HIAL also stated that no depreciation has been assumed on assets funded from ADFG, depreciation on the land value has been reduced at an average rate of 4.5% and depreciation has been restricted to 90% of the asset value. Further HIAL submitted as under,

*"Depreciation is the Return of Capital and is dependent on the life of the underlying asset. Depreciation has been computed as per schedule XIV of the Companies Act 1956.*

*In case of Companies Act, 1956 the depreciation is calculated under a straight line method as against written down value method under Income Tax Act, 1961. Companies Act, 1956 prescribes the assets lives for the following classes of assets as under:*

*SLM Depreciation Rate as per Companies Act, 1956*

| *Asset Classification* | *Rate* | *Useful life (Years)* |
|---|---|---|
| *Buildings* | *3.34%* | *30.00* |
| *Electrical Installations* | *4.75%* | *21.00* |
| *Furniture and Fixtures* | *6.33%* | *16.00* |
| *Improvements to Leasehold Land* | *1.67%* | *60.00* |
| *IT Systems* | *16.21%* | *6.00* |
| *Office Equipment* | *4.75%* | *21.00* |
| *Other Roads* | *1.63%* | *61.00* |
| *Plant and Machinery* | *5.28%* | *19.00* |
| *Runways* | *3.34%* | *30.00* |
| *Software* | *16.21%* | *6.00* |
| *Vehicles* | *7.07%* | *14.00* |
| *Other Operational* | *4.50%* | *22.00* |

| | | |
|---|---|---|
| *Capex Investment* | | |

*No depreciation has been charged on asset funded from Advance Development Fund Grant.*

*Depreciation on the land value being carved out has been reduced at an average rate of depreciation of 4.5%. Further, depreciation has been restricted to* ***90% of the asset value****."*

**13.2.** Pursuant to this, HIAL in its submission dated 14.12.2012 also included the depreciation on its 3 subsidiaries. The depreciation rates assumed for these 3 subsidiaries as per HIAL's submission is as under,

| *Asset Classification* | *Rate* | *Useful life (Years)* |
|---|---|---|
| *Hotel Future Capex* | *5.16%* | *19.00* |
| *Duty Free Future Capex* | *7.12%* | *14.00* |
| *SEZ Future Capex* | *5.00%* | *20.00* |

**13.3.** With regards to depreciation for Forex loss adjustment as per AS 11, HIAL stated vide its submission dated 04.04.2013 as under,

*"Forex additions are assumed to be incurred in the beginning of the financial year and hence, depreciation for full year is considered "*

**13.4.** With regards to depreciation for future projects, HIAL stated vide its submission dated 04.04.2013 as under,

*"4.5% is average depreciation rate is based on the historical average depreciation and is best possible assumption that can be made"*

**13.5.** Under the submissions made to the Appellate Tribunal, HIAL had submitted that it should be allowed 100% of the RAB as depreciation and not 90%. HIAL, during the presentation to the Authority on 01.04.2013, stated as under,

*"We request the Authority to allow 100% of the RAB as depreciation and not 90% as that will mean that the full depreciation is not accruing to the airport operator"*

**b Authority's Examination of HIAL Submissions on Depreciation**

**13.6.** The Authority has carefully analysed the submissions of HIAL in respect of the regulatory building block of depreciation. The Authority's examination of the issue is as follows:

**13.7.** The Authority observes that in the tariff model submitted by HIAL, HIAL has first determined the depreciation for the gross block including both aeronautical and non-aeronautical assets. Then from this depreciation on gross block, it has reduced the depreciation attributable to ADFG for each year to compute the depreciation to be considered for the purpose of determination of ARR. In determining the depreciation attributable to ADFG, HIAL has considered a rate of depreciation of 4.5%. The Authority sought the justification for considering this rate of 4.5%. In this regard, HIAL submission dated 04.04.2013 stated as follows:

> *"4.5% is average depreciation rate is based on the historical average depreciation and is best possible assumption that can be made"*

**13.8.** The Authority has also noted the HIAL submission that *"No depreciation has been charged on asset funded from Advance Development Fund Grant"*. This submission from HIAL implies that HIAL has earmarked certain assets, which have been funded from ADFG. The Authority believes that such earmarking of assets, which are specifically funded from ADFG is not in order. The Authority had an occasion to discuss this issue of earmarking assets from a specific source of fund in its determination of tariff for CSI Airport, Mumbai, wherein the Authority had preferred the approach of adjusting the gross block by the amount of such funding instead of earmarking assets funded from the specified source. Further the Authority observes the HIAL's submission of considering depreciation on ADFG as not admissible.

**13.9.** The Authority, vide its Airport Order and Airport Guidelines, envisaged that:

> *"For projecting depreciation on forecast of assets to be commissioned or disposed off during a Control Period, it shall be assumed that such assets have been commissioned or disposed of half way through the Tariff Year and depreciation related to such assets shall be calculated pro-rata."*

**13.10.** The Authority observes that HIAL has calculated depreciation on assets commissioned or disposed off during a tariff year as if these assets were commissioned or disposed off half way through the tariff year, calculating depreciation thereon on a pro-rata basis. It is observed that this methodology does not require any change.

**13.11.** As discussed above, HIAL in its submissions has capitalized the forex losses adjustments as per AS 11. As a consequence, HIAL also considered depreciation on this capitalized amount included in the RAB (as per their MYTP submissions). Further, HIAL has considered depreciation on the capitalized forex loss adjustment for full year assuming that the same were incurred in the beginning of the financial year.

**13.12.** However, the Authority notes that as discussed in Para 9.40 above and as stated in Tentative Decision No 5.a.iii above, it has been tentatively proposed not to consider any addition to RAB on account of capitalization of any forex loss adjustment. Hence, the Authority proposes not to consider any depreciation on account of capitalized forex loss adjustments.

**13.13.** With regard to the depreciation for future projects (i.e. general capital expenditure), the Authority is of the view that depreciation rate of 4.5% for future projects as assumed by HIAL can be assumed for tariff determination for the current control period. This depreciation is also proposed to be trued-up at the end of control period.

**13.14.** The Depreciation assumed under single till and dual till as per the tariff model submitted by HIAL is presented below,

**Table 39: Depreciation under Single Till as per HIAL submissions**

| | **2008-09** | **2009-10** | **2010-11** | **2011-12** | **2012-13** | **2013-14** | **2014-15** | **2015-16** |
|---|---|---|---|---|---|---|---|---|
| | Single Till | | | | | | | |
| Gross Block | 2,515 | 2,663 | 2,757 | 2,848 | 2,943 | 3,075 | 3,157 | 3,231 |
| Depreciation as per Company's Act | 105 | 121 | 132 | 128 | 130 | 122 | 111 | 114 |
| Depreciation on assets funded out of ADFG | 4.82 | 4.82 | 4.82 | 4.82 | 4.82 | 4.82 | 4.82 | 4.82 |

**Table 40: Depreciation under Dual Till as per HIAL submissions**

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| | Dual Till | | | | | | | |
| Gross Block | 1,945 | 2,005 | 2,073 | 2,128 | 2,183 | 2,251 | 2,316 | 2,376 |
| Depreciation as per Company's Act | 94 | 96 | 103 | 98 | 100 | 91 | 78 | 81 |
| Depreciation on assets funded out of ADFG | 4.18 | 4.18 | 4.18 | 4.18 | 4.18 | 4.18 | 4.18 | 4.18 |

**13.15.** The calculation of depreciation, submitted by HIAL in the tariff model, presently considers depreciation up to 90%, which is in line with the provisions of the Airport Guidelines vide Para 5.3.3. However, HIAL has requested the Authority to allow them to depreciate the assets up to 100%. According to the Authority's understanding, the Concession Agreement does not appear to include compensation towards the value of the net block of assets upon transfer of the airport upon completion of term. The Authority also notes that the depreciation policy of HIAL stipulates 100% depreciation of RAB. The Authority after careful consideration of these provisions feels that keeping a residual value (of 10% of RAB) may not be required. Having considered this issue in its totality, the Authority tentatively proposes to permit depreciation of 100% of RAB.

**13.16.** The impact of the above considerations on depreciation for HIAL assets under single till and dual till is presented below:

**Table 41: Impact of considering 100% depreciation of RAB under Single till**

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| | Single Till | | | | | | | |
| Gross Block | 2,515 | 2,663 | 2,757 | 2,848 | 2,943 | 3,075 | 3,157 | 3,231 |
| Depreciation as per Company's Act | 105 | 121 | 132 | 128 | 130 | 134 | 117 | 114 |
| Depreciation on assets funded out of ADFG | 4.82 | 4.82 | 4.82 | 4.82 | 4.82 | 4.82 | 4.82 | 4.82 |

**Table 42: Impact of considering 100% depreciation of RAB under Dual till**

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| | Dual Till | | | | | | | |
| Gross Block | 1,945 | 2,005 | 2,073 | 2,128 | 2,183 | 2,251 | 2,316 | 2,376 |
| Depreciation as per Company's Act | 94 | 96 | 103 | 98 | 100 | 102 | 83 | 81 |
| Depreciation on assets funded out of ADFG | 4.18 | 4.18 | 4.18 | 4.18 | 4.18 | 4.18 | 4.18 | 4.18 |

**13.17.** Further to the above, depreciation under single till and dual till as considered by the Authority on account of considering other tentative proposals (for e.g. the tentative proposal for not considering future and general capex, tentative proposal of not considering Hotel, SEZ and Duty Free assets, exclusion of Forex losses and other tentative proposals) is presented below:

**Table 43: Depreciation under Single till as considered by Authority**

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| | Single Till | | | | | | | |
| Gross Block | 2,276 | 2,420 | 2,438 | 2,432 | 2,461 | 2,492 | 2,526 | 2,563 |
| Depreciation as per Company's Act | 105 | 109 | 110 | 110 | 111 | 112 | 92 | 88 |
| Depreciation on assets funded out of ADFG | 4.82 | 4.82 | 4.82 | 4.82 | 4.82 | 4.82 | 4.82 | 4.82 |

**Table 44: Depreciation under Dual till as considered by Authority**

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| | Dual Till | | | | | | | |
| Gross Block | 1,945 | 2,005 | 2,024 | 2,020 | 2,045 | 2,071 | 2,099 | 2,130 |
| Depreciation as per Company's Act | 94 | 96 | 96 | 95 | 96 | 97 | 77 | 73 |
| Depreciation on assets funded out of ADFG | 4.18 | 4.18 | 4.18 | 4.18 | 4.18 | 4.18 | 4.18 | 4.18 |

**Proposal No. 9. Regarding Depreciation**

**9.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To consider depreciation up to 100% of RAB.**

**ii. Not to consider any depreciation on account of capitalized forex loss adjustments (as submitted by HIAL).**

**iii. Accordingly, to consider depreciation on RAB under single till as per Table 43 and under dual till as per Table 44.**

**iv. To work out the difference between the amounts of depreciation calculated based on actual date of commissioning/ disposal of assets and the amount of depreciation calculated considering such asset has been commissioned/ disposed half way through the Tariff Year. To adjust this difference at the end of the current Control Period considering future value of the differences for each year in the current Control Period.**

**13.18.** The impact of considering 100% depreciation of RAB on the YPP has been analysed as under:

**Table 45: Sensitivity – Impact on YPP on assuming 100 % depreciation of RAB**

| Single Till | | | |
|---|---|---|---|
| YPP as per the Base Model* | 861.99 | YPP as per the Base Model after considering 100% depreciation of RAB | 867.23 |
| Dual Till | | | |
| YPP as per the Base Model* | 1042.41 | YPP as per the Base Model after considering 100% depreciation of RAB | 1047.41 |
| * - Base Model – Refer to Para 1.41 | | | |

# 14. Operating Expenses

## a HIAL Submission on Operating Expenses

**14.1.** As per its initial submission dated 31.07.2011, HIAL submitted that the total operating expenditure has been classified in to Aeronautical and non-aeronautical. Further, HIAL stated as under,

*"“**Aeronautical Operating Expenditure**” has been assumed to include all the operating expenditure which is necessary or required for the performance of Aeronautical Services at the Airport and required for generating Aeronautical Revenues and all other expenditure that the Company may incur in accordance with the written direction of GoI for or in relation to provision of any of the Reserved Activities.*

*“**Common Operating Expenditure**” has been assumed to include all the operating expenditure that is used commonly for providing both Aeronautical and Non Aeronautical Services.*

*“**Non Aeronautical Expenditure**” has been assumed to include all the operating expenditure required or necessary for the performance of Non Aeronautical Services at the airport.*

| | |
|---|---|
| *Head Count* | *Number of employee engaged in providing aeronautical services-* ***Aeronautical Operating Expenditure***<br>*Number of employee engaged in providing non aeronautical services-* ***Non Aeronautical Operating Expenditure***<br>*Number of employee engaged in providing aeronautical and non aeronautical services(Shared resources like HR , finance etc)-* ***Common Operating Expenditure*** |
| *Cost center* | *Cost center providing only aeronautical services-**Aeronautical Operating Expenditure***<br>*Cost center providing only non aeronautical services-**Non Aeronautical Operating Expenditure***<br>*Cost center aeronautical and non aeronautical services(Shared resources like HR , finance etc)-* ***Common Operating Expenditure*** |
| *Asset ratio* | *Proportion of aeronautical and non aeronautical asset ratio* |
| *Common* | *All common costs have been apportioned in the ratio of directly identifiable aeronautical and non aeronautical expenditure for the respective years* |

*The list of main cost and basis of its bifurcation is given in below table:*

| ***Expenditure Name*** | ***Key used*** |
|---|---|
| *Personnel Costs* | *Head count* |
| *Power Costs & Water Costs* | *Based on cost center* |
| *Security Expenses* | *Common Cost* |
| *Consultancy/ Advisory Expenses* | *Based on cost center* |
| *Auditor's Fees* | *Common Cost* |
| *Director's Sitting Fees* | *Common Cost* |
| *General and Administration Cost* | *Based on cost center* |
| *Travelling and Conveyance* | *Head count* |
| *Rates & Taxes(incl. property tax)* | *Aero & Non Aero Assets Ratio* |
| *Recruitment and Training Charges* | *Head count* |
| *Repair and Maintenance cost* | *Based on cost center* |
| *Insurance* | *Aero & Non Aero Assets Ratio* |
| *Rents/ Property Related Expenses* | *Common Cost* |
| *Manpower Outsourcing Expenses* | *Based on cost center* |
| *Fuel Farm Expenses* | *Non Aeronautical cost* |
| *Car Parking expenses* | *Non Aeronautical Cost* |
| *Passenger Bus Hire charges* | *Aeronautical Cost* |
| *Housekeeping Expenses* | *Based on cost center* |
| *Bank & other finance charges* | *Common Cost* |

*Note: Common costs are allocated between Aero and Non Area in the ratio of actual"*

**14.2.** In continuation to this, in its submission dated 31.07.2011, HIAL submitted that Operating cost has been increased only by real increase and volume increase and no inflationary increase has been considered. Further, the breakdown of each cost head as its submission is provided as under,

- *"Salaries and manpower outsourcing: Real increase in salaries is taken at 7% pa . An increase is assumed in manpower by 10% every 1.5 million increase in capacity.*

- *Power Cost: Real increase of 7% has been considered*
- *Security Cost: Increase in manpower numbers by 10% has been considered for every increase in pax by 1.5 million. Real Increase of 7 % has been taken for future year on manpower cost.*
- *Consultancy Charges and general and administration: Real increase is taken as 5% pa*
- *Repair and Maintenance: Real increase of 7% is considered pa and additional increase of 10% is taken for every increase in pax by 1.5 million,*
- *Utilities, other operating expenses and insurance: - Real increase of 7% is considered pa."*

**14.3.** In its submission dated 13.09.2011, HIAL reiterated that Operations and Maintenance Costs has been segregated into various heads namely Salaries and manpower outsourcing (real increase of 7% p.a. and 10% increase in manpower for every 1.5mn passenger increase), Power Cost (real increase of 7% p.a.), Security Cost (real increase of 7% p.a. and 10% increase in manpower for every 1.5mn passenger increase), Repair and Maintenance (real increase of 7% p.a. and 10% increase in manpower for every 1.5mn passenger increase), Utilities, other operating expenses and insurance (real increase of 7% p.a.) and each cost head is escalated as indicated. In its submissions on 13.09.2011, HIAL introduced a new cost head namely General and Administration charges which is increased by a real increase of 5% p.a. Further HIAL submitted as under,

*"The total operating and maintenance expenditure has been considered in our filing. The main assumptions have been classified as under:*

- ***Salaries and manpower outsourcing**: Real increase in salaries is taken at 7% p.a. An increase is assumed in manpower by 10% for every 1.5 million increase in traffic.*
- ***Power Cost:** Real increase of 7% has been considered.*

- ***Security Cost**: Increase in manpower numbers by 10% has been considered for every increase in pax by 1.5 million. Real Increase of 7 % has been taken for future year on manpower cost.*
- ***General and Administration charges**: Real increase is taken as 5% pa*
- ***Repair and Maintenance**: Real increase of 7% is considered pa and additional increase of 10% is taken for every increase in pax by 1.5 million,*
- *Utilities, other operating expenses and insurance: - Real increase of 7% is considered pa."*

**14.4.** Pursuant to this, in its submission dated 14.12.2012, HIAL submitted that Operations and Maintenance Cost escalation assumptions as stated above remain the same except that the Hotel manpower costs will also be escalated at 7% p.a. and will increase by 10% for every 1.5 million increase in traffic. Also, HIAL stated that total operating and maintenance expenditure till 2011-12 has been taken as per audited numbers. Further, HIAL stated that the total operating and maintenance expenditure for FY 2011-12 for GMR Hotels and Resorts Limited (GHRL), GMR Hyderabad Aviation SEZ Limited (GHASL), and Hyderabad Duty Free Retail Limited has also been taken as per audited numbers. The projection of operating expenditure for these entities for FY 2012-13 is considered by extrapolating the actual numbers of first six months to the remaining six months. The projections afterwards for the remaining years in the control period are based on the drivers as discussed above.

**14.5.** Further to this, HIAL in its submission dated 04.04.2013, submitted the basis for escalation of each cost component. The same has been reproduced as under,

14.5.1. Payroll Costs:

14.5.1.a. In its submission dated 04.04.2013, HIAL provided basis for the assumption of escalating payroll costs by 7% p.a. as per the tariff model submitted by HIAL. The same has been reproduced as below,

> *"In general an average increase of 12-15% is required in the industry. In a recent study by Mercer an average rate of increment*

*expected is 12% in Indian context. But since Airport operations are highly specialized functions and therefore, manpower need to be retained and therefore higher increment is needed."*

14.5.1.b. Summary of payroll costs based on the auditor certificates submitted by HIAL is reproduced below,

**Table 46: Summary of Payroll Costs as per HIAL**

| | | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Salary and Wages** | Total | 36.88 | 40.15 | 43.41 | 45.69 |
| | Aero | 31.09 | 30.65 | 35.76 | 36.95 |
| | Non-Aero | 5.79 | 9.5 | 7.65 | 8.74 |
| **Staff Welfare** | Total | 9.68 | 5.85 | 5.56 | 5.71 |
| | Aero | 8.13 | 4.89 | 4.91 | 5.08 |
| | Non-Aero | 1.55 | 0.96 | 0.65 | 0.63 |
| **Training** | Total | 0.00 | 0.00 | 1.17 | 1.51 |
| | Aero | 0.00 | 0.00 | 1.02 | 1.34 |
| | Non-Aero | 0.00 | 0.00 | 0.15 | 0.17 |
| **Total Payroll Costs** | | **46.56** | **46.00** | **50.14** | **52.91** |

14.5.1.c. Additional Manpower increase after every 1.5 MN pax: In its submission dated 04.04.2013, HIAL provided the basis for the assumption of including additional manpower after every 1.5 MN passengers. The same has been reproduced as below,

*"This is an assumption that with increase in traffic some increase in manpower will be necessitated. However, it may be noted that the said assumption is not applicable as the traffic has not increased by more than 1.5 million"*

14.5.2. Utility Costs:

14.5.2.a. In its submission dated 04.04.2013, HIAL provided the basis for the assumption of escalating utility costs by 7% as per the tariff model submitted by HIAL. The same has been reproduced as below, *"We have considered an increase of 7% for the utility related cost. However, as per the guidelines we request you to kindly consider and provide us 100% true up in the utility cost."*

14.5.2.b. Additionally, HIAL in its submissions dated 09.05.2013 submitted the breakup of electricity and water costs along with units consumed for RGI Airport, Hyderabad for FY 2011-12.

14.5.2.c. Summary of utility costs based on the auditor certificates submitted by HIAL is reproduced below,

**Table 47: Summary of Utility Costs as per HIAL**

| | | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Utility Costs** | Total | 16.4 | 15.08 | 15.13 | 15.89 |
| | Aero | 16.4 | 15.08 | 15.13 | 15.89 |
| | Non-Aero | 0 | 0 | 0 | 0 |
| **Total Utility Costs** | | **16.4** | **15.08** | **15.13** | **15.89** |

14.5.3. General / Admin / Corporate Expenses:

14.5.3.a. In its submission dated 04.04.2013, HIAL provided basis for the assumption of escalating General / Admin / Corporate Expenses by 5% as per the tariff model submitted by HIAL. The same has been reproduced as below,

*"This is the bare minimum increase required as, with increase in traffic and revenues, the costs are likely to be growing. A 5% increase is the bare minimum that has been requested"*

14.5.3.b. Regarding "Bank charges, Exchange Fluctuation and others" under the General / Admin expenses, the Authority sought clarification from HIAL on the inclusion of exchange rate fluctuations and also on the quantum of such expense. HIAL in its submission dated 04.04.2013 stated as under,

*"Break up of exchange fluctuation, bank charges and others is provided- Exchange fluctuation is the differential in the currency at the time of accounting and at the time of payment. It a very miscellaneous cost and is nil in most of the years."*

14.5.3.c. Summary of General / Admin costs based on the auditor certificates submitted by HIAL is reproduced below,

**Table 48: Summary of General / Admin Costs as per HIAL**

| | | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Auditors Fee** | Total | 0.16 | 0.2 | 0.21 | 0.31 |
| | Aero | 0.13 | 0.17 | 0.18 | 0.28 |
| | Non-Aero | 0.03 | 0.03 | 0.03 | 0.03 |
| **Directors Sitting Fee** | Total | 0.07 | 0.08 | 0.07 | 0.07 |
| | Aero | 0.06 | 0.07 | 0.06 | 0.06 |
| | Non-Aero | 0.01 | 0.01 | 0.01 | 0.01 |
| **Communication Expenses** | Total | 3.63 | 2.64 | 2.48 | 1.72 |
| | Aero | 3.12 | 2.51 | 2.32 | 1.65 |
| | Non-Aero | 0.51 | 0.13 | 0.16 | 0.07 |
| **Travelling Expenses** | Total | 17.81 | 6.29 | 12.3 | 8.13 |
| | Aero | 14.39 | 4.74 | 10.52 | 6.68 |
| | Non-Aero | 3.42 | 1.55 | 1.78 | 1.45 |
| **Rent** | Total | 3.05 | 5.17 | 5.56 | 6.78 |
| | Aero | 2.44 | 4.33 | 4.83 | 5.43 |
| | Non-Aero | 0.61 | 0.84 | 0.73 | 1.35 |
| **Rates and Taxes** | Total | 6.91 | 7.58 | 7.29 | 6.99 |
| | Aero | 6.25 | 6.02 | 6.38 | 6.25 |
| | Non-Aero | 0.66 | 1.56 | 0.91 | 0.74 |
| **Advertisement** | Total | 3.06 | 1.02 | 1.09 | 1.96 |
| | Aero | 2.31 | 0.55 | 0.72 | 1.76 |
| | Non-Aero | 0.75 | 0.47 | 0.37 | 0.2 |
| **Ofc Maintainanance** | Total | 4.32 | 3.75 | 3.43 | 2.78 |
| | Aero | 3.58 | 3.14 | 3.13 | 2.45 |
| | Non-Aero | 0.74 | 0.61 | 0.3 | 0.33 |
| **Printing and Stationary** | Total | 1.08 | 0.76 | 0.54 | 0.56 |
| | Aero | 0.77 | 0.71 | 0.45 | 0.48 |
| | Non-Aero | 0.31 | 0.05 | 0.09 | 0.08 |
| **Event Management** | Total | 2.25 | 0.12 | 1.29 | 0.34 |
| | Aero | 0.7 | 0.08 | 0.96 | 0.25 |
| | Non-Aero | 1.55 | 0.04 | 0.33 | 0.09 |
| **Recruitment** | Total | 0.8 | 1.63 | 0.84 | 0.43 |
| | Aero | 0.66 | 1.45 | 0.73 | 0.36 |
| | Non-Aero | 0.14 | 0.18 | 0.11 | 0.07 |

| | | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Community Development** | Total | 0 | 0 | 1.12 | 1.47 |
| | Aero | 0 | 0 | 0.99 | 1.31 |
| | Non-Aero | 0 | 0 | 0.13 | 0.16 |
| **Other Miscellaneous+Business Promotion** | Total | 11.31 | 9.28 | 11.43 | 22.08 |
| | Aero | 8.14 | 6.25 | 9.87 | 21.17 |
| | Non-Aero | 3.17 | 3.03 | 1.56 | 0.91 |
| **Consultancy** | Total | 23.32 | 13.57 | 4.97 | 13.41 |
| | Aero | 19.1 | 8.63 | 2.28 | 10.94 |
| | Non-Aero | 4.22 | 4.94 | 2.69 | 2.47 |
| **Total Bank Charges** | Total | 0.27 | 2.95 | 7.82 | 3.35 |
| | Aero | 0.23 | 2.48 | 6.75 | 2.98 |
| | Non-Aero | 0.04 | 0.47 | 1.07 | 0.37 |
| **Security Cost** | Total | 0.43 | 0.63 | 4.83 | 5.78 |
| | Aero | 0.35 | 0.53 | 4.76 | 5.4 |
| | Non-Aero | 0.08 | 0.1 | 0.07 | 0.38 |
| **Total General / Admin Costs** | | **78.47** | **55.67** | **65.27** | **76.16** |

14.5.4. Repair and Maintenance Expenses:

14.5.4.a. HIAL has submitted details of certain expenses under the head of RM expenses. The Authority understands that here RM would mean Repair and Maintenance. In its submission dated 04.04.2013, HIAL provided basis for the assumption of escalating RM cost by 7% as per the tariff model submitted by HIAL. The same has been reproduced as below,

> *"Equipment and infrastructure at the airport is getting old and out of the initial defect liability period. So progressively these costs are likely to rise. This is the bare minimum increase required as, with increase in traffic and revenues the costs are likely to be growing. A 7% increase is the bare minimum that has been requested"*

14.5.4.b. Summary of General / Admin costs based on the auditor certificates submitted by HIAL is reproduced below,

**Table 49: Summary of Repair and Maintenance Costs as per HIAL**

| | | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|

| | | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Building** | Total | 4.39 | 5.88 | 5.02 | 5.02 |
| | Aero | 3.71 | 5.01 | 4.49 | 4.31 |
| | Non-Aero | 0.68 | 0.87 | 0.53 | 0.71 |
| **Plant and Machinery** | Total | 12.64 | 9.34 | 12.25 | 13.15 |
| | Aero | 11.8 | 9.09 | 12.01 | 12.85 |
| | Non-Aero | 0.84 | 0.25 | 0.24 | 0.3 |
| **IT** | Total | 10 | 8.77 | 7.19 | 8.57 |
| | Aero | 10 | 8.7 | 6.26 | 8.38 |
| | Non-Aero | 0 | 0.07 | 0.93 | 0.19 |
| **Others** | Total | 0.94 | 1.84 | 1.89 | 2.53 |
| | Aero | 0.8 | 1.52 | 1.77 | 2.38 |
| | Non-Aero | 0.14 | 0.32 | 0.12 | 0.15 |
| **Dimulation in value of Inventory** | Total | 3.23 | 0 | 0 | 0 |
| | Aero | 3.23 | 0 | 0 | 0 |
| | Non-Aero | 0 | 0 | 0 | 0 |
| **Stores and Spares** | Total | 0.61 | 3.39 | 6.75 | 6.57 |
| | Aero | 0.41 | 2.93 | 6.36 | 6.28 |
| | Non-Aero | 0.2 | 0.46 | 0.39 | 0.29 |
| | **Total RM Costs** | **31.81** | **29.22** | **33.10** | **35.84** |

14.5.4.c. Additional R&M Cost increase after every 1.5 MN pax: In its submission dated 04.04.2013, HIAL provided the basis for the assumption of Additional R&M Cost increase of 10% after every 1.5 MN pax as per the tariff model submitted by HIAL. The same has been reproduced as below,

*"This is the bare minimum increase required as, with increase in traffic and revenues the costs are likely to be growing. A 10% increase is the bare minimum that has been requested"*

14.5.5. Land Lease:

14.5.5.a. The Authority has observed from the tariff model that HIAL has considered an area of 5,450 acres and a value of Rs. 155 crores for the purpose of calculation of land lease (However as per the Land Lease Agreement dated 30.09.2003 signed between HIAL and GoAP, the area mentioned is 5,000 acres). Accordingly the land lease rental has been calculated to be Rs. 3.10 crores for FY 2015-16.

14.5.6. Other Operating Expenses:

14.5.6.a. In its submission dated 04.04.2013, HIAL provided the basis for the assumption of escalating Other Operating Expenses by 7% as per the tariff model submitted by HIAL. The same has been reproduced as below,

*"Equipment and infrastructure at the airport is getting old. So progressively these costs are likely to rise. This is the bare minimum increase required as, with increase in traffic and revenues the costs are likely to be growing. A 7% increase is the bare minimum that has been requested"*

14.5.6.b. Summary of Other Operating expenses based on the auditor certificates submitted by HIAL is reproduced below,

**Table 50: Summary of Other Operating Costs as per HIAL**

| | | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Insurance Cost** | Total | 2.33 | 2.25 | 2.53 | 2.14 |
| | Aero | 2.11 | 1.79 | 2.21 | 1.91 |
| | Non-Aero | 0.22 | 0.46 | 0.32 | 0.23 |
| **Manpower Outsourcing expenses** | Total | 12.32 | 14.93 | 13.42 | 15.57 |
| | Aero | 11.25 | 14.7 | 13.2 | 15.23 |
| | Non-Aero | 1.07 | 0.23 | 0.22 | 0.34 |
| **Bus Hire Expenses** | Total | 0 | 1.17 | 1.2 | 0.99 |
| | Aero | 0 | 1.17 | 1.05 | 0.86 |
| | Non-Aero | 0 | 0 | 0.15 | 0.13 |
| **Car Parking** | Total | 2.85 | 2.31 | 2.6 | 2.39 |
| | Aero | 0 | 0 | 0 | 0 |
| | Non-Aero | 2.85 | 2.31 | 2.6 | 2.39 |
| **House Keeping** | Total | 10.09 | 8.18 | 8.34 | 8.28 |
| | Aero | 7.98 | 6.85 | 7.29 | 7.39 |
| | Non-Aero | 2.11 | 1.33 | 1.05 | 0.89 |
| **O&M Expenses** | Total | 0.87 | 0.24 | 0.31 | 0.09 |
| | Aero | 0.72 | 0.09 | 0.23 | 0.09 |
| | Non-Aero | 0.15 | 0.15 | 0.08 | 0 |

| | | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Operator Fee** | Total | 0 | 0 | 0 | 0 |
| | Aero | 0 | 0 | 0 | 0 |
| | Non-Aero | 0 | 0 | 0 | 0 |
| **Total Other Operating expenses** | | **28.46** | **29.08** | **28.40** | **29.46** |

14.5.7. Hotel Operating Expenses:

14.5.7.a. Summary of Operating expenses in respect of GMR Hotels & Resorts Limited, based on the auditor certificates submitted by HIAL, is reproduced below,

**Table 51: Summary of Hotel Operating Costs as per HIAL**

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Manpower | 9.49 | 9.26 | 10.41 | 10.48 |
| Admin | 3.78 | 6.99 | 5.34 | 4.68 |
| Utilities Cost | 4.15 | 4.47 | 4.73 | 5.12 |
| Operating Expenses | 8.95 | 11.72 | 12.44 | 9.96 |
| Repair and Maintenance | 1.06 | 2.03 | 2.21 | 1.24 |
| **Total** | **27.43** | **34.47** | **35.13** | **31.48** |

14.5.8. SEZ Operating Expenses:

14.5.8.a. Summary of Operating expenses in respect of GMR Hyderabad Airport SEZ Limited, based on the auditor certificates submitted by HIAL, is reproduced below,

**Table 52: Summary of SEZ Operating Costs as per HIAL**

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Utilities Cost | 0.00 | 0.01 | 1.3 | 2.2 |
| Operating Expenses | 0.00 | 0.82 | 1.21 | 1.28 |
| Concession fee | 0.00 | 0.61 | 1.63 | 3.64 |
| **Total** | **0.00** | **1.44** | **4.14** | **7.12** |

14.5.9. Duty Free Operating Expenses:

14.5.9.a. Summary of Operating expenses in respect of Hyderabad Duty Free Retail Limited, based on the auditor certificates submitted by HIAL, is reproduced below,

**Table 53: Summary of Duty Free Operating Costs as per HIAL**

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Manpower | 0.00 | 1.37 | 2.42 | 2.72 |
| Admin | 0.00 | 3.27 | 2.81 | 3.58 |
| Utilities Cost | 0.00 | 0.08 | 0.17 | 0.28 |
| Operating Expenses- CoGS | 0.00 | 5.72 | 11.28 | 12.54 |
| Repair and Maintenance | 0.00 | 0.88 | 1.12 | 1 |
| Concession fees | 0.00 | 2.71 | 6.35 | 9.22 |
| **Total** | **0.00** | **14.03** | **24.15** | **29.34** |

14.5.10. Future Capex Expenses:

14.5.10.a. HIAL in its tariff model has assumed 5% of the total cumulative capitalized costs related to (a) Road (Airport Connectivity from North), (b) Water Supply Capacity Augmentation & Envn., (c) Power Capacity Augmentation and (d) Rainwater Harvesting - Sustainability & Flood Control as the annual operating expense for these capital additions. The total annual operating expense for each year as per the tariff model is provided below,

**Table 54: Summary of Future HIAL related Infra O&M**

| | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| GHIAL related Infra O&M | 0.00 | 0.50 | 2.75 | 4.50 |

14.5.10.b. With regard to the assumption of 5% p.a. for operating expenses for the items mentioned above, HIAL, in its submission dated 04.04.2013, submitted as under,

*"It has been assumed that additional capex will result in need of additional opex. Initially a 5% cost has been assumed."*

14.5.10.c. HIAL in its tariff model has assumed operating expenditure for 4 MW Solar project (the capacity of which was later changed to 5 MW vide submission dated 10.05.2013) as below,

**Table 55: Operating Expenses of Solar Plant as per HIAL Model**

| | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| Solar Project O&M Expense | 0.00 | 0.26 | 0.51 | 0.52 |

14.5.10.d. HIAL in its tariff model has also assumed a cost saving on the utility costs after the installation of the 4 MW Solar project (the capacity of which was later changed to 5 MW vide submission dated 10.05.2013). The cost saving assumptions as per the model are as below,

**Table 56: Cost Saving due to Solar Plant as per HIAL model**

| | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| Solar Project Cost Saving | 0.00 | 1.50 | 3.00 | 3.00 |

14.5.10.e. Further, HIAL, in its submission dated 04.04.2013, provided basis for the above operating cost assumption and the cost saving assumption for the solar plant and submitted a working (for computing the operating expenses of the solar plant and computing the cost savings to HIAL) to support the assumptions. The working was based on an assumption that a 5MW solar plant will be installed at the site. However in another submission, only a 4 MW solar plant was mentioned. The Authority sought clarification from HIAL on this issue to which HIAL clarified that on the basis of reassessment done by HIAL, the project capacity was enhanced to 5 MW at the revised cost estimates of Rs. 8 Cr/ MW.

14.5.11. Concession Fee

14.5.11.a. As per the Concession Agreement, HIAL is required to pay a concession fee of 4% of gross revenue with the payment being deferred by 10 years. The concession fee in the tariff model is taken from actuals till FY 2011-12 and is computed using the 4% of gross revenue for future years. However, HIAL in its tariff model has computed concession fees in two different places. In one of the places, HIAL has included dividend income as part of gross revenue which is used for computing the concession fee and in the other place, HIAL has not considered the dividend income as part of gross revenue and computed the concession fee numbers.

14.5.11.b. HIAL, in its tariff model, has allocated the historical concession fee into aeronautical and non-aeronautical concession fee based on pro-rata allocation in the respective aeronautical and non-aeronautical revenues. The non-aeronautical revenues, used for the purpose of this pro-rata calculation, do not include the revenue from its three subsidiaries, namely GMR Hotels & Resorts Ltd, GMR Hyderabad Airport SEZ Ltd and Hyderabad Duty Free Retail Ltd) for the period.

14.5.11.c. The Authority noted a difference in the historical concession fee amount considered by HIAL in its tariff model and the audited financial statements of HIAL to which HIAL, in its submission dated 04.04.2013 submitted,

> *"The concession fees for FY 2008-09 is matching with audited financials and the concession fees for 2009-10 is also matching with standalone financials of GHIAL without hotel."*

14.5.11.d. The concession fee amounts as considered by HIAL in its model is mentioned as under,

**Table 57: Concession Fee as per HIAL Base Model– under Single Till**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Total Concession Fee** | 16.34 | 17.26 | 21.55 | 24.90 | 27.21 | 36.70 | 39.28 | 41.97 |
| **Aero Concession Fee** | 11.08 | 12.25 | 15.39 | 17.78 | 19.42 | 30.02 | 32.09 | 34.23 |
| **Non-Aero Concession Fee** | 5.26 | 5.01 | 6.17 | 7.12 | 7.79 | 6.67 | 7.19 | 7.74 |

**Table 58: Concession Fee as per HIAL Base Model – under Dual Till**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Total Concession Fee** | 11.08 | 12.25 | 15.39 | 17.78 | 19.42 | 35.98 | 38.46 | 41.03 |

## b Authority's Examination of HIAL Submissions on Operating Expenses

**14.6.** The Authority has carefully considered and analysed the submissions from HIAL on the operating expenses. The Authority's examination of the issue is as follows:

**14.7.** The Authority in its Airport Order had stated that it will follow a bottom-up approach for assessment of operation and maintenance expenditure, which will include a review of the operation and maintenance expenditure forecast submitted by the Airport Operator. The Authority found that a review based on the following principles would be appropriate:

14.7.1. Assessment of baseline operation and maintenance expenditure based on review of actual expenditure indicated in last audited accounts, and prudency check, inter–alia, with respect to underlying factors impacting variance over the preceding year(s) including treatment for one-time costs or atypical costs;

14.7.2. Assessment of efficiency improvement with respect to such costs based on review of factors such as trends in operating costs, productivity improvements, cost drivers as may be identified, and other factors as may be considered appropriate; and

14.7.3. Assessment of other mandated operating costs or statutory operating costs, where (i) other mandated operating costs are costs incurred in compliance to directions received from other regulatory agencies including Director General Civil Aviation; and (ii) statutory operating costs are costs incurred on account of fees, levies, taxes or other charges, directly imposed on and paid for by the Service Provider.

14.7.4. The Authority also specified that only "other mandated operating costs" and "statutory operating costs" should be considered as uncontrollable costs. Other mandated operating costs shall cover costs incurred in compliance to directions received from other regulatory agencies including Director General Civil Aviation. Statutory operating costs shall cover the costs incurred on account of statutory fees, levies, taxes or other charges, directly imposed on and paid for by the Airport Operator.

14.7.5. The Authority also clarified that it would not consider: expenses that are required for meeting the required subjective and objective quality standards, exchange risks and cost to overcome under performance by allied parties, as uncontrollable costs. In effect, these costs would be considered as controllable in the Authority's assessment of operating costs. As part of the Airport Operators Multi-year Tariff Framework Application, the Authority expected Airport Operators to detail any uncontrollable cost consistent with this position, with supporting evidence and forecast these costs as part of the building blocks approach.

**14.8.** The Authority has considered the historical actuals for various operating cost items as well as the projections made by HIAL for these items. The Authority has noted that HIAL has projected the operating costs to increase in line with certain drivers, which are mentioned in Para 14.3 above. The Authority noted that these projections, made by HIAL in its tariff model, do not include inflation. The Authority sought clarification from HIAL for not considering inflation in the projections. HIAL responded stating that,

*"The Historical Revenues are as per audited books includes both real and inflationary growth. However, for projections we have not considered inflationary growth for expenses only. In revenues, we have considered a spend increase of 5% over and above the pax growth. There is no additional increase expected in on account of inflationary increase in Non Aero revenues.*

*We have not considered impact of inflation in expenses projections and it is assumed that adjustment for WPI will be allowed over and above the approved tariff."*

**14.9.** The Authority has considered the above response of HIAL and it feels that since the actual numbers for historical period (submitted by HIAL) includes both the real and the inflationary growth, these numbers are on a nominal basis. However the projected expense numbers for FY 2014, 2015 and 2016 are on real basis as no inflation has been considered in these projections. This creates an inconsistency in determination of aeronautical tariff as some expenses are real and some are nominal within the Control period. The Authority has, hence, considered inflation in the projections also to remove this inconsistency.

**14.10.** Further the Authority has examined each cost in detail and has requested for certain clarifications on various cost heads. The Authority's analysis for each cost head is as under,

**14.11.** Payroll Costs

14.11.1. The Authority sought auditor certificates for the historical payroll costs incurred by HIAL. HIAL provided the relevant certificates and the tariff model numbers were subsequently revised to incorporate the historical numbers as per the auditor certificate.

14.11.2. Further, Authority also sought clarification on the basis of escalation of payroll costs by 7% p.a. HIAL's response against this clarification is mentioned in Para 14.5.1 above. The Authority has examined the response from HIAL and has analysed the admissible increase in Para 14.22 below.

**14.12.** Utility Costs

14.12.1. The Authority sought breakup of all Utility costs (including water and electricity) in terms of units consumed and the price for each unit for each year. The response from HIAL on the same was submitted as on 09.05.2013. However the further notes that HIAL has only provided the unit consumption for utilities (electricity and water) for only FY 2011-12 and not for FY 2009-10, FY 2010-11 and 2012-13. The Authority also sought clarification from HIAL on the basis of escalation of the Utility Costs and the same has been recorded above.

14.12.2. HIAL, in its submissions dated 04.04.2013, mentioned that it has considered an increase of 7% for the utility related cost, however, referring to the guidelines HIAL has requested the Authority to consider and provide 100% true up in the utility costs. The electricity expense is determined by two components namely, number of units and charges / rates. The Authority is of the view that Electricity Charges are fixed by regulatory authorities/agencies and may not necessarily be linked to inflation. The Authority, therefore, proposes not to consider inflationary increase in the unit rate of electricity and instead follow the most recent unit rate approved by the regulator for the remaining years in the control period subject to true-up based on actuals. However the Authority is of the view to consider a nominal increase in the number of units, which will also be subject to true-up. Thus under the present exercise, the Authority proposes to consider a nominal increase in number of units and no increase in the unit rate of electricity for the remaining years in the current control period. The Authority would have been able to estimate the nominal increase in the number of units on past trends as well as expectation of efforts towards energy saving and efficiency. However the Authority is constrained by unavailability of information from HIAL on the number of units and unit rate of electricity for all the historical years as HIAL has submitted the information for unit consumption for only FY 2011-12. In such a case, the Authority proposes to consider the actual electricity expense for FY 2011-12 for the remaining years in the control period without any increase.

**14.13.** General / Admin Expenses

14.13.1. The Authority sought auditor certificates to verify the historical General / Admin costs incurred by HIAL. HIAL provided the relevant certificates and the tariff model numbers were subsequently revised to incorporate the historical numbers as per the auditor certificate.

14.13.2. Further, Authority also sought clarification on the basis of escalation of General / Admin costs by 5% p.a. HIAL's response against this clarification is mentioned in Para 14.5.3 above. The Authority has examined the response from HIAL and has analysed the admissible increase in Para 14.22 below.

14.13.3. The Authority further observed that HIAL has included exchange rate fluctuation costs in the "Bank charges, Exchange Fluctuation and others" expense head. It also noted that for the forecast years i.e. FY 2012-13 to FY 2015-16, the "Bank charges , Exchange Fluctuation and others" expense has not been increased from its base levels in FY 2011-12.The Authority sought clarification from HIAL on this aspect. HIAL's response against the clarification is presented in Para 14.5.3 above. Considering HIAL's response that the exchange rate fluctuation costs were minimal and in fact, nil in most years and that this cost in the tariff model has not been increased from its FY 2011-12 levels, the Authority has tentatively proposed to accept HIAL's submission in this regard.

14.13.4. The Authority also noted that General Admin / Corporate Costs include Rates and Taxes (including Property Taxes). The Authority observed that HIAL has considered an increase of 5% in this expense. The Authority is of the view that this expense is governed by the rates decided by other regulatory / government agencies and may not follow the increase proposed by HIAL. Thus the Authority proposes to consider this expense without any increase from the last actual value (which is for FY 2011-12) subject to this being trued-up based on actuals for the remaining years of the control period.

**14.14.** Repair and Maintenance Costs

14.14.1. The Authority sought auditor certificates to verify the historical RM costs incurred by HIAL. HIAL provided the relevant certificates and the tariff model numbers were subsequently revised to incorporate the historical numbers as per the auditor certificate.

14.14.2. Further, Authority also sought clarification on the basis of escalation of RM costs by 7% p.a. HIAL's response against this clarification is mentioned in Para 14.5.4 above. The Authority has examined the response from HIAL and has analysed the admissible increase in Para 14.22 below.

**14.15.** Land Lease Rental

14.15.1. The Authority from the tariff model, submitted by HIAL, has observed that the land lease rental of Rs. 3.10 crores has been considered to be payable in FY 2015-16. The Authority has had a reference the Land Lease Agreement, wherein the clause no 4 on Lease Rental states as under,

> *"In consideration of the lease granted by this Agreement, the Parties agree that the Lessee shall pay the Lessor a lease rent on a yearly basis, at the rate of two percent (2%) on the Land cost of Rupees One fifty five Crores only (Indian Rupees 1,55,00,00,000) (the "Base Value"), which Base Value of the Land shall escalate at a compounded rate of five percent (5%) per annum from the 8$^{th}$*

*anniversary of the Commercial Operations Date. The lease rent shall be payable on a yearly basis starting from the year after the Commercial Operations Date, within forty five (45) days after the end of the relevant year. It is clarified that no lease rent shall be payable for the period commencing from the commencement of the Lease pursuant to Clause 2 and ending on the 7th year after the Commercial Operations Date. A reference to "year" in this Clause 4 shall mean a period of twelve calendar months."*

14.15.2. The Authority observes from the above clause of the Land Lease Agreement that no lease rent is payable by HIAL for the first 7 years after the Commercial Operation Date, which happens to be 23.03.2008. Thus HIAL is not liable to pay any rent in respect of the lease granted to it by GoAP till 23.03.2015. From the 8$^{th}$ year, which happens to commence from 24.03.2016, HIAL is liable to pay a lease rent calculated as 2% of the Base Value of Land, as defined in the Land Lease Agreement. Base Value is defined as Rs. 155 crores, which will escalate at a compounded rate of 5% per annum from the 8$^{th}$ anniversary i.e. from 23.03.2016. Thus the value of land, 2% of which is to be calculated as the lease rent, will be increased by 5% per annum from 24.03.2016 onwards.

14.15.3. The Authority has further observed that HIAL has proposed a segregation of this lease rental in aeronautical and non-aeronautical parts. To arrive at such segregation, HIAL has considered that out of the land parcel of 5,450 acres, the land being used for aeronautical purposes is 3,950 acres and that being used for non-aeronautical purposes is 1,500 acres. Using this ratio (3950/1500), the total land lease rental for FY 2015-16, calculated at Rs. 3.10 crores (as 2% of Rs. 155 crores) has been segregated into aeronautical and non-aeronautical.

14.15.4. The Authority has noted that so far HIAL has not been able to utilize the entire land parcel of 1,500 acres and only a part of it has been utilized. The Authority is of the view that for the purpose of calculation of lease rental under non-aeronautical head, only that part of the land, which has been utilized for non-aeronautical purposes, should be considered. Accordingly, instead of 1,500 acres proposed to be considered for non-aeronautical land lease rental by HIAL, the

Authority proposes to consider only that part of the land, which has been utilized for non-aeronautical purposes. The information is not immediately available to the Authority and for the time being, the segregation proposed by HIAL is being considered by the Authority.

**14.16.** Other Operating Costs

14.16.1. The Authority sought auditor certificates to verify the historical Other Operating costs incurred by HIAL. HIAL provided the relevant certificates and the tariff model numbers were subsequently revised to incorporate the historical numbers as per the auditor certificate.

14.16.2. Further, Authority also sought clarification on the basis of escalation of Other Operating costs by 7% p.a. HIAL's response against this clarification is mentioned in Para 14.5.5 above. The Authority has examined the response from HIAL and has analysed the admissible increase in Para 14.22 below.

**14.17.** Hotel Operating Costs

14.17.1. The Authority tentatively proposed not to include the assets corresponding to GMR Hotels & Resorts Limited as part of RAB. Accordingly the expenses in respect of this entity are also proposed to be removed from the total operating cost numbers.

**14.18.** SEZ Operating Costs

14.18.1. The Authority tentatively proposed not to include the assets corresponding to GMR Hyderabad Airport SEZ Limited as part of RAB. Accordingly the expenses in respect of this entity are also proposed to be removed from the total operating cost numbers.

**14.19.** Duty Free Operating Costs

14.19.1. The Authority tentatively proposed not to include the assets corresponding to Hyderabad Duty Free Retail Limited as part of RAB. Accordingly the expenses in respect of this entity are also proposed to be removed from the total operating cost numbers.

**14.20.** Future Capex Expenses

14.20.1. The Authority sought clarification from HIAL on the assumption of 5% increase in Future Capex expenses to which HIAL responded by stating that it is an initial operating expense assumption taken by HIAL. The Authority, however, has proposed not to consider the Future capex as part of RAB as per Para 8.6 above. Since the Future capex has not been incurred and is not being considered in RAB, the corresponding expenses are also proposed not to be considered.

14.20.2. The Authority noted that HIAL has requested for installation of a 4 MW solar power plant at the Airport site. However, the Authority further notes that HIAL, in the working model submitted for computing the operating expenses of the solar plant has computed the operating expenses based on the assumption of a 5 MW solar plant. The Authority sought clarification from HIAL on this issue to which HIAL clarified that on the basis of reassessment done by HIAL, the project capacity was enhanced to 5 MW at the revised cost estimates of Rs. 8 Cr/ MW. The Authority noted this did not change the solar cost saving assumptions and operating cost assumptions in the tariff model.

**14.21.** Concession Fee

14.21.1. The Authority noted from the tariff model submitted by HIAL that in computation of concession fees, HIAL has computed concession fee amounts by excluding the dividend income to HIAL while considering the concession fee for YPP calculations and has included dividend income amount while calculating concession fee amounts to be considered in the P&L for HIAL. The Authority's view with regard to the inclusion of dividend income in the revenue for HIAL is that in case HIAL has made investments into an entity from its own equity or retained earnings, the dividend earned by HIAL from such an entity would be considered as revenues of HIAL. In other words, in case HIAL has made an equity investment into an entity from sources other than equity or retained earnings, the dividend from such an entity to HIAL would not be considered towards revenue of HIAL.

14.21.2. The Authority has noted that investment of HIAL into the equities of entities from which it has received the dividend income has come out from debt and internal resource generation (depreciation but not retained earnings as discussed in Para 11.26 above). Hence the Authority is of the view that the dividend income should not be considered as part of gross revenue for the purpose of computation of concession fee.

14.21.3. Further, the Authority noted that there is a difference in the historical concession fee amounts considered by HIAL in its tariff model and those in the audited financial statements of HIAL for the year FY 2009-10. The Authority sought clarification from HIAL. HIAL explained that this computation is correct as there were certain adjustments required to be made in the financial statement of FY 2009-10. The Authority has considered this response and proposes to consider the figures in the tariff model.

14.21.4. As regards the computation of concession fee and its consideration in the YPP calculation, the Authority is of the view that the revenue (including both aeronautical and non-aeronautical), which is being considered in the calculation for determination of tariff, be considered for computation of concession fee also. On account of certain proposed exclusions (e.g. hotel, SEZ and duty free businesses), revenue from these exclusions also be excluded from the gross revenue on which the concession fee is to be computed. This approach is proposed to be followed for both historical and future computation of concession fee.

14.21.5. The concession fee amounts for each period, as per Authority's calculations considering concession fee as 4% of gross revenue for historical and future periods and after considering all tentative proposals by the Authority (including exclusion of hotel, SEZ and duty free businesses and all other tentative proposals) are provided as under,

**Table 59: Revised Concession Fee Calculation as per Authority – under Single till**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Total Concession Fee** | 14.02 | 16.95 | 20.59 | 23.96 | 27.26 | 24.57 | 24.64 | 27.45 |
| **Aero Concession Fee** | 9.18 | 11.77 | 14.45 | 16.82 | 19.49 | 17.90 | 17.43 | 19.67 |
| **Non-Aero Concession Fee** | 4.84 | 5.18 | 6.14 | 7.13 | 7.77 | 6.67 | 7.21 | 7.78 |

**Table 60: Revised Concession Fee Calculation as per Authority – under Dual till**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Total Concession Fee** | 9.18 | 11.77 | 14.45 | 16.82 | 19.49 | 17.90 | 17.43 | 19.67 |

**14.22.** As regards the future growth rates considered on items under operating costs, the Authority observed that HIAL has considered a real increase of 5% in General Admin / Corporate expenses and 7% in the other items under operating costs. The Authority had sought from HIAL the basis for such a consideration. The response received from HIAL (presented in Para 14.5 above) indicate that HIAL has requested for a bare minimum increase for these items and has not presented any calculations / derivations as the basis for the proposed increase. The Authority considered the historical operating costs for HIAL to assess the possible increase or decrease in the same. The numbers considered in the following Table are based on the historical operating cost expenses as per the auditor certificates submitted by HIAL.

**Table 61: Historical increase in the items under operating costs for HIAL**

| **Items under operating costs** | **Historical movement** | | | | |
|---|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** | **Average Increase (2011-12)** |
| Total Payroll Costs | 46.56 | 46.00 | 50.14 | 52.91 | |
| Historical Increase in Total Payroll Costs | | -1.20% | 9.00% | 5.52% | 7.26% |
| Total Utility Costs | 16.40 | 15.08 | 15.13 | 15.89 | |
| Historical Increase in Total Utility Costs | | -8.05% | 0.33% | 5.02% | 2.68% |
| Total General / Admin Costs | 78.47 | 55.67 | 65.27 | 76.16 | |
| Historical Increase in Total General / Admin Costs | | -29.06% | 17.24% | 16.68% | 16.96% |
| Total RM Costs | 31.81 | 29.22 | 33.1 | 35.84 | |
| Historical Increase in Total RM Costs | | -8.14% | 13.28% | 8.28% | 10.78% |
| Total Other Operating Costs | 28.46 | 29.08 | 28.40 | 29.46 | |
| Historical Increase in Total Other Operating Costs | | 2.18% | -2.34% | 3.73% | 0.70% |
| **Total Operating Costs** | **201.70** | **175.05** | **192.04** | **210.26** | |
| Historical Increase in Total Operating Costs | | -13.21% | 9.71% | 9.49% | 9.60% |

| **Items under operating costs** | **Historical movement** | | | | |
|---|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** | **Average Increase (2011-12)** |
| **Total Operating Costs (Excluding Utility Costs and Rates and Taxes)** | **178.39** | **152.39** | **169.62** | **187.38** | |
| **Historical Increase in Total Operating Costs (Excluding Utility Costs and Rates and Taxes)** | | **-14.57%** | **11.31%** | **10.47%** | 10.89% |
| WPI Inflation | | | 9.68% | 6.89% | |
| Real Increase | | | **1.48%** | **3.35%** | 2.42% |

**14.23.** The Authority has noted that since items including Utility expenses and Rates and Taxes are proposed to be trued-up, the historical growth rate without these items should be considered. Accordingly, the Authority observed that HIAL management has been able to control the operating costs from its initial levels in FY 2008-09 and allowed only moderate real increase from less than 1% to 5% in subsequent years. Considering that the decrease from FY 2008-09 to FY 2009-10 is substantial and not in line with the trend for the remaining years, the Authority has considered the average annual growth rate in operating costs for the remaining 3 years. This average annual growth rate comes to 10.89%, which includes inflation over and above real increase in costs as these are historical operating expenses incurred by HIAL.

**Table 62: Historical increase in total operating costs for HIAL**

| | **2009** | **2010** | **2011** | **2012** |
|---|---|---|---|---|
| Total Operating Costs (Excluding Utility Costs and Rates and Taxes) | | 152.39 | 169.62 | 187.38 |
| Historical Increment in Total Operating Costs (Excluding Utility Costs and Rates and Taxes) | | | 11.31% | 10.47% |
| AAGR in Total Operating Costs | | | | 10.89% |

**14.24.** The Authority, after considering the data available at the website of Finance Ministry found out that the total WPI inflation for period ending FY 2011-12 was 6.89% (http://finmin.nic.in/stats_data/monthly_economic_report/2012/indmar12.pdf) and total WPI inflation for period ending FY 2010-11 was 9.68%

(http://finmin.nic.in/stats_data/monthly_economic_report/2012/indmar12.pdf). Considering these inflation numbers, the real increase in operating costs for HIAL comes to approximately 3.35% for FY 2011-12 and 1.48% for FY 2010-11 and the average real increase for the period FY 2009-10 to FY 2011-12 comes out to be 2.42%. Considering these numbers and the need to introduce efficiency and cost control measures, the Authority expects that the real increase in operating and maintenance costs should be contained within 3.0% increase per year in real terms. Hence the Authority is of the view that a real increase of 3.0% over and above the current inflation of 6.5% (RBI forecasts as per "Results of the Survey of Professional Forecasters on Macroeconomic Indicators – 22nd Round (Q3:2012-13") may be considered for the remaining years in the current control period. The Authority feels that this increase of 3.0% over the calculated average increase of 2.42% would provide for some generic allowance for uncertainties.

**14.25.** In view of the above, the summary of total operating expenses considered by the Authority, presently, for the tariff determination is as under:

14.25.1. Payroll Costs

**Table 63: Payroll expenses considered by the Authority**

| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Salary and Wages** | Total | 36.88 | 40.15 | 43.41 | 45.69 | 50.12 | 54.98 | 60.31 | 66.16 |
| | Aero | 31.09 | 30.65 | 35.76 | 36.95 | 40.53 | 44.46 | 48.77 | 53.50 |
| | Non-Aero | 5.79 | 9.50 | 7.65 | 8.74 | 9.59 | 10.52 | 11.54 | 12.65 |
| **Staff Welfare** | Total | 9.68 | 5.85 | 5.56 | 5.71 | 6.26 | 6.87 | 7.54 | 8.27 |
| | Aero | 8.13 | 4.89 | 4.91 | 5.08 | 5.57 | 6.11 | 6.71 | 7.36 |
| | Non-Aero | 1.55 | 0.96 | 0.65 | 0.63 | 0.69 | 0.76 | 0.83 | 0.91 |
| **Training** | Total | 0.00 | 0.00 | 1.17 | 1.51 | 1.66 | 1.82 | 1.99 | 2.19 |
| | Aero | 0.00 | 0.00 | 1.02 | 1.34 | 1.47 | 1.61 | 1.77 | 1.94 |
| | Non-Aero | 0.00 | 0.00 | 0.15 | 0.17 | 0.19 | 0.20 | 0.22 | 0.25 |
| **Total Payroll Costs** | | **46.56** | **46.00** | **50.14** | **52.91** | **58.04** | **63.67** | **69.84** | **76.61** |

14.25.2. Utility Costs

**Table 64: Utility expenses considered by the Authority**

| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|

| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Utility Costs** | Total | 16.40 | 15.08 | 15.13 | 15.89 | 15.89 | 15.89 | 15.89 | 15.89 |
| | Aero | 16.40 | 15.08 | 15.13 | 15.89 | 15.89 | 15.89 | 15.89 | 15.89 |
| | Non-Aero | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total Utility Charges** | | **16.40** | **15.08** | **15.13** | **15.89** | **15.89** | **15.89** | **15.89** | **15.89** |

### 14.25.3. General / Admin Costs

**Table 65: General / Admin expenses considered by the Authority**

| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Auditors Fee** | Total | 0.16 | 0.20 | 0.21 | 0.31 | 0.34 | 0.37 | 0.41 | 0.45 |
| | Aero | 0.13 | 0.17 | 0.18 | 0.28 | 0.31 | 0.34 | 0.37 | 0.41 |
| | Non-Aero | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 | 0.04 | 0.04 | 0.04 |
| **Directors Sitting Fee** | Total | 0.07 | 0.08 | 0.07 | 0.07 | 0.08 | 0.08 | 0.09 | 0.10 |
| | Aero | 0.06 | 0.07 | 0.06 | 0.06 | 0.07 | 0.07 | 0.08 | 0.09 |
| | Non-Aero | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| **Communication Expenses** | Total | 3.63 | 2.64 | 2.48 | 1.72 | 1.89 | 2.07 | 2.27 | 2.49 |
| | Aero | 3.12 | 2.51 | 2.32 | 1.65 | 1.81 | 1.99 | 2.18 | 2.39 |
| | Non-Aero | 0.51 | 0.13 | 0.16 | 0.07 | 0.08 | 0.08 | 0.09 | 0.10 |
| **Travelling Expenses** | Total | 17.81 | 6.29 | 12.30 | 8.13 | 8.92 | 9.78 | 10.73 | 11.77 |
| | Aero | 14.39 | 4.74 | 10.52 | 6.68 | 7.33 | 8.04 | 8.82 | 9.67 |
| | Non-Aero | 3.42 | 1.55 | 1.78 | 1.45 | 1.59 | 1.74 | 1.91 | 2.10 |
| **Rent** | Total | 3.05 | 5.17 | 5.56 | 6.78 | 7.44 | 8.16 | 8.95 | 9.82 |
| | Aero | 2.44 | 4.33 | 4.83 | 5.43 | 5.96 | 6.53 | 7.17 | 7.86 |
| | Non-Aero | 0.61 | 0.84 | 0.73 | 1.35 | 1.48 | 1.62 | 1.78 | 1.95 |
| **Rates and Taxes** | Total | 6.91 | 7.58 | 7.29 | 6.99 | 6.99 | 6.99 | 6.99 | 6.99 |
| | Aero | 6.25 | 6.02 | 6.38 | 6.25 | 6.25 | 6.25 | 6.25 | 6.25 |
| | Non-Aero | 0.66 | 1.56 | 0.91 | 0.74 | 0.74 | 0.74 | 0.74 | 0.74 |
| **Advertisement** | Total | 3.06 | 1.02 | 1.09 | 1.96 | 2.15 | 2.36 | 2.59 | 2.84 |
| | Aero | 2.31 | 0.55 | 0.72 | 1.76 | 1.93 | 2.12 | 2.32 | 2.55 |
| | Non-Aero | 0.75 | 0.47 | 0.37 | 0.20 | 0.22 | 0.24 | 0.26 | 0.29 |
| **Ofc Maintainance** | Total | 4.32 | 3.75 | 3.43 | 2.78 | 3.05 | 3.35 | 3.67 | 4.03 |
| | Aero | 3.58 | 3.14 | 3.13 | 2.45 | 2.69 | 2.95 | 3.23 | 3.55 |
| | Non-Aero | 0.74 | 0.61 | 0.30 | 0.33 | 0.36 | 0.40 | 0.44 | 0.48 |
| **Printing and Stationary** | Total | 1.08 | 0.76 | 0.54 | 0.56 | 0.61 | 0.67 | 0.74 | 0.81 |
| | Aero | 0.77 | 0.71 | 0.45 | 0.48 | 0.53 | 0.58 | 0.63 | 0.70 |
| | Non-Aero | 0.31 | 0.05 | 0.09 | 0.08 | 0.09 | 0.10 | 0.11 | 0.12 |
| **Event** | Total | 2.25 | 0.12 | 1.29 | 0.34 | 0.37 | 0.41 | 0.45 | 0.49 |

| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Management** | Aero | 0.70 | 0.08 | 0.96 | 0.25 | 0.27 | 0.30 | 0.33 | 0.36 |
| | Non-Aero | 1.55 | 0.04 | 0.33 | 0.09 | 0.10 | 0.11 | 0.12 | 0.13 |
| **Recruitment** | Total | 0.80 | 1.63 | 0.84 | 0.43 | 0.47 | 0.52 | 0.57 | 0.62 |
| | Aero | 0.66 | 1.45 | 0.73 | 0.36 | 0.39 | 0.43 | 0.48 | 0.52 |
| | Non-Aero | 0.14 | 0.18 | 0.11 | 0.07 | 0.08 | 0.08 | 0.09 | 0.10 |
| **Community Development** | Total | 0.00 | 0.00 | 1.12 | 1.47 | 1.61 | 1.77 | 1.94 | 2.13 |
| | Aero | 0.00 | 0.00 | 0.99 | 1.31 | 1.44 | 1.58 | 1.73 | 1.90 |
| | Non-Aero | 0.00 | 0.00 | 0.13 | 0.16 | 0.18 | 0.19 | 0.21 | 0.23 |
| **Other Miscellaneous+Business Promotion** | Total | 11.31 | 9.28 | 11.43 | 22.08 | 24.22 | 26.57 | 29.14 | 31.97 |
| | Aero | 8.14 | 6.25 | 9.87 | 21.17 | 23.22 | 25.47 | 27.94 | 30.65 |
| | Non-Aero | 3.17 | 3.03 | 1.56 | 0.91 | 1.00 | 1.10 | 1.20 | 1.32 |
| **Consultancy** | Total | 23.32 | 13.57 | 4.97 | 13.41 | 14.71 | 16.14 | 17.70 | 19.42 |
| | Aero | 19.10 | 8.63 | 2.28 | 10.94 | 12.00 | 13.16 | 14.44 | 15.84 |
| | Non-Aero | 4.22 | 4.94 | 2.69 | 2.47 | 2.71 | 2.97 | 3.26 | 3.58 |
| **Total Bank Charges** | Total | 0.27 | 2.95 | 7.82 | 3.35 | 3.35 | 3.35 | 3.35 | 3.35 |
| | Aero | 0.23 | 2.48 | 6.75 | 2.98 | 2.98 | 2.98 | 2.98 | 2.98 |
| | Non-Aero | 0.04 | 0.47 | 1.07 | 0.37 | 0.37 | 0.37 | 0.37 | 0.37 |
| **Security Cost** | Total | 0.43 | 0.63 | 4.83 | 5.78 | 6.34 | 6.96 | 7.63 | 8.37 |
| | Aero | 0.35 | 0.53 | 4.76 | 5.40 | 5.92 | 6.50 | 7.13 | 7.82 |
| | Non-Aero | 0.08 | 0.10 | 0.07 | 0.38 | 0.42 | 0.46 | 0.50 | 0.55 |
| **Total General / Admin Costs** | | **78.47** | **55.67** | **65.27** | **76.16** | **82.54** | **89.54** | **97.22** | **105.64** |

### 14.25.4. Repair and Maintenance Costs

**Table 66: Repair and Maintenance expenses considered by the Authority**

| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Building** | Total | 4.39 | 5.88 | 5.02 | 5.02 | 5.51 | 6.04 | 6.63 | 7.27 |
| | Aero | 3.71 | 5.01 | 4.49 | 4.31 | 4.73 | 5.19 | 5.69 | 6.24 |
| | Non-Aero | 0.68 | 0.87 | 0.53 | 0.71 | 0.78 | 0.85 | 0.94 | 1.03 |
| **Plant and Machinery** | Total | 12.64 | 9.34 | 12.25 | 13.15 | 14.42 | 15.82 | 17.36 | 19.04 |
| | Aero | 11.80 | 9.09 | 12.01 | 12.85 | 14.10 | 15.46 | 16.96 | 18.61 |
| | Non-Aero | 0.84 | 0.25 | 0.24 | 0.30 | 0.33 | 0.36 | 0.40 | 0.43 |
| **IT** | Total | 10.00 | 8.77 | 7.19 | 8.57 | 9.40 | 10.31 | 11.31 | 12.41 |
| | Aero | 10.00 | 8.70 | 6.26 | 8.38 | 9.19 | 10.08 | 11.06 | 12.13 |
| | Non-Aero | 0.00 | 0.07 | 0.93 | 0.19 | 0.21 | 0.23 | 0.25 | 0.28 |
| **Others** | Total | 0.94 | 1.84 | 1.89 | 2.53 | 2.78 | 3.04 | 3.34 | 3.66 |

| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | Aero | 0.80 | 1.52 | 1.77 | 2.38 | 2.61 | 2.86 | 3.14 | 3.45 |
| | Non-Aero | 0.14 | 0.32 | 0.12 | 0.15 | 0.16 | 0.18 | 0.20 | 0.22 |
| **Dimulation in value of Inventory** | Total | 3.23 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | Aero | 3.23 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | Non-Aero | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Stores and Spares** | Total | 0.61 | 3.39 | 6.75 | 6.57 | 7.21 | 7.91 | 8.67 | 9.51 |
| | Aero | 0.41 | 2.93 | 6.36 | 6.28 | 6.89 | 7.56 | 8.29 | 9.09 |
| | Non-Aero | 0.20 | 0.46 | 0.39 | 0.29 | 0.32 | 0.35 | 0.38 | 0.42 |
| **Total RM Costs** | | **31.81** | **29.22** | **33.10** | **35.84** | **39.31** | **43.13** | **47.31** | **51.89** |

### 14.25.5. Other Operating Expenses

**Table 67: Other Operating expenses considered by the Authority**

| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| **Insurance Cost** | Total | 2.33 | 2.25 | 2.53 | 2.14 | 2.35 | 2.58 | 2.82 | 3.10 |
| | Aero | 2.11 | 1.79 | 2.21 | 1.91 | 2.10 | 2.30 | 2.52 | 2.77 |
| | Non-Aero | 0.22 | 0.46 | 0.32 | 0.23 | 0.25 | 0.28 | 0.30 | 0.33 |
| **Manpower Outsourcing expenses** | Total | 12.32 | 14.93 | 13.42 | 15.57 | 17.08 | 18.74 | 20.55 | 22.54 |
| | Aero | 11.25 | 14.70 | 13.20 | 15.23 | 16.71 | 18.33 | 20.10 | 22.05 |
| | Non-Aero | 1.07 | 0.23 | 0.22 | 0.34 | 0.37 | 0.41 | 0.45 | 0.49 |
| **Bus Hire Expenses** | Total | 0.00 | 1.17 | 1.20 | 0.99 | 1.09 | 1.19 | 1.31 | 1.43 |
| | Aero | 0.00 | 1.17 | 1.05 | 0.86 | 0.94 | 1.03 | 1.14 | 1.25 |
| | Non-Aero | 0.00 | 0.00 | 0.15 | 0.13 | 0.14 | 0.16 | 0.17 | 0.19 |
| **Car Parking** | Total | 2.85 | 2.31 | 2.60 | 2.39 | 2.62 | 2.88 | 3.15 | 3.46 |
| | Aero | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | Non-Aero | 2.85 | 2.31 | 2.60 | 2.39 | 2.62 | 2.88 | 3.15 | 3.46 |
| **House Keeping** | Total | 10.09 | 8.18 | 8.34 | 8.28 | 9.08 | 9.96 | 10.93 | 11.99 |
| | Aero | 7.98 | 6.85 | 7.29 | 7.39 | 8.11 | 8.89 | 9.75 | 10.70 |
| | Non-Aero | 2.11 | 1.33 | 1.05 | 0.89 | 0.98 | 1.07 | 1.17 | 1.29 |
| **O&M Expenses** | Total | 0.87 | 0.24 | 0.31 | 0.09 | 0.10 | 0.11 | 0.12 | 0.13 |
| | Aero | 0.72 | 0.09 | 0.23 | 0.09 | 0.10 | 0.11 | 0.12 | 0.13 |
| | Non-Aero | 0.15 | 0.15 | 0.08 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Operator Fee** | Total | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | Aero | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | Non-Aero | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total Other Operating Costs** | | **28.46** | **29.08** | **28.40** | **29.46** | **32.32** | **35.45** | **38.89** | **42.66** |

**Proposal No. 10. Regarding Operating Expenses**

**10.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

i. **To consider the operational expenditures in respect of HIAL as a standalone entity (refer Para 3.4 above) as forecasted by HIAL with certain modifications as given in Table 63, Table 64, Table 65, Table 66, and Table 67.**

ii. **To institute an independent study to assess the reasonableness of operation and maintenance costs. The Authority would consider the results of the study in its tariff determination for the next control period commencing on 01.04.2016, including truing up as may become necessary.**

iii. **To review and true up if necessary the following factors for the purpose of corrections (adjustments) to tariffs on a tariff year basis**

iv. **Mandated costs incurred due to directions issued by regulatory agencies like DGCA;**

   1. **Change in per unit rate of costs related to electricity and water charges as determined by the respective regulatory agencies;**
   2. **All statutory levies in the nature of fees, levies, taxes and other such charges by Central or State Government or local bodies, local taxes/levies, directly imposed on and paid for by HIAL on final product/ service provided by HIAL, will be reviewed by the Authority for the purpose of corrections (adjustments) to tariffs on a Tariff year basis. Furthermore, any additional payment by way of interest payments, penalty, fines and other such penal levies associated with such statutory levies, which HIAL has to pay for either any delay or non-compliance, the same will not be trued up. On the input side if HIAL has to pay higher input costs even on account of change in levies/ taxes on any procurement of goods and services, the same will not be trued up.**

v. **To grant an additional increase of 3.0% in real terms over WPI increase of 6.5% (as per latest RBI forecasts) for applicable operating cost head (except statutory charges and levies).**

**14.26.** The impact of considering 6.5% WPI increase and an additional 3.0% increase in Operating expenses on the YPP has been analysed as under:

**Table 68: Sensitivity – Impact on YPP after assuming 6.5% WPI increase and additional 3.0% real increase**

| Single Till | | | |
|---|---|---|---|
| YPP as per the Base Model* | 861.99 | YPP as per the Base Model after considering 6.5% WPI increase and additional 3.0% real increase, and assuming no escalation in utility costs and Rates and Taxes | 886.63 |
| Dual Till | | | |
| YPP as per the Base Model* | 1042.41 | YPP as per the Base Model after considering 6.5% WPI increase and additional 3.0% real increase, and assuming no escalation in utility costs and Rates and Taxes | 1062.56 |
| * - Base Model – Refer to Para 1.41. In its Base Model HIAL had considered escalation of operating and maintenance cost in real terms at 5% and 7% in different categories. HIAL had not considered increase on account of WPI in the Base Model, expecting the Authority to make WPI adjustments in tariff. This would have meant that WPI would also be given on items that may not have any connection to WPI, e.g. rates and taxes, units of consumption of utilities like water and power, etc. The Authority has included WPI at 6.5% over and above increase in real terms at 3.0% on items where WPI is relevant. Hence, the calculations of YPP made by the Authority give a higher number than that given by HIAL. | | | |

# 15. Taxation

## a HIAL Submission on Taxation

**15.1.** As per its initial submission dated 31.07.2011 and its subsequent submission dated 13.09.2011, HIAL stated that computation of income tax has been made based on the prevailing Income Tax laws and rules. HIAL has also considered MAT provisions and 80IA benefits for normal tax computations. Further HIAL submitted as under,

*"In this section, we describe the key considerations in relation to determination of corporate tax on the services being provided at the airport.*

*The computation of income tax, on total income, has been made on the prevailing Income Tax laws and rules. Further, the assumptions are as under:*

- *Tax Computation has also considered MAT provisions.*
- *80IA benefits have been considered for normal tax calculations."*

**15.2.** Pursuant to this, in its submission dated 14.12.2012, HIAL stated that income tax computation has been made on the basis of prevailing Income Tax Laws and Rules. It has also considered MAT provisions and 80IA benefits for its tax calculations. Further, HIAL in its submissions stated as under,

*"For the computation of income tax, on total income, has been made on the prevailing Income Tax laws and rules. Tax Computation has considered MAT provisions. 80IA benefits have been considered for normal tax calculations"*

**15.3.** Further, the Authority sought clarification from HIAL on the tax rate assumed in the tariff model to which HIAL reply in its submission as on 04.04.2013 was recorded as under,

*"As desired by Authority , The Revised Corporate tax rate @ 33.99% and MAT rate @ 20.96% is being updated in the model."*

**15.4.** The tax numbers computed as per the meeting on 10.04.2013 is as under,

**Table 69: Tax numbers as per HIAL model – under Single till**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Tax Payable** | 1.95 | - | (0.45) | 10.88 | 20.91 | 66.16 | 80.34 | 93.62 |

**Table 70: Tax numbers as per HIAL model – under Dual till**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Tax Payable** | - | - | - | - | - | 82.49 | 96.40 | 108.54 |

### b Authority's Examination of HIAL Submissions on Taxation

**15.5.** The Authority has carefully considered the HIAL submissions in respect of tax calculation. The Authority's examination of the issue is as follows:

**15.6.** The Authority has reviewed the taxation calculations methodology followed by HIAL in the tariff model submitted along with its submissions. As per the Tariff model, HIAL is calculating the Gross Taxable Income by adding back the Book depreciation to the Profit before Tax numbers for each year and then subtracting the Tax Depreciation from the above. HIAL has considered the normal Corporate Tax provisions around carrying forward of accumulated losses and MAT credits in its tax calculation.

**15.7.** Further, HIAL has also considered Section 80IA benefit under the Income Tax Act wherein HIAL is allowed the tax exemptions for any 10 consecutive assessment years out of 15 years beginning from the date of commercial operations. As per the Tariff model, HIAL has assumed this benefit to start from 01.04.2013. Thus Section 80 IA benefit will be applicable for the current Control Period under purview.

**15.8.** Further, the Authority examined the current tax rates applicable in India and found a mismatch in the tax rate considered by HIAL in the tariff model at 32.45% for a period from FY 2013-14 onwards. Thus the Authority sought clarification from HIAL in this regard. HIAL responded with a correction in the tax rates indicating it at 33.99% from FY 2013-14 onwards. The difference was incorporated in the tariff model.

**15.9.** As regards taxation, the general principle adopted by Authority is to consider taxes paid on actual by the regulated entity. In respect of HIAL, however, the tax liability of HIAL consists of the tariffs of (a) stand-alone entity of HIAL, (b) Hotel, (c) the SEZ and

(d) the Duty Free. The Authority has, therefore, considered the tax paid by the standalone entity of HIAL (refer Para 3.4 above) both under single till and dual till, if it were to pay the tax independently.

**15.10.** The Authority has also tentatively proposed to true up the taxes actually paid by the stand-alone entity of HIAL (both under single till and dual till). If some of the building blocks (notably operation and maintenance expenditure, etc.) are not trued-up, the Authority is cognizant of the circumstance that the standalone entity of HIAL (refer Para 3.4 above) may pay higher or lower actual tax on this account. However, the Authority proposes to still take the actual tax paid for the purposes of determination of aeronautical tariff.

**15.11.** Under dual till, the tax calculation is performed on the revenue, which is generated from aeronautical services, operating costs attributable to aeronautical services, depreciation attributable to aeronautical assets and interests attributable to aeronautical assets. The depreciation considered in tax calculation is the depreciation derived from WDV method. Under single till, all the above aspects for both aeronautical and non-aeronautical services / assets are considered.

**Proposal No. 11. Regarding Taxation**

**11.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To consider taxes paid on actuals in each year for the years 2011-12 and 2012-13 and the estimated tax liability for the remaining years 2013-14, 2014-15 and 2015-16. To note actual tax paid / payable is according to MAT on account of 80 IA benefit availed by HIAL as per the Concession Agreement terms.**

**ii. To true up the difference between the actual corporate tax paid and that used by the Authority for determination of tariff for the current control period. The Authority proposes that this truing up will be done in the next control period commencing 01.04.2016.**

**iii. To note that there may be difference in actual taxes paid in single and dual till approaches.**

## 16. Non-aeronautical revenue

### a HIAL Submission on Non-aeronautical revenue

**16.1.** HIAL, in its various submissions, has provided breakup of the Non-aeronautical revenue. The submissions of HIAL in this respect are present in the following paragraphs.

**16.2.** Car Park:

16.2.1. HIAL, in its initial submission dated 13.09.2011 in respect of revenue from car park, stated that:

> *"Operator- Tenaga Parking*
>
> *GHIAL Revenue – Projection from 2011-12 has been calculated by escalating the Actual Revenues of previous year with projected growth in total pax."*

16.2.2. HIAL, in its submission dated 14.12.2012, stated that the car park revenues for the FY 2011-12 is considered at actuals and the revenues for the FY 2012-13 is considered based on extrapolated revenues of first six months' actual revenues. Further, HIAL stated that from FY 2013-14, the YOY revenues are escalated by the growth rate in the total passengers and an additional 5% growth attributable to increase in spending capacity of the passengers.

16.2.3. The Car Park revenues as per HIAL tariff model is as under,

**Table 71: Car Park revenues as per HIAL tariff model**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Car Park** | 8.53 | 9.44 | 12.84 | 14.26 | 15.42 | 16.19 | 18.17 | 20.37 |

**16.3.** Radio Taxi:

16.3.1. HIAL, in its initial submission dated 13.09.2011 in respect of revenue from concessionaires for radio taxi, stated that:

> *"Operators – Meru Cabs, Easy Cabs, Sky Cabs.*
>
> *SPP of Rs 30/pax is considered. There is tremendous increase in revenues from radio taxi during FY 2011-12 due to Change in*

*contract terms wherein revenue share has increased from 11% % to 16% on an average."*

16.3.2. HIAL, in its submission dated 14.12.2012, stated that the radio taxi revenues for the FY 2011-12 is considered at actuals and the revenues for the FY 2012-13 is considered based on extrapolated revenues of first six months' actuals. Further, HIAL in its submission stated that from year 2013-14, revenue share of 19.02% is considered on the expected revenues of radio taxi operator and the expected revenues of the operator are worked based on SPP of Rs. 40/ per passenger and a growth of 5% YOY attributable to increase in spending capacity of the passengers.

16.3.3. Pursuant to this, HIAL in its submission dated 06.02.2013, reiterated that from year 2013-14, revenue share of 19.02% is considered on the expected revenues of radio taxi operator. HIAL further stated the methodology of calculation of SPP of Rs. 40 / passenger as under,

*"SPP of Rs 40/pax is considered based on the below mentioned assumptions.*

| *Radio Taxi SPP Workings* | *2012-13* |
|---|---|
| *Radio taxi Revenues (HY Actuals for Fy 2012-13)* | *3.27* |
| *Projected Revenues for Fy 12-13* | *6.54* |
| *Projected Pax for the year* | *8.24* |
| *Revenue Share* | *19.02%* |
| *Radio Taxi Projected Gross Sales (In Rs Crs)* | *34.38* |
| ***SPP in INR*** | ***41.73*** |

*Hence, by rounding off the above calculation, SPP is taken as Rs 40/pax and thereafter a growth of 5% has been considered in SPP from FY 13-14 onwards."*

16.3.3.a. The Radio Taxi revenues as per HIAL tariff model is as under

**Table 72: Radio Taxi revenues as per HIAL tariff model**

| | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
|---|---|---|---|---|---|---|---|---|
| **Radio Taxi** | 1.94 | 2.48 | 2.80 | 5.15 | 6.54 | 6.58 | 7.04 | 7.51 |

**16.4.** Retail:

16.4.1. HIAL, in its submission dated 13.09.2011 in respect of the revenue from retail activities, stated that:

> *"Projections for 2011-12 is calculated as per the contract terms of each concessionaire. Projections for 2011-12 are calculated as per the contract terms of each concessionaire. The sales projections of each concessionaire have been considered by applying an annual increase over previous year sales by traffic growth % i.e. Domestic growth on domestic and international growth on international outlets "*

16.4.2. HIAL, in its subsequent submission dated 14.12.2012, stated that the retail revenues for the FY 2011-12 is considered at actuals and the revenues for the FY 2012-13 is considered based on extrapolated revenues of first six months' actuals. Further, HIAL in its submission stated that from FY 2013-14, the YOY revenues are escalated by the growth rate in the total passengers and additional 5% growth on account of increase in spending capacity of the passengers.

16.4.3. The Retail revenues as per HIAL tariff model is as under

**Table 73: Retail revenues as per HIAL tariff model**

| | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
|---|---|---|---|---|---|---|---|---|
| **Retail** | 4.66 | 6.16 | 6.98 | 10.41 | 11.58 | 12.16 | 13.60 | 15.20 |

**16.5.** F&B:

16.5.1. HIAL, in its initial submission dated 13.09.2011 in respect of revenue from Food and Beverages, stated that:

> *"Projections for 2011-12 is calculated as per the contract terms of each concessionaire.*
>
> *The sales projections of each concessionaire have been considered by applying an annual increase over previous year sales by traffic growth %. Domestic growth on domestic outlets and international growth on international outlets."*

16.5.2. HIAL, in its subsequent submission dated 14.12.2012, stated that the F&B revenues for the FY 2011-12 is considered at actuals and the revenues for the FY 2012-13 is considered based on extrapolated revenues of first six months' actuals. Further, HIAL in its submission stated that from FY 2013-14, the YOY revenues are escalated by the growth rate in the total passengers and additional growth of 5% on account of increase in spending capacity of the passengers.

16.5.2.a. The F&B revenues as per HIAL tariff model is as under

**Table 74: F&B revenues as per HIAL tariff model**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **F&B** | 5.51 | 5.04 | 6.28 | 7.53 | 9.00 | 9.45 | 10.57 | 11.81 |

**16.6.** Plaza Premium:

16.6.1. HIAL, in its initial submission dated 13.09.2011 in respect of revenue from plaza premium, stated that:

> *"Revenues Share- 13% on Gross sales of Concessionaire. Sales projections of concessionaire is considered based on actual sales of previous year escalated by traffic growth projected YOY.*
>
> *Rents: - Rents have been considered based on the space occupied and the rates agreed in the agreement."*

16.6.2. HIAL, in its subsequent submission dated 14.12.2012, stated that the plaza premium revenues for the FY 2011-12 is considered at actuals and the revenues for the FY 2012-13 is considered based on extrapolated revenues of first six months' actuals. Further, HIAL in its submission stated that from FY 2013-14, the YOY revenues are escalated by the growth rate in the total passengers and additional growth of 5% on account of increase in spending capacity of the passengers.

16.6.2.a. The plaza premium as per HIAL tariff model is as under,

**Table 75: Plaza Premium as per HIAL tariff model**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Plaza Premium** | 2.03 | 2.54 | 2.72 | 2.96 | 3.34 | 3.51 | 3.92 | 4.38 |

**16.7.** Advertisement and promotion:

16.7.1. HIAL, in its initial submission dated 13.09.2011 in respect of revenue from advertisement and promotion, stated that:

> *"Concessionaire: Laqshaya Hyderabad Advertisement Ltd with revenue share- 60% of the gross turnover.*
>
> ***Sales projection of concessionaire****: - The sale of the concessionaire has been considered as per the minimum guaranteed amount of sales as agreed and the same has been escalated by an agreed rate of 10%.*
>
> *Revenues for 2011-12 and 2012-13 also include onetime upfront fee Rs 2.72 and Rs 5.66 Crs respectively as per the agreement."*

16.7.2. HIAL, in its submission dated 14.12.2012, stated that the advertisement revenues for the FY 2011-12 is considered at actuals and the revenues for the FY 2012-13 is considered based on extrapolated revenues of first six months' actuals. Further, HIAL stated that advertisement revenues from FY 2013-14 are considered at the rate of 60% of the gross turnover of the concessionaire and the gross turnover of the concessionaire has been considered as per the business plan projections as per the Revenue Share agreement, i.e. 10% increase in the projected sales YOY.

16.7.3. Further, with regards to promotion revenues, HIAL in the same submission stated that the promotions revenues for the FY 2011-12 is considered at actuals and the revenues for the FY 2012-13 is considered based on extrapolated revenues of first six months' actuals. Also, the promotional revenues from FY 2013-14 are escalated by 10% YOY, in line with the advertisement revenues.

16.7.4. Pursuant to this, HIAL, in its submission dated 06.02.2013, stated that, *"Revenues for 2011-12 and 2012-13 also include onetime upfront fee Rs 2.72 and Rs 5.66 Crs respectively as per the agreement. Therefore, the revenues for the year 2013-14 show a decline on account of considering one time revenues of Rs 5.66 Crs during the previous year 2012-13."*

16.7.4.a. The Advertisement and Promotion revenues as per HIAL tariff model is as under,

**Table 76: Advertisement and Promotion Revenue as per HIAL tariff model**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Advertisement and Promotion** | 15.17 | 15.34 | 16.18 | 19.29 | 18.90 | 15.84 | 17.42 | 19.16 |

**16.8.** Rental Revenues:

16.8.1. HIAL, in its initial submission dated 13.09.2011 in respect of rental revenues, stated that:

*"Rental revenues for the future projections have been considered as per space occupied and the rates agreed as per the lease agreements. Rental income includes rent from Airline offices, Airline ticketing offices, Ground Handlers, Govt Agencies, Cargo Satellite Building, Promo Counters, PTC, Blue Dart Building, Airline Lounges, Telecom, Canteens, NOB and old Site office, fuel Station, and others."*

16.8.2. HIAL, in its submission dated 14.12.2012, stated that the rental revenues for the FY 2011-12 is considered at actuals and the Rental revenues for the FY 2012-13 is considered based on extrapolated revenues of first six months' actuals. For future projections, the submissions assumed YOY rental revenue increase of 4% from FY 2013-14 onwards.

16.8.2.a. The Rental revenues as per HIAL tariff model is as under,

**Table 77: Rental revenue as per HIAL tariff model**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Rental** | 30.34 | 28.77 | 38.00 | 44.06 | 49.66 | 49.19 | 51.16 | 53.21 |

**16.9.** Forex:

16.9.1. HIAL, in its initial submission dated 13.09.2011 in respect of revenue from forex counter, stated that:

> *"Operator- Weizmann*
>
> *Fore revenues is calculated as per the Revenue share of 5.56% on the gross sales of the Forex operator.*
>
> *Sales of the Forex operator are projected at SPP of Rs 300/International Pax.*
>
> *Also Upfront non-refundable deposit for a concession of 7 year of Rs 13.74 Crs is has been considered as revenue over a period of 7 years period starting from July -11."*

16.9.2. HIAL, in its submission dated 14.12.2012, stated that the revenue from forex counters for the FY 2011-12 is considered at actuals and the revenue for the FY 2012-13 is considered based on extrapolated revenue of first six months' actuals. Further, for the projections from FY 2013-14 onwards, HIAL stated that it has considered a revenue share assumption of 5.56%, SPP of Rs. 300/international passenger and front non-refundable deposit for a concession of 7 year of Rs. 13.74 Cr.

16.9.3. Pursuant to this, HIAL in its submission dated 06.02.2013, reiterated that revenue from forex counters are calculated as per the Revenue share of 5.56% on the gross sales of the Forex operator and that an Upfront non-refundable deposit for a concession of 7 year of Rs. 13.74 Crs has been considered as revenue over a period of 7 years period starting from July 2011. In its submission, HIAL also stated that for FY 12-13, expected revenues based on actuals of first six months of 2012-13 has been considered and thereafter a growth of 5% in SPP has been considered for projections. Further, HIAL presented the methodology of computing SPP of Rs. 300 / passenger which is as under,

*"*

| *Forex SPP Workings* | *2011-12* |
|---|---|
| *Total Sales of Forex Operator (in Rs Crs)* | *56.67* |
| *International Pax for the year (in Mn nos)* | *1.90* |
| ***SPP in INR*** | ***298.42*** |

*Total Sales for FY 2011-12 was Rs. 56.67 Cr and when divided by total international pax we got SPP of Rs. 298.37. Hence we assumed SPP of Rs.300 per international pax."*

16.9.3.a. The Forex revenues as per HIAL tariff model is as under,

**Table 78: Forex (Weizmann) revenue as per HIAL tariff model**

| | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
|---|---|---|---|---|---|---|---|---|
| **Forex (Weizmann)** | 3.28 | 4.45 | 4.09 | 4.70 | 6.26 | 5.42 | 5.86 | 6.32 |

**16.10.** Public Admission Fee:

16.10.1. HIAL, in its initial submission dated 13.09.2011 in respect of revenue from public admission fee, stated that:

*"GHIAL is collecting Rs. 100 per person as admission fees for entering the airport. During the year 2010-11 Rs. 4.03 Crs has been collected as Public Admission revenues.*

*Projections from 2011-12 has been considered as per the actual revenues of previous year escalated by growth in international traffic YOY. This is due to the fact that the said revenue of public admission fees comes from the meeters and greeters of international passenger."*

16.10.2. HIAL, in its submission dated 14.12.2012, stated that the revenue from public admission fees for the FY 2011-12 is considered at actuals and the revenue for the FY 2012-13 is considered based on extrapolated revenues of first six months' actuals. Further, HIAL stated that revenue from FY 2013-14 onwards is escalated based on the growth in international passengers.

16.10.3. The Public Admission Fee revenues as per HIAL tariff model is as under,

**Table 79: Public Admission Fee as per HIAL tariff model**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Public Admission Fee** | 0.64 | 3.09 | 4.03 | 4.17 | 5.72 | 5.72 | 6.16 | 6.59 |

**16.11.** Miscellaneous Income:

16.11.1. HIAL, in its initial submission dated 13.09.2011 in respect of Miscellaneous Income, stated that:

> *"Includes income from AEP, IT, permits, Airline Security, Filming, paid Portal. Projections of income from IT, AEP, Permits, filming and Others have been considered at actual revenues of previous year.*
>
> *The fall in income from security is due to fall in security income as Income from Airline Security has been considered only till September-11 and the same has not been projected for future period, as HIAL has not received the approval from BCAS for providing the services of Airline security.*
>
> *Projections of Income from paid portal is based on actual income of previous year escalated by traffic growth projected YOY."*

16.11.2. HIAL, in its submission dated 14.12.2012, stated that the revenue from miscellaneous income (including income from AEP, IT, permits, Airline Security, Filming, paid Portal) other than paid portal for the FY 2011-12 is considered at actuals and the revenue from the FY 2012-13 is considered at actual revenues of previous year. Further, HIAL in its submission stated that the income from paid portal is based on actual income of previous year escalated by traffic growth projected YOY.

16.11.2.a. The Miscellaneous Income as per HIAL tariff model is as under,

**Table 80: Miscellaneous Income as per HIAL tariff model**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Miscellaneous Income** | 5.59 | 7.02 | 8.73 | 8.61 | 7.08 | 5.96 | 6.15 | 6.36 |

**16.12.** New Revenue Streams Added: The Authority observed that HIAL, in its submission dated 13.09.2011, presented certain revenue streams, which were not considered in HIAL submission dated 31.07.2011. In this respect, HIAL's submission is as under,

> *"Incomes from Go Karting, Simulator and Amusement have been considered as per contracts from 2011-12 onwards.*

| | | |
|---|---|---|
| *Go Karting- MAG per month* | *1.30* | *Rs Lakhs/month* |
| *Simulator* | *0.50* | *Rs Lakhs/month* |
| *Amusement* | *0.30* | *Rs Lakhs/month* |
| *Esc %* | *4.00%* | *%* |

*."*

**16.13.** HIAL, in its submission dated 14.12.2012, stated that:

> *"The One time incomes like payment of interest on delayed payments etc have not been extrapolated in the projections as these are one time one-off types of incomes and not likely to recur."*

**16.14.** In Flight Kitchen:

16.14.1. HIAL has assumed the revenues from In-flight Kitchen are part of Non-Aeronautical revenues in the Tariff model.

16.14.2. As per Schedule 3: Part 1 – Airport Activities of the Concession Agreement between Ministry of Civil Aviation and HIAL, Flight Catering Services form part of Airport Activities.

16.14.3. Taking the above into consideration, In-Flight Kitchen should have been considered as part of aeronautical services. However, currently, In-Flight Kitchen has been outsourced by HIAL to a third party and HIAL only gets a revenue share from the third party. Thus, keeping in mind that currently In-Flight Kitchen is outsourced to a third party, the Authority is of the view that the revenues share received from In-Flight Kitchen can form a part of Non-Aero revenues.

16.14.4. As regards the In Flight Kitchen facility at RGI Airport, Hyderabad, HIAL, in its submission dated 13.09.2011, stated that there are two operators namely, LSG Sky chef and Sky Gourmet. Regarding the revenue share and lease rent from these agencies, HIAL submitted that:

> *"Operators: LSG Sky chef, Sky Gourmet*
>
> - *Revenue Share- Revenues Share is projected and increased YOY from FY 2011-12 by the growth % in total ATMs.*
> - *Lease Rents: Total Area leased to 2 operators – 5 Acres. Lease rentals to GHIAL - Rs 35 per sq.mtrs per month. Escalation in lease rentals- 5% escalation YOY"*

16.14.5. HIAL, in its submission dated 14.12.2012, stated that the inflight kitchen revenues for the FY 2011-12 is considered at actuals and the revenues for the FY 2012-13 is considered based on extrapolated revenues of first six months' actuals. HIAL also stated that from FY 2013-14 onwards, the YOY revenues for In Flight Kitchen are escalated by the growth rate in the total passengers and an additional 5% growth attributable to increase in spending capacity of the passengers. For Lease Rentals, HIAL in its submission stated that Land lease rentals from the inflight kitchen are considered at actuals for FY 2011-12 and with extrapolated actuals for FY 2012-13 and thereafter increased by 5% YOY as per the agreed agreements.

16.14.6. The Authority observed from the tariff model that HIAL has assumed 18% revenue share and provided the actual revenues from this service. Further on seeking clarification from HIAL on the methodology adopted for calculation of In-flight Kitchen revenues in tariff model, HIAL, in its submission dated 04.04.2013, responded as under,

> *"One way of calculation is take growth in gross revenue and then take 18% of that and second method is apply growth to 18% revenue itself. Both give same results. In current case the net*

*revenue is escalated by traffic growth and additional growth of 5%. As the previous year revenues are already based on the 18% revenue share, the escalated revenues are based on 18% revenue share with traffic and additional growth"*

16.14.7. In addition to this, HIAL in its submission dated 04.04.2013, clarified that the revenues from In-Flight kitchen have been escalated based on increase in total passenger and increase in spending. HIAL further stated as under,

*"It is assumed that the in flight kitchen growth is dependent of passenger growth"*

16.14.7.a. The In-Flight Kitchen revenues as per HIAL tariff model is as under,

**Table 81: In-Flight Kitchen as per HIAL tariff model**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **In-Flight Kitchen – Revenue Share to HIAL** | 4.06 | 3.62 | 4.44 | 4.11 | 4.22 | 4.43 | 4.97 | 5.57 |
| **In-Flight Kitchen – Lease Rentals** | 0.72 | 0.76 | 0.79 | 0.83 | 0.88 | 0.92 | 0.97 | 1.02 |
| **In-Flight Kitchen – Total** | 4.78 | 4.38 | 5.23 | 4.94 | 5.10 | 5.36 | 5.94 | 6.59 |

**16.15.** Hotel Revenues

16.15.1. HIAL, in its submission dated 14.12.2012, stated that:

*"The Hotel revenues for the FY 2011-12 is considered at actuals and the revenues for the FY 2012-13 is considered based on extrapolated revenues of first six months actuals. Hotel revenues from the FY 2013-14 are considered with 5% increase the occupancy levels."*

16.15.2. Pursuant to this, HIAL in its submission dated 06.02.2013 provided a methodology of calculation of Average Room Rate for hotel rooms. The methodology as provided in the submission is as under,

*"The projections for Hotel Revenues is considered as per the following:*

*No of Rooms: 305*

*Occupancy has been considered at 45% from the year 2012-13 as per the HY performance of the Hotel. Thereafter an increase of 5% in the occupancy has been considered.*

*Average Room Rent (ARR) – Rs 4800 per room*

*Detailed working for the basis of ARR is given below:*

| *ARR workings* | | *2012-13* |
|---|---|---|
| *Hotel Room Revenues (HY Actuals 2012-13) Rs Crs* | *Rs Cr* | *12.07* |
| *Projected Revenues for Fy 12-13* | *Rs Cr* | *24.14* |
| *No of Rooms* | *No.* | *305.00* |
| *Occupancy %* | *%* | *45%* |
| ***ARR*** *[(Projected revenue as per HY Actuals) / (No of rooms* Occupancy %* 365 Days)]* | ***Rs/Room*** | ***4820.00*** |

*Based on the above ARR has been considered at Rs 4800 from the year 2012-13.*

*F& B Revenues – 50% of the room revenues as per the historic trend.*

*Other income - 10% of the room revenues as per the historic trend."*

16.15.3. HIAL in its submissions dated 09.05.2013 submitted auditor's certificate stating the historical hotel revenues for FY 2012-13 till September 2012. This revenue is pro-rated for the full year and thus calculated for FY 2012-13

16.15.4. The Hotel revenues as per HIAL tariff model is summarized below:

**Table 82: Hotel Revenues as per HIAL tariff model**

| | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
|---|---|---|---|---|---|---|---|---|
| **Hotel Revenues** | 0.00 | 31.70 | 40.96 | 47.90 | 38.82 | 40.40 | 42.42 | 44.54 |

**16.16.** Duty Free:

16.16.1. HIAL, in its initial submission dated 13.09.2011, stated that:

*"Duty Free Operator- Hyderabad Duty Free Retail Limited (100% subsidiary of GHIAL).*

*The projections from duty free business has been considered as per the terms of the concession agreement between GHIAL and HDFRL.*

*Spend per pax : The Spend Per passenger has been considered at 2.25 US$ from the year 2011-12 as against the actuals of 1.70US$ for the previous year.*

*The sales of the duty free operator are calculated by using SPP and the projected international traffic.*

*Revenue share is considered as per the agreement as under*

| | | |
|---|---|---|
| *Gross revenues till* | ***USD 5 MN*** | ***22%*** |
| *Gross revenues above 5 million USD but upto 10 million USD* | ***USD 10 MN*** | ***30%*** |
| *Gross Revenues more than* | ***USD 10 MN*** | ***35%*** |

•

- Lease rents:

| ***Area in Sqm*** | ***Rentals (In Rs/Sqmt/Month)*** | ***Escalation per annum*** |
|---|---|---|
| • *Shop Area – 1813.84 Sqmt*<br>• *Office area and warehouse – 244.45 Sqmt* | • *Rs 500/sqmt/month*<br>• *Rs 920/sqmt/month*<br>• *10% CAM on office space* | • *5% from FY11* |

*"*

16.16.2. HIAL, in its submission dated 14.12.2012, stated that the duty free revenues for HIAL for the FY 2011-12 is considered at actuals and the revenues for the FY 2012-13 is considered based on extrapolated revenues of first six months' actuals. Further, HIAL in its submission stated that from FY 2013-14, revenue share as per the Duty Free Revenue Share agreement is considered. HIAL also stated that revenues of the duty free operator is considered based on international passengers multiplied by the SPP which is increased by 5% YOY.

16.16.3. Pursuant to this, HIAL, in its submission dated 06.02.2013, stated as under, *"Spend per pax : The Spend Per passenger has been considered at 2.65 US$ from the year 2012-13.*

*Detailed workings for the same are given below:*

| *Duty Free SPP workings* | *2012-13* |
|---|---|
| *Duty Free Revenues (HY Actuals 2012-13)* | *14.26* |
| *Projected Revenues for Fy 12-13* | *28.52* |
| *Pax for the year* | *1.97* |
| *SPP in INR* | *144.77* |
| ***SPP in USD (@ exchange Rate of 54.57)*** | ***2.65*** |

*The sales of the duty free operator is calculated by using SPP and the projected international traffic.*

*Revenue share is considered as per the agreement as under:*

| | | |
|---|---|---|
| *Gross revenues less than or equal 10 million USD per annum* | *Upto USD 10 MN* | *22%* |
| *Gross Revenues more than 10 million USD per annum* | *Above USD 10 MN* | *35%* |

*Minimum Monthly Guarantee of 0.75 USD per International PAX has been considered as per the agreement.*

*As per the agreement Duty Free operator has to pay revenues share or Minimum Monthly Guarantee whichever is higher for the respective period."*

16.16.4. The Duty Free –Retail revenues (received as revenue share) as per HIAL tariff model is as under

**Table 83: Duty Free revenues (received as revenue share) as per HIAL tariff model**

| | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
|---|---|---|---|---|---|---|---|---|
| **Duty Free (received as revenue share)** | 10.73 | 10.86 | 4.02 | 5.99 | 8.96 | 9.00 | 9.68 | 10.33 |

16.16.5. The total Duty Free revenues (as a separate business) to HIAL as per HIAL tariff model is as under

**Table 84: Duty Free revenues (as a separate business) as per HIAL tariff model**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Duty Free revenues** | 0.00 | 0.00 | 11.29 | 25.48 | 28.99 | 30.06 | 34.01 | 38.17 |

**16.17.** SEZ Revenues: HIAL, in its submission dated 14.12.2012 in respect of revenue for the GMR Hyderabad Airport SEZ Limited, stated that:

*"The SEZ revenues for the FY 2011-12 is considered at actuals and the revenues for the FY 2012-13 is considered based on extrapolated revenues of first six months actuals. SEZ revenues from the FY 2013-14 are considered based on the land lease contracts entered as on date with the lessors."*

16.17.1. The SEZ revenues as per HIAL tariff model is summarized below:

**Table 85: SEZ Revenues as per HIAL tariff model**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **SEZ Revenues** | 0.00 | 0.00 | 2.79 | 10.98 | 16.53 | 16.95 | 17.39 | 17.85 |

**16.18.** HIAL, in its submissions dated 04.04.2013, provided the rationale behind the assumption of spend increase of 5% in non-aeronautical revenues like Retail and F&B, Plaza, Car Park and Radio Taxi. The same has been reproduced as under,

*"Non Aero revenues for future years has been escalated by Traffic growth + additional increase of 5%. As per the historical trends, CAGR in the non aero revenues for the FY 2008-09 to FY 2012-13 is 10.96%, however CAGR traffic growth during such period was 7.3%. Therefore, past trend shows a CAGR growth of around 3.66%. Consider this experience, we have assumed an additional growth of 5% in addition to the traffic growth."*

**16.19.** The total non-aeronautical revenues as per HIAL tariff model is as provided in the table below,

**Table 86: Total Non-Aeronautical Revenues as per HIAL tariff model**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Total Non-Aeronautical Revenues** | 121.0 | 161.2 | 208.6 | 262.7 | 278.7 | 253.9 | 273.2 | 293.7 |

**b Authority's Examination of HIAL Submissions on Non-aeronautical revenue**

**16.20.** The Authority has carefully considered the issue of non-aeronautical revenue in respect of HIAL. The Authority's examination of the issue is as follows:

**16.21.** The Authority noted that HIAL has not assumed any WPI increase on the Non-Aeronautical revenues to HIAL. The Authority sought clarification from HIAL on this aspect and has noted HIAL's response. HIAL responded stating as under,

> *"In revenues, we have considered a spend increase of 5% over and above the pax growth. There is no additional increase expected in on account of inflationary increase in Non-Aero revenues."*

**16.22.** The Authority has consistently stated that in the Indian context, passengers generate non-aeronautical revenues. It has also tentatively proposed to true up the passenger volumes in its tariff determination. It is cognizant of the fact that the non-aeronautical revenue is also sensitive to the flight timings, etc. The Authority has considered a projection of passenger traffic as per HIAL's estimate of 0.00% for FY 2013-14, 6.88% for FY 2014-15 and 6.74% for FY 2015-16. HIAL has made its projections of non-aeronautical revenue based on its estimates of traffic growth each year and adding 5% as increase in the passenger spend per year (over and above the rate of growth of passengers). The Authority notes that in case of Hyderabad, the concessionaires for non-aeronautical services are broadly in position and any substantial increase in their number is not expected. Since the traffic growth is proposed to be trued up, the non-aeronautical projections could be based there upon, linking the passenger spend to some other economically relevant factor (that will substitute the term of passenger spend as indicated by HIAL). The Authority would welcome stakeholders' views on this matter.

**16.23.** In its submissions, HIAL has given details of various concessionaires for non-aeronautical services. Its projections of the non-aeronautical revenue, however, are dependent on different drivers for different non-aeronautical services. For example, in case of Food and Beverage (F&B), the driver is based on the passenger growth and additional factor of increased passenger spend. However, in case of forex concessionaire, HIAL has not applied the same formula and, however, has applied the percentage of revenue share by such concessionaire to HIAL. The Authority would not like to go into the commercial and financial details of the agreements between HIAL and its concessionaires for non-aeronautical services. For the past two years, the Authority has figures of non-aeronautical revenue available till 2011-12 and for the first six months (till September, 2012) of the financial year 2012-13. These six month figures are doubled to arrive at an estimated of the total non-aeronautical revenue for FY 2012-13. This estimate is taken as a base for projections of non-aeronautical revenue into the next three years of the control period (i.e. till 31st March, 2016). The year 2012-13 has an entry for 'Interest Income' in its non-aeronautical revenue. HIAL however has projected nil figures for the next three years for this entry. Management of cash is an internal matter of HIAL and, therefore, the Authority has considered non-aeronautical revenues during FY 2012-13, subtracted the revenues from interest income (of about Rs.25 crores in FY 2012-13) from the total non-aeronautical revenues during FY 2012-13 and has considered the resultant figure as a base for the projections of non-aeronautical revenue for the balance control period. Since the Authority has proposed not to project separately the non-aeronautical income on account of different concessionaires' for different heads, it has considered an increase in the assumed non-aeronautical revenue into the future, based on certain broad drivers. These drivers are the passenger numbers and the passenger spend.

**16.24.** Accordingly the Authority has tentatively proposed to base the non-aeronautical revenue projections on total non-aeronautical revenue (minus the interest income) in FY 2012-13, increasing it by the traffic forecast of HIAL as well as passenger spend of 5%, which will yield the projected (future) non-aeronautical revenue for 2013-14 onwards for the balance years in the current control period. The Authority also proposes to true-up the non-aeronautical revenues during this control period while determining its tariff in the next control period. Based on the stakeholders' consultation, the Authority will make a final decision in this matter.

**16.25.** The Authority is tentatively of the view that the interest of the passengers as well as those of the airport operator would be served if the non-aeronautical revenues are trued up.

**16.26.** In view of the above, the total non-aeronautical revenues assumed by the Authority in the tariff determination for the current control period considering exclusion of hotel, SEZ and duty free business (and thus revenue from these businesses) is presented in the table below,

**Table 87: Total Non-Aeronautical Revenues considered by the Authority**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Total Non-Aeronautical Revenues considered by Authority** | 121.0 | 129.5 | 153.6 | 178.4 | 194.4 | 177.7 | 199.4 | 223.5 |

**Proposal No. 12. Regarding Non-aeronautical revenue**

**12.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To consider non-aeronautical revenues as per Authority's assumptions as summarized in Table 87.**

**ii. To true-up the non-aeronautical revenue for HIAL for the current control period at the time of tariff determination for the next control period**

**16.27.** The impact of change in non-aeronautical revenues on account of considering non-aeronautical revenues as per Authority's examination on the YPP has been analysed as follows:

**Table 88: Sensitivity – Impact on YPP on account of considering non-aeronautical revenues as per Authority's examination**

| Single Till | | | |
|---|---|---|---|
| YPP as per the Base Model* | 861.99 | YPP as per the Base Model after considering non-aeronautical revenues as per Authority's examination (i.e. increasing total non-aeronautical revenues for FY 2013-14 onwards by applying traffic increase as per HIAL's Base Model and an additional 5% increase in passenger spend on the total non-aeronautical revenue of FY 2012-13 as per HIAL Base Model minus the revenue from interest expense in FY 2012-13, and further excluding hotel, SEZ and duty free assets but including revenue share from duty free) | 696.27 |
| Dual Till | | | |
| YPP as per the Base Model* | 1042.41 | YPP as per the Base Model after considering non-aeronautical revenues as per Authority's examination (i.e. increasing total non-aeronautical revenues for FY 2013-14 onwards by applying traffic increase as per HIAL's Base Model and an additional 5% increase in passenger spend on the total non-aeronautical revenue of FY 2012-13 as per HIAL Base Model minus the revenue from interest expense in FY 201213, and further excluding hotel, SEZ and duty free assets) | 1042.41 |
| * - Base Model – Refer to Para 1.41 | | | |

## 17. Treatment of Cargo, Ground Handling & Fuel throughput Revenues

**a HIAL Submission on Treatment of Cargo, Ground Handling & Fuel throughput Revenues**

**17.1.** As per its initial submission dated 13.09.2011, HIAL stated that Cargo Revenues are considered as per the projections given the cargo operator at Hyderabad airport and the revenue share to HIAL is 18% of gross revenue as per the agreement between the cargo operator and HIAL. For Ground Handling revenues, HIAL stated in its submission that HIAL gets 10% revenue share and the revenue is escalated based on growth in international ATMs. Further, HIAL submitted as under,

**17.2.** Cargo Revenues:

17.2.1. HIAL, in its initial submission dated 13.09.2011stated that:

> *"Cargo volumes is considered as per the projections given by the cargo operator at Hyderabad Airport i.e. HMACPL. The charges are considered as per the rates projections given by HMACPL. However if there is any change in the same based on AERA's final tariff approval of HMACPL, we reserve our right to amend our filing accordingly. As per the agreement there are two sources of revenues from cargo to GHIAL.*
>
> *Revenue Share to GHIAL – 18% revenue share on the gross revenues. (Revenue share increased w.e.f from November 2010)*
>
> *Fixed Rentals of Rs. 5.78 Crs has been considered as per the agreement for each year without any escalation."*

17.2.2. HIAL, in its submission dated 14.12.2012 stated that the Cargo revenues for the FY 2011-12 is considered at actuals and the cargo revenues for the FY 2012-13 is considered based on extrapolation of six months actual revenue.

17.2.3. HIAL has escalated the cargo revenues by 8.00% each year. On seeking clarification, HIAL in its submission dated 04.04.2013 replied as under, *"Cargo escalation is as same escalation as used by HMACPL which is approved by AERA"*

17.2.4. The Cargo revenues as per HIAL tariff model is as under,

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Cargo – Revenue Share** | 7.41 | 6.41 | 10.16 | 10.72 | 10.58 | 10.77 | 11.64 | 12.57 |
| **Cargo – rental Revenue** | 5.78 | 5.78 | 5.78 | 5.78 | 5.78 | 5.78 | 5.78 | 5.78 |
| **Cargo- Total** | 13.19 | 12.19 | 15.94 | 16.50 | 16.36 | 16.55 | 17.41 | 18.34 |

**17.3.** Ground Handling:

17.3.1. HIAL, in its initial submission dated 13.09.2011 stated that:

*"Operator- Al Sats, Menzies Bobba*

*Ground handling revenues projections from FY 2011-12 is escalated over revenues of previous years at the growth rate of increase in international ATMs as GHIAL gets the revenue share of 10% over the international business of the ground handling operator."*

17.3.2. HIAL, in its submission dated 14.12.2012 stated that the ground handling revenues for the FY 2011-12 is considered at actuals while the revenues for the FY 2012-13 is considered based on extrapolation of six months actuals revenues. Further HIAL stated that from FY 2013-14, the ground handling revenues will be escalated by growth in the international ATM and by additional 5% growth attributable to increase in spending capacity of the users.

17.3.3. In addition to this, HIAL in its submission dated 04.04.2013 clarified that the revenues Ground Handling have been escalated based on increase in ATM and increase in spending. HIAL further stated as under,

*"Already explained to authority earlier. This is the best basis as ground handling is dependent on ATM growth. In addition to the ATM growth additional 5% growth is considered. Based on historical trend on an average there is degrowth in the revenues, however we have considered an increase of 5% over and above traffic."*

17.3.4. The Ground Handling revenues as per HIAL tariff model is as under,

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Ground Handling** | 5.37 | 5.16 | 5.57 | 5.22 | 5.30 | 5.57 | 6.30 | 6.99 |

**17.4.** Fuel Farm

17.4.1. HIAL has submitted that since the services in respect of fuel farm is provided by HIAL itself, it has submitted a separate tariff proposal for fuel farm in line with the requirement under the Authority's Order No 05/2010-11 dated 02.08.2010. During its presentation to the Authority on 19.12.2012, HIAL submitted as under,

> *"Based on the requirements of guidelines, the fuel farm tariff proposal has been filed by us separately.*
>
> *The excess amount collected considering the continuation of existing fuel charges over the eligibility has been considered towards subsidizing aeronautical charges.*
>
> *In case there is a change in the tariff approved for fuel farm charges, GHIAL tariff filing shall be revised accordingly".*

17.4.2. HIAL, during the presentation, submitted that it has followed the building block approach for this separate filing. HIAL's submission on the broad approach is as follows:

> *"Following approach has been adopted for firming up the Fuel Farm RAB during the regulatory control period:*
>
> - *Financial year 2011-12 has been taken as the first year of the control period.*
> - *Opening RAB has been firmed up by aggregating the total assets of fuel farm assets, at book value on the last day of the year 2010-11.*
> - *Addition and deletion has been taken as per audited financial statements.*
> - *Additional Capex is projected for Fuel Farm from Fy 12-13 onwards as per the business plan.*

- *Depreciation has been computed as per schedule XIV of the Companies Act 1956."*

17.4.3. In line with the above approach, HIAL, during the presentation, submitted calculations for each of the building blocks. The calculation of RAB in respect of Fuel Farm, as submitted by HIAL, is presented below:

| **Particulars** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
|---|---|---|---|---|---|---|---|---|---|
| **Gross Block** | | **96.9** | **99.5** | **99.6** | **102.0** | **102.4** | **106.8** | **114.4** | **117.5** |
| Opening Regulatory Asset Base | 0.0 | 96.7 | 91.9 | 89.4 | 84.4 | 81.6 | 76.9 | 75.9 | 77.8 |
| Investment | 96.8 | 0.1 | 2.6 | 0.1 | 2.4 | 0.4 | 4.4 | 7.6 | 3.2 |
| Depreciation & Amortization | 0.1 | 4.9 | 5.0 | 5.1 | 5.2 | 5.2 | 5.4 | 5.8 | 5.9 |
| Closing Regulatory Asset Base | **96.7** | **91.9** | **89.4** | **84.4** | **81.6** | **76.9** | **75.9** | **77.7** | **75.0** |
| Net Regulatory Asset Base | | **94.3** | **90.7** | **86.9** | **83.0** | **79.2** | **76.4** | **76.8** | **76.4** |

17.4.4. HIAL has submitted the WACC calculation in respect of Fuel Farm facility, which considers the cost of equity at 24%, cost of debt the same as being considered for HIAL. The Fuel Farm operating expenses are projected to increase at 5% from FY 2012-13 onwards

17.4.5. The fuel farm throughput projection, as considered by HIAL in the fuel farm tariff proposal, is as follows:

| | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
|---|---|---|---|---|---|---|---|---|
| ATM Growth % | | | | | -6.76% | 0.00% | 6.79% | 5.28% |
| Annual Fuel Off take (in Kl) | 287383 | 291737 | 276360 | 318398 | 302588 | 302588 | 323129 | 340191 |

17.4.6. HIAL, during the presentation, has also submitted the current fuel farm revenue being charged by them, which is presented as follows:

| | |
|---|---|
| Fuel Farm Charges Per KL | |

| | |
|---|---|
| Royalty (Rs. Per KL) | 670.00 |
| Capital Recovery (Rs. per KL) | 1500.00 |
| Annual Escalation in Royalty | 0% |

17.4.7. Following the above factors, HIAL has submitted the calculation for Yield per Kl. HIAL has submitted that if the Yield per Kl is lower than the Yield being presently charged by HIAL, the excess will be considered towards subsidizing aeronautical charges in HIAL filing. Accordingly the Yield calculation, submitted by HIAL during the presentation, is presented below:

| | **2008-09 to 2010-11** | **2011-12 to 2015-16** |
|---|---|---|
| PV of Gross target Revenue | 95.01 | 118.57 |
| PV of Fuel upliftment | 0.12 | 0.14 |
| Eligible Yield Per KL | 816.27 | 829.23 |
| Yield Actually charged | 2,170.00 | 2,170.00 |
| Excess Charged adjusted in GHIAL Aero Revenues per KL | (1,353.73) | (1,340.77) |

17.4.8. Subsequently, HIAL revised the fuel farm Yield per KL calculation details as under,

| | **2008-09 to 2010-11** | **2011-12 to 2015-16** |
|---|---|---|
| PV of Gross target Revenue | 105.32 | 132.53 |
| PV of Fuel upliftment | 0.13 | 0.16 |
| Eligible Yield Per KL | 826.08 | 828.29 |
| Yield Actually charged | 2,170.00 | 2,170.00 |
| Excess Charged adjusted in GHIAL Aero Revenues per KL | (1,343.92) | (1,341.71) |

17.4.9. HIAL also submitted that if the Yield per Kl granted by the Authority is different from the Yield considered by HIAL in its submissions, the "Excess Charged adjusted in GHIAL Aero Revenues" will also get adjusted.

**b Authority's Examination of HIAL Submissions on Treatment of Cargo, Ground Handling & Fuel throughput Revenues**

**17.5.** The Authority has carefully considered the submissions of HIAL in respect of revenue received from cargo, ground handling and fuel farm. The Authority's examination of the issue is as follows:

***Cargo***

**17.6.** The Authority has noted that HIAL has outsourced the cargo handling activity to Hyderabad Menzies Air Cargo Pvt Ltd. (HMACPL), which has been incorporated by GHIAL and Menzies Aviation Plc (with 51% of the shareholding in the Company held by GHIAL and 49% held by Menzies). The Operation and Maintenance Agreement has been signed between HIAL and HMACPL for provision of operation and maintenance services of the cargo terminal by HMACPL.

**17.7.** The Authority has noted that some assets like cargo terminal building and associated infrastructure etc. in respect of cargo service are in the books of HIAL and not in the books of HMACPL. The Authority has further noted from the HIAL submission dated 31.07.2011 and 04.04.2013 that HIAL has considered cargo and ground handling assets as non-aeronautical. The reason provided by HIAL for doing so is that HIAL is not involved in the operation of cargo and ground handling and is only receiving revenue share / rentals from the respective operators.

**17.8.** The Authority has noted that as per Schedule 3: Part 1 – Airport Activities of the Concession Agreement between Ministry of Civil Aviation and HIAL, Cargo Terminal, Cargo Handling and Cargo Terminal Operations form part of Airport Activities. The Authority further noted that the charges in respect of cargo services are not included in Schedule 6: Regulated Charges of the Concession Agreement. However, under the legislative policy guidance of the AERA Act, the Authority has determined tariffs in respect of cargo services at RGI Airport, Hyderabad, Cargo service being an aeronautical service under the AERA act.

**17.9.** The Authority's view in this regard is that the primary consideration for classification of an asset into aeronautical or non-aeronautical should be whether service being provided utilizing those assets is aeronautical or non-aeronautical. The AERA Act clearly states that cargo and ground handling are both aeronautical services. Both have been concessioned out by HIAL to third party concessionaires. However the assets which are used to give cargo service are on the books of account s of HIAL but the assets used to give ground handling service are not on the books of HIAL as per the information available. Accordingly the Authority notes that the assets being utilized for provision of cargo service will be considered as aeronautical assets and the revenues therefrom accruing in the hands of the airport operator should also be considered as aeronautical revenue despite the fact that this service is concessioned out to third party concessionaires. The depreciation on such assets will be accorded corresponding treatment. The Authority highlights that in case the assets are considered as aeronautical assets, the users would bear the burden of depreciation being charged on such assets as well as WACC payable to the airport operator.

**17.10.** As mentioned above, the Authority proposes to consider both the assets being utilized for provision of cargo service and the revenue accruing to HIAL on account of cargo service as aeronautical. However, the value of such assets is not immediately identifiable from the tariff model submitted by HIAL. Hence the Authority is unable to shift the value of such assets from non-aeronautical assets to aeronautical assets. The Authority will seek auditor certification from HIAL on the value of such assets along with its yearwise capitalization and depreciation schedule. Once the values are available to the Authority, it proposes to shift the auditor certified value of assets pertaining to cargo service from non-aeronautical assets to aeronautical assets. The Authority is aware that this shifting of assets may have an upward impact on the aeronautical tariff under dual till but that is not expected to be very material. Under single till this inter se shift from non-aeronautical to aeronautical asset base would have no impact. Pending the receipt of such certification, the Authority has performed the dual till calculations with the cargo assets being clubbed in non-aeronautical assets and has also considered the revenue therefrom as non-aeronautical revenue. Upon receiving this information, revenue from cargo service in the hands of HIAL is also proposed to be shifted to aeronautical revenue.

**17.11.** As per the above arrangement, while HMACPL provides the operation and maintenance services of the cargo terminal and levies and collects the charge towards the same, it pays a revenue share to HIAL and bears the operating costs incurred towards provision of its services. The Authority has observed from the tariff model submitted by HIAL that HMACPL shares 18% of its revenue with HIAL. In addition to the Revenue Share, HMACPL also pays a rent to HIAL on monthly basis. This monthly rent is calculated as 1/12$^{th}$ of 14% of the Capital Investment by HIAL. Thus HIAL receives two payments from HMACPL: (a) a Revenue Share of 18% and (b) Rent

**17.12.** The Authority has observed from the tariff model that while the rent remains constant till the end of this control period, the revenue received by HIAL based on revenue share from HMACPL increases. In the tariff model, HIAL has considered an increase of 8.00% per annum in the revenue share from HMACPL for the rest of the control period.

**17.13.** HMACPL has separately filed its Tariff Proposal with the Authority and the Authority has issued its final Tariff Order vide its Order No 10 / 2012-13 dated 06.07.2012 in the matter of Multi Year Tariff Proposal for 1st Control Period and the tariffs for individual tariff years have also been determined accordingly.

**17.14.** The revenue accruing to HIAL on account of the aeronautical service of cargo facility is as per Para 17.2.4 above.

***Ground Handling***

**17.15.** The Authority has noted from HIAL submissions that there are two agencies providing ground handling services at RGI Airport, Hyderabad; Menzies Bobba Ground Handling Services Pvt Ltd and Air India SATS Airport Services Pvt Ltd.

**17.16.** The Authority has determined tariffs in respect of services provide by these two agencies vide its Orders – Order No 12 / 2011-12 dated 29.09.2011 for Air India SATS Airport Services Pvt Ltd and Order No 15 / 2011-12 dated 17.10.2011 for Menzies Bobba Ground Handling Services Pvt Ltd.

**17.17.** The Authority has observed from the tariff model that the revenue in the hands of HIAL from the provision of Ground Handling services at RGI Airport, Hyderabad is in the form of a revenue share from these two agencies. In the tariff model, HIAL has not furnished the break-up of revenue earned from AI-SATS and Menzies Bobba. It has presented a single stream of revenue from ground handling services. Historical numbers till FY 2011-12 are based on the actuals in the hands of HIAL. Revenue for FY 2012-13 has been based on extrapolation of revenue from the first six months of FY 2012-13 and that for the future years is based on the projection of international ATMs and a real increase in the spend increase.

**17.18.** HIAL has considered the revenues from Ground Handling activities as part of Non- Aeronautical revenues in the tariff model.

**17.19.** The Authority has noted that as per Schedule 3: Part 1 – Airport Activities of the Concession Agreement between Ministry of Civil Aviation and HIAL, Ground Handling Services and Ground Handling equipment form part of Airport Activities. The Authority further noted that charges levied in respect of ground handling services are not included in the Schedule 6 of the Concession Agreement. However, under the legislative policy guidance of the AERA Act, the Authority has undertaken the determination of tariff in respect of ground handling services at RGI Airport, Hyderabad vide its Orders referred in Para 17.16 above.

**17.20.** As discussed above, HIAL has concession out provision of Ground Handling services to third party independent service providers and thus the revenue accruing to HIAL from these third party independent service providers is proposed to be considered as non-aeronautical revenue in the hands of HIAL and is as per Para 17.3.4 above.

**17.21.** In view of the above, the Authority notes that the treatment of revenue from ground handling services in the hands of HIAL under single till as well as dual till remains the same.

***Fuel Farm***

**17.22.** The Authority has carefully considered the submissions made by HIAL in respect of Fuel Farm facilities. The Authority understands that the fuel farm facility at RGI Airport, Hyderabad is owned by HIAL i.e. the assets thereof are on the books of HIAL. However, the operations of fuel farm facility have been contracted out to a third party under an Operations contract. Accordingly HIAL has made a separate submission in line with the Airport Guidelines in respect of the Eligible Yield per KL to be charged for its fuel farm services.

**17.23.** The Authority has carefully examined this filing of HIAL. The Authority has noted from the tariff model submitted by HIAL that HIAL has followed the building block approach in its filing in respect of fuel farm. The Authority has also noted that the financing for the fuel farm assets has been considered from the overall financing for HIAL and accordingly same cost of equity and same cost of debt as that for HIAL has been applied in respect of fuel farm. The total financing for the fuel farm has also been split in the same debt/equity ratio as that for HIAL.

**17.24.** The Authority notes that the tariffs for the service of supply of fuel to an aircraft at a major airport are to be determined as per the Authority's Direction No. 04/2010-11 dated 10.01.2011 (i.e. CGF guidelines). HIAL is providing fuel farm service at RGI Airport, Hyderabad which is a part of the aeronautical service of supply of fuel to an aircraft. Hence, the tariffs for this service have to be determined by the Authority under the AERA act.

**17.25.** As per the CGF Guidelines, for determination of tariffs the Authority first determines the materiality and competition indices. In respect of supply of fuel, materiality index is calculated based on total fuel throughput in KL at all major airports. It is noted that the materiality index for supply of fuel in respect of RGI Airport, Hyderabad is 5.92%. Hence this service at RGI Airport, Hyderabad is material. Further, HIAL is the only service provider in respect of the fuel farm service at RGI Airport, Hyderabad. Hence the fuel farm service under supply of fuel service is "material but not competitive". The Authority understands that the airlines are presently making use of the fuel farm services at RGI Airport, Hyderabad and they would have entered into agreements with the fuel farm service provider, wherein the tariffs would have been indicated to the airlines. The Authority is not aware of any reasonable objections from the users of fuel farm services (Clause 6 of CGF Guidelines). Thus in view of the reasonableness of these agreements, the Authority proposes to determine the tariffs for fuel farm service provided by HIAL at RGI Airport, Hyderabad under light touch approach.

**17.26.** The Authority has noted from the tariff model submitted by HIAL that following the building block approach in respect of fuel farm services, HIAL has arrived at an ARR. Based on this ARR and the projected fuel throughput, it has worked out the Eligible Yield per kilolitre of Rs. 828.29 per kilolitre for the control period. However HIAL has been charging the existing users at a yield of Rs. 2,170 per kilolitre, which is different from the Eligible Yield per kilolitre derived from building block approach. As per HIAL submission in the tariff model, the difference between the existing rate (Rs. 2,170 per kilolitre) and the Eligible Yield per kilolitre (Rs. 828.29 per kilolitre), worked out by HIAL, is being considered as excess yield from the fuel farm services. This excess yield (Rs. 1,341.71 per kilolitre) is being linked to the MYTP submissions and is subtracted from the ARR for defraying the passenger charges under MYTP.

**17.27.** As discussed above, the Authority has considered a cost of equity of 16% and cost of debt as that under MYTP submissions. This has resulted in a different WACC and hence a different ARR than that being considered by HIAL. Accordingly, the yield per kilolitre and the excess charge per kilolitre have been calculated by the Authority as per

**17.28.** Table 90.

**17.29.** As noted above by the Authority, it is not aware of any complaints from the users of the fuel farm services. The Authority, under the light touch approach, proposes to approve the existing yield per kilolitre being charged by HIAL. However for the purpose of calculation of the Eligible Yield per kilolitre, the Authority is of the view that the same cost of equity and cost of debt, as being considered for MYTP, should be considered for the fuel farm filing also. Accordingly the ARR in respect of fuel farm services, calculated by HIAL, has been revised. The Authority proposes to accept HIAL submission that the excess yield (calculated on the existing yield and Eligible Yield per kilolitre) being charged in respect of fuel farm services may be considered towards defraying the aeronautical charges for the passengers. The Authority is aware that the existing yield is higher than the Eligible Yield. The excess charge calculation, as discussed above, is as follows:

**Table 89: Calculation of Yield Per Kiloliter in respect of fuel farm services as submitted by HIAL**

| | **2008-09 to 2010-11** | **2011-12 to 2015-16** |
|---|---|---|
| NPV of Gross target Revenue calculated by HIAL | 105.32 | 132.53 |
| Fuel upliftment (in Kilolitres) | 0.13 | 0.16 |
| Yield Per KL | 826.08 | 828.29 |
| Yield Actually charged | 2,170.00 | 2,170.00 |
| Excess Charged adjusted from the ARR of MYTP | (1,343.92) | (1,341.71) |

**Table 90: Calculation of Yield Per Kiloliter in respect of fuel farm services – as per the Authority**

| | 2008-09 to 2010-11 | 2011-12 to 2015-16 |
|---|---|---|
| NPV of Gross target Revenue calculated by AERA | 67.47 | 115.59 |
| Fuel upliftment (in Kilolitres) | 0.08 | 0.16 |
| Yield Per KL | 796.65 | 728.40 |
| Yield Actually charged | 2,170.00 | 2,170.00 |
| Excess Charged adjusted from the ARR of MYTP | (1,373.35) | (1,441.60) |

**17.30.** As the excess charge being considered by the Authority is higher than that calculated by HIAL, the resultant YPP is lower.

**Proposal No. 13. Regarding Treatment of Ground Handling & Fuel throughput Revenues**

**13.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To consider the revenue from Ground Handling services (provided by third party concessionaires) accruing to HIAL as non-aeronautical revenue for determination of tariffs of aeronautical services for the current control period.**

**ii. To consider revenue from fuel farm service provided by HIAL (assets on the balance sheet of standalone entity of HIAL (refer Para 3.4 above) and given to M/s RIL under operations and maintenance agreement) as aeronautical revenue in the hands of HIAL, also taking into account the expenses thereof.**

**iii. To determine the tariffs for fuel farm service provided by HIAL under light touch approach (through this service is "material but not competitive", however HIAL having entered into reasonable user agreements).**

**Proposal No. 14. Regarding Treatment of Cargo Services**

**14.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

- **i. To note that (a) Cargo service is an aeronautical service, (b) Cargo service is outsourced by HIAL to third party concessionaires, (c) There are assets pertaining to cargo service which are in the books of HIAL, (d) In the model submitted by HIAL assets pertaining at (c) are considered as non-aeronautical assets under both single and dual till, inasmuch as HIAL does not regard cargo service as a regulated (aeronautical) service (e) As per Authority's treatment of revenue recognition, in normal course the revenues received by the airport operator from third party concessionaires are to be reckoned as non-aeronautical revenues, (f) The Authority proposes to take into account the assets as at (c) above as aeronautical assets after obtaining a due certification and details from HIAL and treat the revenues accruing to HIAL from these assets as aeronautical revenue.**
- **ii. Having regard to 14.(a).(i).(a)- 14.(a).(i).(e) above, to treat for the time being the revenues from cargo service as non-aeronautical (both under single and dual till)**
- **iii. To treat the revenue from the cargo service as aeronautical (along with associated expenses if any) as and when the Authority, after stakeholders consultation gives effect to 14.(a).(i).(f) above (both under single and dual till), the impact of which on the aeronautical tariffs in dual till cannot, for the time being, be calculated.**

# 18. Traffic Forecast

## a HIAL Submission on Traffic Forecast

**18.1.** As per its submission dated 31.07.2011, HIAL stated that it has assumed the traffic growth based on a study by Madras School of Economics on airport traffic. Further, HIAL submitted as under,

*"Traffic forecasts form an important component of the price cap regulatory framework. Once total allowable revenue has been calculated by adding the building blocks, this total revenue is divided by the forecasted traffic to arrive at a forecast for allowable yield within the regulatory period.*

*In terms of the traffic forecast developed to support our regulatory filing, GHIAL commissioned a study from the Madras School of Economics with the following scope:*

*'to develop a forecast model using advanced time series techniques developed recently. The study will examine the short run as well long run relationship between air-travel demand and other economic factors. One of the important objectives would also be to compare the results across various benchmark studies already existing for India.'*

*The report of traffic forecast for Hyderabad Airport, as prepared by MSE is being enclosed as Annexure F. The tariff determination is worked out considering the base case growth forecasted by MSE. The summary of the same is as under:*

*Summary of Traffic Forecast*

| | ***Pax Growth*** | | ***ATM Growth*** | | ***Cargo Growth*** | |
|---|---|---|---|---|---|---|
| ***Year*** | ***Domestic*** | ***International*** | ***Domestic*** | ***International*** | ***Domestic*** | ***International*** |
| *2011-12* | *8.10%* | *8.68%* | *6.52%* | *7.48%* | *3.98%* | *16.04%* |
| *2012-13* | *9.03%* | *9.54%* | *7.48%* | *8.36%* | *3.16%* | *17.64%* |
| *2013-14* | *7.29%* | *8.14%* | *5.76%* | *6.97%* | *2.50%* | *15.05%* |
| *2014-15* | *6.61%* | *7.77%* | *6.61%* | *7.77%* | *2.31%* | *14.36%* |
| *2015-16* | *6.70%* | *6.89%* | *5.19%* | *5.74%* | *3.14%* | *10.15%* |

."

**18.2.** HIAL reiterated the same in its 13.09.2011 submission.

**18.3.** Pursuant to this, in its submission dated 14.12.2012, HIAL stated that traffic for the first year of the control period i.e. 2011-12 is revised based on the actual traffic achieved at the airport. HIAL also stated that there is a substantial drop in domestic traffic seen so far in the year 2012-13 while growth in international traffic is marginal. Considering this, HIAL has assumed that it will take some time for traffic to reach the earlier growth trajectory from the current level and hence have assumed 0% growth in traffic in 2013-14. However, for the future periods of the control period, HIAL has retained the same traffic growth as proposed in the Madras School of Economics report.

**18.4.** HIAL, in its submission dated 14.12.2012 also stated that they are not proposing any traffic band and propose 100% true up for any shortfall in traffic at any given level of forecast.

**18.5.** Further, HIAL in its submission dated 14.12.2012, stated as under,

"**Summary of Pax Forecast considered in filing**

| | *Domestic Pax* | | *International Pax* | |
|---|---|---|---|---|
| *Year* | *Filed* | *Revised* | *Filed* | *Revised* |
| *2011-12** | *8.10%* | *16.5%* | *8.68%* | *1.4%* |
| *2012-13#* | *9.03%* | *-6.5%* | *9.54%* | *3.9%* |
| *2013-14* | *7.29%* | *0%* | *8.14%* | *0%* |
| *2014-15* | *6.61%* | *6.6%* | *7.77%* | *7.8%* |
| *2015-16* | *6.70%* | *6.7%* | *6.89%* | *6.9%* |

** Traffic growth based on actual*

*# Likely actual based on six months data*

*Summary of ATM Forecasts*

| | *Domestic ATM* | | *International ATM* | |
|---|---|---|---|---|
| *Year* | *Filed* | *Revised* | *Year* | *Filed* |
| *2011-12** | *6.52%* | *23.1%* | *7.48%* | *2.1%* |
| *2012-13#* | *7.48%* | *-8.6%* | *8.36%* | *4.1%* |

| | | | | |
|---|---|---|---|---|
| *2013-14* | *5.76%* | *0%* | *6.97%* | *0%* |
| *2014-15* | *6.61%* | *6.6%* | *7.77%* | *7.8%* |
| *2015-16* | *5.19%* | *5.2%* | *5.74%* | *5.7%* |

** Traffic growth based on actual*

*# Likely actual based on six months data*

*Traffic Band True Up*

*We are not proposing any traffic band and propose 100% true up for any shortfall in traffic at any given level of forecast."*

**18.6.** Pursuant to this, HIAL in its submission dated 06.02.2013 re-iterated the same passenger and ATM forecast numbers as stated above. From the submissions it was observed that though HIAL submitted the traffic forecast report of MSE, however the same traffic growth as reported by MSE was not considered by HIAL in its submissions. The Authority sought clarification for this and HIAL vide its submission dated 04.04.2013 submitted as under,

*"This difference is there because log formula is used to calculate growth rate instead of normal growth formula. Calculation are attached as per MSE study"*

## b Authority's Examination of HIAL Submissions on Traffic Forecast

**18.7.** The Authority has carefully considered HIAL submissions on the traffic forecast. The Authority's examination of the issue is as follows. The Authority observes that the traffic growth numbers considered by HIAL are not as per the report by MSE. It is also observed that the actual traffic in FY 2012-13 is not as per the traffic forecasted by the MSE report. It is further observed that HIAL has considered a 0% growth in the traffic for the year 2013-14.

**18.8.** The Authority notes that though MSE conducted a study regarding the traffic forecast in respect of RGI Airport, Hyderabad, the traffic during the first two years of the current control period has been different from that forecast by MSE notably during 2012-13 wherein as against a growth of 4.3% forecasted by MSE, there was a negative growth of 6.5%. In view of the volatile traffic volumes in the past, the Authority proposes to accept the HIAL submission on traffic and true up the same as per actual traffic volumes at the time of determination of aeronautical tariffs in the next control period.

**Proposal No. 15. Regarding Traffic Forecast**

**15.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To consider the actual traffic numbers as provided by HIAL in respect of the years 2011-12 and 2012-13 and to consider the traffic forecast as submitted by HIAL for the balance years in the current control period.**

**ii. To true up the traffic volume based on actual growth during the current control period while determining aeronautical tariffs for the next control period commencing w.e.f. 01.04.2016.**

## 19. Inflation

### a HIAL Submission on Inflation

**19.1.** As per its initial submission dated 31.07.2011, HIAL understanding is that the regulator will give an allowance towards inflation (WPI) over and above the submitted target revenue. Further HIAL submitted as under,

> *"In addition to the yield per pax determined by dividing the NPV of the Target revenues by NPV of total passengers, the company is entitled to WPI Inflation. Accordingly, it is understood that the regulator will give an allowance towards inflation (WPI) over and above the target revenue being submitted herewith based on actual WPI numbers."*

**19.2.** Pursuant to this submission, the submission made by HIAL on 13.09.2011 and 14.12.2012 reiterated the same as stated above.

**19.3.** The submission made by HIAL dated 14.12.2012 also provided a rationale for the WPI assumption. The submission stated that the WPI for the control period is assumed to 6.2% based on the Survey of Professional Forecasters (RBI website). Further, the submission made by HIAL stated as under,

> *"Survey of Professional Forecasters (RBI Website) revised WPI for next five years to 6.2%. Relevant extract is as following.*
>
> *Long Term Forecasts:*
>
> *"Long term forecast for real GDP for the next five years (2013-2017) is 7.5 per cent, revised downward from the last survey. For the next ten years (2013-2022), GDP is expected to grow at 8.0 per cent, same as the last survey. Over the next five years, WPI inflation is expected to be 6.2 per cent, revised marginally upwards from the last survey. CPI-IW inflation forecast over next five years is revised upwards to 7.3 per cent. Over the next ten years, WPI inflation is expected to be 6.0 per cent, revised marginally upwards from 5.8 per cent in the last survey. CPI-IW inflation is also revised upwards to 6.8per cent from 6.3per cent over the next ten years (Table 9)."*
>
> *Table 9: Long Term Median Forecasts for Growth and Inflation*

| *Growth rate in %* | *Next Five Years* | *Next Ten Years* |
|---|---|---|
| *Real GDP* | *7.5* | *8.0* |
| *WPI* | *6.2* | *6.0* |
| *CPI-IW* | *7.3* | *6.8* |

*Source:http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/01SPF300712F.pdf*

*We request the authority to consider the above inflationary increase over and above the tariff entitlement."*

**b Authority's Examination of HIAL Submissions on Inflation**

**19.4.** The Authority's examination of the issue is as follows:

19.4.1. The Authority notes that as per "Results of the Survey of Professional Forecasters on Macroeconomic Indicators – 22nd Round (Q3:2012-13)" the current forecast by RBI states that the WPI for next five years is revised to 6.5% per annum. Presented below is the relevant extract from the published report,

***Long Term Forecasts:***

*"Long term forecast for real GDP for the next five years (2013-14 to 2017-18) and the next ten years (2013-14 to 2022-23), is expected to be 7.3 per cent and 8.0 per cent, respectively. Over the next five years, inflation based on WPI and CPI-Industrial Workers is expected to be 6.5 per cent and 7.8 per cent respectively. Over the next ten years, inflation based on WPI and CPI-Industrial Worker is expected to be 6.0 per cent and 6.5 per cent respectively.*

*Long Term Forecasts for Growth and Inflation*

| | **Annual average percentage change over the next five years** | | | |
|---|---|---|---|---|
| | **Mean** | **Median** | **Max** | **Min** |
| Real GDP | 7.3 | 7.3 | 8.5 | 6.0 |
| WPI | 6.5 | 6.5 | 8.0 | 5.5 |
| CPI-IW | 7.7 | 7.8 | 10.0 | 6.5 |
| Source: http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/01SPFMD250113_F.pdf | | | | |

*."*

19.4.2. In view of the above, Authority proposes to consider WPI at 6.5% for determination of aeronautical tariffs in respect of RGI Airport, Hyderabad during the current control period.

19.4.3. Further, the Authority is of the view that the actual inflation during the Control Period may differ from the forecast assumption considered presently and thus inflation may be trued up for each year of the current control period while determining the aeronautical tariff for RGI Airport, Hyderabad for the next control period.

**Proposal No. 16. Regarding Inflation**

**16.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To consider WPI at 6.5% for remaining years of the current control period based on the latest assessment by RBI.**

**ii. To true up the WPI index for actual WPI index as may occur for each year of the Control Period, the effect of which would be given in the next control period commencing from 01.04.2016.**

**19.5.** The impact of considering revised inflation rate as per RBI forecasts of 6.5% on the YPP has been analysed as under:

**Table 91: Sensitivity – Impact on YPP after considering revised inflation rate of 6.5% as per latest RBI forecasts**

| Single Till | | | |
|---|---|---|---|
| YPP as per the Base Model* | 861.99 | YPP as per the Base Model after considering revised inflation rate of 6.5% as per latest RBI forecasts | 862.39 |
| Dual Till | | | |
| YPP as per the Base Model* | 1042.41 | YPP as per the Base Model after considering revised inflation rate of 6.5% as per latest RBI forecasts | 1042.75 |
| * - Base Model – Refer to Para 1.41 | | | |

## 20. Calculation of WPI –X

### a HIAL Submission on Calculation of WPI –X

**20.1.** Vide its submission dated 13.09.2011, HIAL stated as under,

*"The current proposal is for the approval of Yield Per Pax (computed by dividing the NPV of Aggregate Revenue Requirement by the NPV of total number of passengers in the control period). This yield per pax will require suitable upward adjustment based on the shortfall in collection as a result of actual date of charging being a future date rather than April 1st 2011. Post approval of the yield from AERA, we would submit a detailed pricing proposal to achieve this yield which will be a combination of various aeronautical charges, UDF, discounts etc.*

*We have not factored in the Inflation in our forecast for future years. It is assumed that AERA will give a year on year WPI based inflation increase over and above approved yield calculated based on actual WPI data."*

**20.2.** HIAL, vide its submission dated 06.02.2013, has referred to the Illustration 8 in the Direction No. 5 of the Authority and stated that in the formula for determination of Yield Per Passenger under the MYTP submitted by HIAL, it has considered the Present Value of the passengers in the denominator instead of the absolute value. HIAL's submission is as under,

*"In our case, we have determined the average rate of aeronautical charge per passenger by dividing the PV of the Net Target Revenue (netting off the Actual/realized aeronautical revenue till the date of new tariff implementation) by Present value of the throughput of the passengers (aggregate of International and Domestic). This has been worked out equalising the PV of target revenue with the actual/projected revenue using the average aeronautical rate.*

*Therefore, in case the YPP is being used as a rate for projecting the revenues, the volumes will have to be discounted. The formula will be modified as under. We suggest modifying the formula for the determination of PSF as below:*

$$\textbf{\textit{Yield Per Pax}} = \frac{\sum_{t=1}^{5} PV(ARRt) - Actual\ Realised\ Revenues}{\sum_{t=1}^{5} PV(VEt)}$$

"

**b Authority's Examination of HIAL Submissions on Calculation of WPI –X**

**20.3.** The Authority's examination of HIAL's submissions on calculation of WPI-X is as follows.

**20.4.** In its Airport Guidelines and Airport Order, the Authority has provided the mechanism for calculation of Yield per passenger. As per the Guidelines, the Yield per passenger is to be calculated as follows:

$$\text{Yield per passenger (Y)} = \sum_{t=1}^{5} PV(VE_t \times Y_t) \Big/ \sum_{t=1}^{5} VE_t$$

Where,

- $VE_t$ is the volume as estimated by the Authority in a Tariff year t in the Multi Year Tariff Order
- $Y_t$ is the yield per passenger for Tariff Year t calculated according to Para ;
- Present value (PV) of $(VE_t \times Y_t)$ for a Tariff Year t is being determined at the beginning of the Control period and the discounting rate for calculating PV is equal to the Fair Rate of Return determined by the Authority

**20.5.** The Authority has noted the HIAL submission regarding calculation of YPP by using the Present Value of number of passengers in the denominator of the above formula instead of the absolute value thereof. The Authority is of the view that HIAL's inference drawn by connecting two separate tables of the Illustration 8 of the Airport Guidelines i.e. Direction No. 5 of the Authority is not correct. It is observed that the Authority, in this illustration, has clearly mentioned the formula to be followed for calculation of Yield Per Passenger – which does not factor the present value of traffic volume in the denominator (number of passengers in this case). This formula is reproduced above. The Authority's determination of Yield Per Passenger in the current consultation paper is based on this formula.

**20.6.** The Authority has further provided for the determination of Yield per passenger for the second Tariff Year onwards using the following formula:

$$\text{Yield per passenger } (\mathrm{Y}_t) = Y_{t-1} \times (1 + WPI_t - X_t)$$

Where,

- $Y_t$ is the yield per passenger for the Tariff Year t with forecasted change in WPI;
- $Y_{t-1}$ is the yield per passenger for the Tariff Year preceding Tariff Year t determined by the Authority
- $WPI_t$ is the forecast of change in WPI for Tariff Year t as determined by the Authority;
- $X_t$ is determined by the Authority for Tariff Year t in the Multi Year Tariff Order.

**20.7.** The Authority's consideration of the WPI inflation has been presented in Para 19 above. The Authority, in its Guidelines, has provided the considerations behind the determination of the factor $X_t$. The Guidelines, in this regard, state as under,

> *"The objective of targeted efficiency improvement, in the determination of X, is to simulate a competitive environment in a non-competitive situation by allowing Airport Operator to raise Tariff(s) to offset cost increases, but by a rate lower than inflation in order to encourage greater efficiency. The targeted efficiency improvement can be high, in case the Authority considers that there is high scope for efficiency and the Airport Operator needs to make more effective or efficient use of its resources. Also, the targeted efficiency improvement can be low, in case the Authority considers there is limited scope for efficiency improvement."*

**20.8.** This is the first control period in respect of HIAL. The Authority, accordingly feels that the sufficient information on the determination of X factor for this control period may not be available and accordingly for the current control period, the Authority proposes to consider the X factor as nil. The Authority also notes that determination of X-factor would require an independent study. The Authority proposes to conduct such a study and consider its results appropriately while determining the aeronautical tariffs for the next control period.

**20.9.** The Authority has noted that HIAL has not considered the inflation in the calculated Yield Per Passenger and has assumed that the Authority will give a year on year WPI based inflation increase over and above approved yield. The Authority in its

Guidelines has stated that the Yield for a year is to be calculated based on the formula provided in Para 20.5 above. This formula for determination of Yield for a year includes an inflation to be applied over the yield in the previous year. Thus the Authority has considered an inflationary increase over the Yield Per Passenger in the first year for determination of Yield Per Passenger for future years.

**20.10.** The Yield Per Passenger number is derived from balancing of Net Present Value of ARR on one hand and actual and projected aeronautical revenue on the other hand. While the ARR is derived from the regulatory building blocks, the projected aeronautical revenue is derived from the proposed Yield Per Passenger and projected traffic. The Net Present Value is determined at a discounting rate equal to the WACC considered by the Authority for the control period. The process of balancing of Net Present Value on both sides of an equation is an iterative process, where the proposed Yield Per Passenger is the variable. In case the inflationary increase in the Yield Per Passenger, as stipulated in the Airport Guidelines, is not considered, the Yield Per Passenger, which will balance the Net Present Value will work out to be a higher number than in case the inflationary increase is applied in the proposed Yield Per passenger. This sensitivity is produced in the Table 92 below:

**Proposal No. 17. Regarding Calculation of WPI –X**

**17.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To consider an inflationary increase in the proposed Yield Per Passenger for the balance years of the current control period.**

**Table 92: Sensitivity – Impact on YPP after considering inflationary increase of 6.5% in the proposed YPP**

| Single Till | | | |
|---|---|---|---|
| YPP as per the Base Model* | 861.99 | YPP as per the Base Model after considering inflationary increase of 6.5% in the proposed YPP | 810.41 |
| Dual Till | | | |

| | | | |
|---|---|---|---|
| YPP as per the Base Model* | 1042.41 | YPP as per the Base Model after considering inflationary increase of 6.5% in the proposed YPP | 979.90 |
| * - Base Model – Refer to Para 1.41 | | | |

## 21. Sensitivity Analysis

**21.1.** As per the Base Model finalized by HIAL, the YPP number under single till submitted by HIAL is Rs. 861.99 and that under dual till is Rs. 1042.41. The Authority has analysed HIAL submissions on each of the regulatory building block and presented its analysis in the respective sections above. The impact of the Authority's tentative proposals in respect of various building blocks is presented in respective sections. The summary of these sensitivity analyses under both single till and dual till is presented below and the cumulative impact of all the tentative proposals is also presented.

**Table 93: Summary of Sensitivities - Impact on YPP against the Base Case**

| **Sensitivity 1 - Impact on YPP after excluding Future Capital Expenditure items** | | | |
|---|---|---|---|
| **Single Till** | | **Dual Till** | |
| YPP as per Base Model* | 861.99 | YPP as per Base Model* | 1042.41 |
| YPP as per the Base Model after excluding Future Capital Expenditure as per Authority | 827.39 | YPP as per the Base Model after excluding Future Capital Expenditure as per Authority | 1014.29 |
| **Sensitivity 2 - Impact on YPP after excluding Hotel assets, SEZ Assets, Duty Free Assets and Forex adjustments from RAB** | | | |
| **Single Till** | | **Dual Till** | |
| YPP as per Base Model* | 861.99 | YPP as per Base Model* | 1042.41 |
| YPP as per the Base Model after Excluding Hotel, SEZ, Duty Free and Forex adjustments from RAB but including non-aeronautical assets which are integral to the airport terminal building and considering revenue share from duty free (being a non-aeronautical revenue generated at the airport) | 686.87 | YPP as per the Base Model after Excluding Hotel, SEZ, Duty Free and Forex adjustments from RAB and also not including non-aeronautical assets which are integral to the airport terminal building (being dual till) | 1015.33 |
| **Sensitivity 3 - Impact on YPP after assuming no increase in interest rates for rupee term loan and ECB loan for future periods** | | | |
| **Single Till** | | **Dual Till** | |
| YPP as per Base Model* | 861.99 | YPP as per Base Model* | 1042.41 |
| YPP as per the Base Model after assuming no increase in interest rates for rupee term loan and ECB loan for future periods | 844.86 | YPP as per the Base Model after assuming no increase in interest rates for rupee term loan and ECB loan for future periods | 1028.35 |

| Sensitivity 4 - Impact on YPP after assuming average exchange rate for latest 6 months | | | |
|---|---|---|---|
| **Single Till** | | **Dual Till** | |
| YPP as per Base Model* | 861.99 | YPP as per Base Model* | 1042.41 |
| YPP as per the Base Model after assuming average Exchange rate for latest 6 months | 861.15 | YPP as per the Base Model after assuming average Exchange rate for latest 6 months | 1041.47 |
| **Sensitivity 5 - Impact of considering revised cost of equity as per the Authority's proposal on cost of equity at 16%** | | | |
| **Single Till** | | **Dual Till** | |
| YPP as per Base Model* | 861.99 | YPP as per Base Model* | 1042.41 |
| YPP as per the Base Model after considering cost of equity at 16% | 683.51 | YPP as per the Base Model after considering cost of equity at 16% | 891.36 |
| **Sensitivity 6 - Impact of change in WACC on YPP** | | | |
| **Single Till** | | **Dual Till** | |
| YPP as per Base Model* | 861.99 | YPP as per Base Model* | 1042.41 |
| YPP as per the Base Model after change in WACC on account of change in cost of debt and cost of equity | 667.24 | YPP as per the Base Model after change in WACC on account of change in cost of debt and cost of equity | 878.05 |
| **Sensitivity 7 - Impact on YPP on assuming 100 % depreciation of RAB** | | | |
| **Single Till** | | **Dual Till** | |
| YPP as per Base Model* | 861.99 | YPP as per Base Model* | 1042.41 |
| YPP as per the Base Model after considering 100% depreciation of RAB | 867.23 | YPP as per the Base Model after considering 100% depreciation of RAB | 1047.41 |
| **Sensitivity 8 - Impact on YPP after assuming 6.5% WPI increase and additional 3.0% real increase** | | | |
| **Single Till** | | **Dual Till** | |
| YPP as per Base Model* - In its Base Model HIAL had considered escalation of operating and maintenance cost in real terms at 5% and 7% in different categories. HIAL had not considered increase on account of WPI in the Base Model, expecting the Authority to make WPI adjustments in tariff. This would have meant that WPI would also be given on items that may not have any connection to | 861.99 | YPP as per Base Model* - In its Base Model HIAL had considered escalation of operating and maintenance cost in real terms at 5% and 7% in different categories. HIAL had not considered increase on account of WPI in the Base Model, expecting the Authority to make WPI adjustments in tariff. This would have meant that WPI would also be given on items that may not have any connection to | 1042.41 |

| | | | |
|---|---|---|---|
| WPI, e.g. rates and taxes, units of consumption of utilities like water and power, etc. | | WPI, e.g. rates and taxes, units of consumption of utilities like water and power, etc. | |
| YPP as per the Base Model after considering 6.5% WPI increase and additional 3.0% real increase, and assuming no escalation in utility costs and Rates and Taxes | 886.63 | YPP as per the Base Model after considering 6.5% WPI increase and additional 3.0% real increase, and assuming no escalation in utility costs and Rates and Taxes | 1062.56 |
| **Sensitivity 9 - Impact on YPP on account of considering non-aeronautical revenues as per Authority's examination** | | | |
| **Single Till** | | **Dual Till** | |
| YPP as per Base Model* | 861.99 | YPP as per Base Model* | 1042.41 |
| YPP as per the Base Model after considering non-aeronautical revenues as per Authority's examination (i.e. increasing total non-aeronautical revenues for FY 2013-14 onwards by applying traffic increase as per HIAL's Base Model and an additional 5% increase in passenger spend on the total non-aeronautical revenue of FY 2012-13 as per HIAL Base Model minus the revenue from interest expense in FY 2012-13, and further excluding hotel, SEZ and duty free assets but including revenue share from duty free) | 696.27 | YPP as per the Base Model after considering non-aeronautical revenues as per Authority's examination (i.e. increasing total non-aeronautical revenues for FY 2013-14 onwards by applying traffic increase as per HIAL's Base Model and an additional 5% increase in passenger spend on the total non-aeronautical revenue of FY 2012-13 as per HIAL Base Model minus the revenue from interest expense in FY 201213, and further excluding hotel, SEZ and duty free assets) | 1042.41 |
| **Sensitivity 10 - Impact on YPP after considering revised inflation rate of 6.5% as per latest RBI forecasts** | | | |
| **Single Till** | | **Dual Till** | |
| YPP as per Base Model* | 861.99 | YPP as per Base Model* | 1042.41 |
| YPP as per the Base Model after considering revised inflation rate of 6.5% as per latest RBI forecasts | 862.39 | YPP as per the Base Model after considering revised inflation rate of 6.5% as per latest RBI forecasts | 1042.75 |
| **Sensitivity 11 - Impact on YPP after considering inflationary increase of 6.5% in the proposed YPP** | | | |
| **Single Till** | | **Dual Till** | |

| | | | |
|---|---|---|---|
| YPP as per Base Model* | 861.99 | YPP as per Base Model* | 1042.41 |
| YPP as per the Base Model after considering inflationary increase of 6.5% in the proposed YPP | 810.41 | YPP as per the Base Model after considering inflationary increase of 6.5% in the proposed YPP | 979.90 |

**Table 94: Cumulative Impact of all above Sensitivities on YPP under single and dual till**

| Cumulative Impact of all above Sensitivities on YPP | | | |
|---|---|---|---|
| Single Till | | Dual Till | |
| If tariff is implemented with effect from 01.04.2013 | | | |
| YPP as per Base Model* | 861.99 | YPP as per Base Model* | 1042.41 |
| Cumulative Impact of all above Sensitivities on YPP as on 01.04.2013.<br>List of Sensitivities included:<br>• Cost of Equity at 16%<br>• No increase in interest rates for rupee term loan and ECB loan<br>• Exclusion of Hotel assets, SEZ assets and Duty Free assets from RAB, but including revenue share from Duty Free in the hands of HIAL<br>• Exclusion of Forex Loss Adjustment as per AS11 as part of RAB<br>• Considering 100% depreciation of RAB<br>• Considering Inflation as per current RBI forecasts of 6.5%<br>• Considering exchange rate as per average exchange rate for latest 6 months<br>• WPI increase of 6.5% and a real increase of 3% in relevant expense heads and further assuming no escalation in utility costs and Rates and Taxes<br>• Excluding Future capital | 429.54 | Cumulative Impact of all above Sensitivities on YPP as on 01.04.2013.<br>List of Sensitivities included:<br>• Cost of Equity at 16%<br>• No increase in interest rates for rupee term loan and ECB loan<br>• Exclusion of Hotel assets, SEZ assets and Duty Free assets from RAB<br>• Exclusion of Forex Loss Adjustment as per AS11 as part of RAB<br>• Considering 100% depreciation of RAB<br>• Considering Inflation as per current RBI forecasts of 6.5%<br>• Considering exchange rate as per average exchange rate for latest 6 months<br>• WPI increase of 6.5% and a real increase of 3% in relevant expense heads and further assuming no escalation in utility costs and Rates and Taxes<br>• Excluding Future capital expenditure items<br>• Excluding all non-aeronautical revenues | 776.96 |

| Cumulative Impact of all above Sensitivities on YPP | | | |
|---|---|---|---|
| Single Till | | Dual Till | |
| expenditure items<br>• Considering non-aeronautical revenues as per Authority's examination (i.e. increasing total non-aeronautical revenues for FY 2013-14 onwards by applying traffic increase as per HIAL's Base Model and an additional 5% increase in passenger spend on the total non-aeronautical revenue of FY 2012-13 as per HIAL Base Model, minus the revenue from interest expense in FY 2012-13, and further excluding hotel, SEZ and duty free assets but including revenue share from duty free)<br>• Considering Inflationary increase of 6.5% in YPP | | • Considering Inflationary increase of 6.5% in YPP | |
| **Cumulative Impact of all above Sensitivities on YPP** | | | |
| **Single Till** | | **Dual Till** | |
| **If tariff is implemented with effect from 01.09.2013** | | | |
| YPP as per Base Model* | 861.99 | YPP as per Base Model* | 1042.41 |
| YPP as on 01.09.2013 as per Authority | 416.64 | YPP as on 01.09.2013 as per Authority | 801.98 |
| * - Base Model – Refer to Para 1.41 | | | |

**21.2.** The Authority has accordingly calculated the target revenue with respect to the YPP as of 01.09.2013 for both single till and dual till and the same is presented in Table 95 and Table 96 respectively.

**Table 95: Target Revenue Calculation under Single Till**

| Values in Rs. Cr. | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| RAB for calculating ARR | 1,958 | 1,864 | 1,788 | 1,723 | 1,673 |
| WACC | 10.68% | 10.68% | 10.68% | 10.68% | 10.68% |

| Values in Rs. Cr. | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| Return on Capital Employed | 209 | 199 | 191 | 184 | 179 |
| Depreciation | 105 | 106 | 107 | 87 | 83 |
| Operation and Maintenance Expenditure (including Concession Fee) | 234 | 255 | 272 | 294 | 323 |
| Tax | 9 | 26 | 11 | 13 | 26 |
| Revenue from services other than aeronautical services | 178 | 194 | 178 | 199 | 223 |
| **Average Revenue Requirement** | 379 | 392 | 404 | 379 | 387 |
| Discounted ARR as on 01.09.2013 | 461 | 431 | 400 | 340 | 313 |
| Pre-Control Period losses brought forward to 01.09.2013 | | | 333* | | |
| **Total Present Value of ARR** | **2,278** | | | | |
| | | | | | |
| **Aeronautical Revenues (including fuel farm excess set-off)** | **421** | **487** | **447** | **436** | **492** |
| Discounted Aeronautical Revenues as on 01.09.2013 | 511 | 535 | 444 | 390 | 398 |
| **Total Present Value of Actual Revenues** | **2,278** | | | | |
| * Refer Tentative Decision No 1.a.i above, in which the Authority has tentatively proposed to consider the pre-control period losses of Rs. 260.68 Cr. as of 01.04.2011 under single till in the current MYTP and the same has been brought forward to 01.09.2013. | | | | | |

**Table 96: Target Revenue Calculation under Dual Till**

| Values in Rs. Cr. | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| RAB for calculating ARR | 1,604 | 1,523 | 1,456 | 1,401 | 1,360 |
| WACC | 10.68% | 10.68% | 10.68% | 10.68% | 10.68% |
| Return on Capital Employed | 171 | 163 | 155 | 150 | 145 |
| Depreciation | 91 | 92 | 93 | 72 | 68 |
| Operation and Maintenance Expenditure (including Concession Fee) | 203 | 222 | 245 | 270 | 297 |
| Tax | 0 | 1 | 0 | 64 | 84 |
| Revenue from services other than aeronautical services | 0 | 0 | 0 | 0 | 0 |
| **Average Revenue Requirement** | 466 | 477 | 493 | 556 | 594 |

| Values in Rs. Cr. | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| Discounted ARR as on 01.09.2013 | 565 | 523 | 489 | 498 | 481 |
| Pre-Control Period losses brought forward to 01.09.2013 | | | 571* | | |
| **Total Present Value of ARR** | **3,128** | | | | |
| | | | | | |
| **Aeronautical Revenues (including fuel farm excess set-off)** | **421** | **487** | **643** | **797** | **903** |
| Discounted Aeronautical Revenues as on 01.09.2013 | 511 | 535 | 638 | 714 | 731 |
| **Total Present Value of Actual Revenues** | **3,128** | | | | |
| * Refer Tentative Decision No 1.a.i above, in which the Authority has tentatively proposed to consider the pre-control period losses of Rs. 447.14 Cr. as of 01.04.2011 under dual till in the current MYTP and the same has been brought forward to 01.09.2013. | | | | | |

## 22. Tariff Structure/ Rate Card-

**a HIAL Submission on Tariff Structure/ Rate Card-**

**22.1.** HIAL, vide its submission dated 06.05.2013, submitted its Annual Tariff Proposal for FY 2013-14 and FY 2014-15. HIAL stated as under,

*"This is in reference to filing of ATP of GHIAL. We are hereby submitting ATP for single till and dual till at Yield Per Pax (YPP) of Rs. 894.15 and Rs. 1,078.57 respectively. YPP does not include inflation as submitted to the Authority in MYTP filing and the same needs to be factored by the Authority.*

*Currently, GHIAL is levying two passenger charges i.e. Passenger Service Fee - Facility Component (PSF -FC) and User Development Fee (UDF). However, going forward PSF-FC is proposed to be merged with UDF.*

*To ease burden on passengers, UDF is proposed to be levied on both arriving and departing passenger except on transfer/transit pax and infants.*

*In respect of UDF for Domestic passengers, we have proposed two bands i.e. metro cities and non-metro cities. Delhi, Mumbai, Chennai, Kolkata and Bengaluru are covered under metro cities while all others are classified as Non Metro cities.*

*In case of International UDF, we have proposed two categories SAARC and Non SAARC countries. SAARC member countries are defined as Sri Lanka, Afghanistan, Bangladesh, Pakistan, Nepal, Bhutan & Maldives. Passengers travelling to or from SAARC member countries be charged UDF at Domestic Metro rates.*

*The ATP submitted herewith has been devised for the aforesaid YPP. Any variation to the aforesaid YPP, would change the ATP including changing the structure of charging methodology. Hence the Authority is requested to allow us to resubmit the ATP (Including making changes in charging structure) in case of variation in YPP.*

*Forms of ATP and tariff card for year 2013-14 and 2014-15 are enclosed for the perusal of the Authority along with working model of the ATP."*

**22.2.** HIAL has submitted separate tariff cards for aeronautical tariffs under single till and dual till for both FY 2013-14 and FY 2014-15. These tariff cards have been prepared considering the date of tariff hike as 01.07.2013. The charges have been proposed under following categories:

**Table 97: Tariff items proposed by HIAL in its Tariff Rate Card**

| Tariff Item | Whether the same in single & dual till |
|---|---|
| Landing and Parking Charge | Yes |
| User Development Fee | No |
| Common Infrastructure Charges | Yes |
| Fixed Electricity Ground Power Charges | Yes |
| Fuel Charges | Yes |

**b Authority's Examination of HIAL Submissions on Tariff Structure/ Rate Card-**

**22.3.** The Authority has carefully considered the tariff card submitted by HIAL. As would be seen from the above table, except UDF the other tariff items are the same both for single till and dual till. The Authority has noted that the UDF proposed by HIAL for FY 2013-14 is same as that for FY 2014-15. The following table indicates the proposals contained in HIAL's tariff card regarding UDF under both single and dual till.

**Table 98: UDF proposed by HIAL for FY 2013-14 & FY 2014-15 for domestic passengers**

| Domestic UDF | | | | |
|---|---|---|---|---|
| | **Metro Cities** | | **Non Metro Cities** | |
| | **Single Till** | **Dual Till** | **Single Till** | **Dual Till** |
| **For tickets issued in Indian Rupees** | | | | |
| Departing Metro | Rs. 585.77 | Rs. 737.76 | Rs. 390.71 | Rs. 491.84 |
| Arriving Metro | Rs. 479.27 | Rs. 603.62 | Rs. 319.51 | Rs. 402.41 |
| **For tickets issued in Foreign Currency** | | | | |
| Departing Metro | USD 10.70 | USD 13.48 | USD 7.13 | USD 8.98 |

| Domestic UDF | | | | |
|---|---|---|---|---|
| | Metro Cities | | Non Metro Cities | |
| | Single Till | Dual Till | Single Till | Dual Till |
| **For tickets issued in Indian Rupees** | | | | |
| Arriving Metro | USD 8.76 | USD 11.03 | USD 5.84 | USD 7.35 |

**Table 99: UDF proposed by HIAL for FY 2013-14 & FY 2014-15 for International passengers**

| International UDF | | | | |
|---|---|---|---|---|
| | International (Excluding SAARC) | | SAARC | |
| | Single Till | Dual Till | Single Till | Dual Till |
| **For tickets issued in Indian Rupees** | | | | |
| Departing | Rs. 1757.31 | Rs. 2213.27 | Rs. 585.77 | Rs. 737.76 |
| Arriving | Rs. 1437.80 | Rs. 1810.86 | Rs. 479.27 | Rs. 603.62 |
| **For tickets issued in Foreign Currency** | | | | |
| Departing | USD 32.10 | USD 40.43 | USD 10.70 | USD 13.48 |
| Arriving | USD 26.27 | USD 33.08 | USD 8.76 | USD 11.03 |

**22.4.** The Authority has noted from the table above that HIAL has proposed to levy UDF on both departing and arriving passengers. The UDF charges for domestic passengers are proposed by HIAL to be segregated in metro and non-metro categories and the UDF for metro category is proposed to be higher than that for non-metro category. The UDF charges for international passengers are proposed by HIAL to be segregated into SAARC and Non-SAARC countries and the UDF proposed for passengers from non-SAARC countries is proposed to be higher than that proposed for passengers from SAARC countries.

**22.5.** The Authority has noted in Para 23.92 below that HIAL's proposal of levying UDF on both departing and arriving passengers is at variance with the provisions of the Concession Agreement. The Authority therefore has proposed to determine UDF only from the departing passengers as is indicated in the Concession Agreement.

**22.6.** The Authority has noted from the HIAL submission dated 06.05.2013 that the ATP, submitted by HIAL, is corresponding to the Yield Per Passenger of Rs. 894.15 under single till and Rs. 1,078.57 under dual till. HIAL has submitted that any variation in this YPP would change the Annual Tariff Card including changing the structure of charging methodology and accordingly HIAL should be allowed to resubmit the tariff card. The Authority, on account of its various tentative proposals in respect of respective building blocks, has determined the Yield Per Passenger at Rs. 416.64 under single till and at Rs. 801.98 under dual till (See Table 94 on page 261). In order to assess the impact of this Yield Per Passenger on the passenger charges in terms of UDF, the Authority has considered the aeronautical revenue under the other heads namely, Landing and Parking charges, Common Infrastructure Charges, Fixed Electricity Ground Power charges and Fuel Charges, the same as proposed by HIAL. The Authority notes that HIAL has proposed an increase in these charges and has kept them to be the same both under single and dual till. Thus the only variable item in the tariff card is UDF and impact of any change in the YPP is thus reflected in the UDF.

**22.7.** The Authority has further noted that HIAL has not considered the inflationary increase in the charges proposed in the tariff card and has mentioned in its letter dated 06.05.2013 that YPP does not include inflation as submitted to the Authority in MYTP filing and the same needs to be factored by the Authority. The Authority has noted this submission and has discussed the inclusion of inflation in Para 20 above. The Authority proposes to consider inflation in YPP. The Authority is calculating YPP and UDF for both single and dual till in respect of departing domestic and international passengers. After analysing HIAL's submissions on regulatory till (which according to its letters is dual till) the Authority would consider the issue of regulatory till and accordingly propose both - the YPP and the UDF, that may be relevant to its proposal on regulatory till.

**22.8.** The Authority notes that the ARR for respective years in the balance years of the current control period has been worked out in Table 95 under single till and Table 96 under dual till. The Authority has considered the revenue from Landing and Parking charges, Common Infrastructure Charges, Fixed Electricity Ground Power charges and Fuel Charges from the ATP submitted by HIAL (for FY 2013-14 and FY 2014-15, but not for FY 2015-16). Accordingly the UDF numbers for respective years were worked out.

The Authority notes that the UDF for all balance years in the control period worked out to be different. The Authority proposes that the UDF for all the balance years in the current control period should remain the same and thus the Authority has considered the UDF numbers under single and dual till as presented in Table 100 below. The Authority is aware that going by this UDF number, the aeronautical revenue accruing to HIAL in a particular year may be more / less than the corresponding ARR for that year. However, on an NPV basis, the ARR and the aeronautical revenue actually received by the airport operator through constant UDF for the balance years of the current control period will be the same.

**22.9.** The figures of UDF under single till and dual till for domestic and international passengers can be seen from the table below (the ratio of UDF between domestic to international has been kept the same as it obtains today 1:3.95):

**Table 100: UDF (in Rs.) in single and dual till for departing domestic and international pax as per Authority (with enhanced LPH and other charges)**

| Passengers | UDF under Single Till | UDF under Dual Till |
|---|---|---|
| Domestic Departing | 330.49 | 845.77 |
| International Departing | 1306.60 | 3343.73 |
| Weighted Average | 558.05 | 1453.70 |

**22.10.** The UDF calculations in Table 100 are based on enhanced Landing, Parking and Housing, CIC, GPU and FEGP charges as proposed by HIAL in its tariff card. The Authority has also calculated what would be the UDF if no increase is made in these charges from the current levels. The results are as follows:

**Table 101: UDF (in Rs.) in single and dual till for departing domestic and international pax as per Authority (keeping LPH etc. charges unchanged at current level)**

| Passengers | UDF under Single Till | UDF under Dual Till |
|---|---|---|
| Domestic Departing | 402.33 | 917.60 |
| International Departing | 1590.61 | 3627.73 |
| Weighted Average | 691.53 | 1557.18 |

**22.11.** The current level of UDF at RGI Airport, Hyderabad is Rs. 430 per departing domestic passenger and Rs. 1,700 per departing international passenger (ad-hoc determination by the Authority in October 2010). Lowering of these figures to the values presented in Table 101 is on account of inter alia, reduction in RAB (on account of depreciation), estimate of cost of equity at 16%, lower depreciation, lower quantum of pre-control period losses etc.

**Proposal No. 18. Regarding Tariff Structure/ Rate Card-**

**18.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. To consider the multi-year ATP(s) submitted by HIAL for RGI Airport, Hyderabad at the MYTP stage itself.**

**ii. To consider levy of UDF only on departing passengers (both domestic and international) and to note that UDF is different under single till and dual till.**

**iii. To calculate the YPP at Rs. 416.64 under single till and Rs. 801.98 under dual till and the UDF under single till as well as dual till as indicated in Table 100.**

**iv. To consider the final UDF for domestic and international departing passengers based on any other proposals that may be submitted to the Authority in this behalf by HIAL.**

**v. To determine the other charges in the tariff card, namely, Landing and Parking charges, Common Infrastructure Charges, Fixed Electricity Ground Power charges and Fuel Charges, as proposed by HIAL under single till and dual till.**

## 23. Discussion on General Submissions of HIAL (in support of dual till)

### a General Submissions of HIAL (in support of dual till)

**23.1.** The Authority has undertaken the determination of aeronautical tariff for RGI Airport, Hyderabad in accordance with the various building blocks and the Order dated 15.02.2013 by the Appellate Tribunal. Hence the Authority has considered all the relevant issues regarding the determination of aeronautical tariff in respect of RGI Airport, Hyderabad. The Authority has thus examined the submissions of HIAL wherein it had advanced different arguments regarding calculation of aeronautical tariffs based on, inter alia, issues like dual till, land, Concession Agreement, depreciation, keeping cargo ground handling and fuel supply outside regulatory determination, additional service parameters, etc. the Authority has examined the financial impact of HIAL submission particularly regarding single and dual till on the tariffs in discussion of each of the building blocks. It would now proceed to analyse HIAL submissions made by it in its presentation on 01.04.2013 as well as its letter to the Hon'ble Minister for Civil Aviation on 20.04.2013 (endorsed by it to the Authority on 26.04.2013).

***Regulation of the three services of Cargo, Ground Handling and Fuel Supply***

**23.2.** HIAL has submitted that "Cargo, Ground Handling and Fuel should be outside regulation".

**23.3.** The Authority notes that the Concession Agreement defines "Independent Regulatory Authority" or IRA to mean the Airports Economic Regulatory Authority set up to regulate any aspect of airport activities. The Agreement defines 'airport activities' to mean provision at or in relation to the airport, of the activities set out at Schedule-3 Part-1, as amended from time to time, pursuant to ICAO guidelines. Schedule-3, Part-1 mentions the airport activities to include services, facilities and equipment in relation to – (i) Airside facilities, (ii) Air side/Land Side/Terminal facilities (iii) Infrastructure and utilities for the airport complex (mainly land side). Provisions of Ground Handling, Cargo Handling and Aircraft Fuelling Services are included in the list of 'airside facilities'. Hence, even going by the Concession Agreement, the Authority is to regulate "any aspect" of "airport activities". The remit of the Authority would thus be what the legislature has given to it and this has already been embodied and expressly provided for in the Concession Agreement. After the promulgation of AERA Act, there can be no doubt that it needs to determine tariff for these three services.

**23.4.** **CGF as aeronautical service a conscious decision of government**: That apart, a reference to the legislative history of how the cargo, ground handling and fuel supply (CGF) came to be defined as aeronautical services in the AERA Act is instructive. In the initial AERA Bill introduced in the Lok Sabha in 2007, CGF did **not** figure in that Bill. When the Bill was referred to the Department Related Parliamentary Standing Committee, it recommended that fuel supply should be brought within the ambit of regulation. While accepting this recommendation, the Government suo-moto added the services of Cargo and Ground Handling in the list of aeronautical services. **Classifying CGF as aeronautical services was thus a conscious decision of the Government around 2008-09**. The concession agreements of all the four metro airports predate this conscious decision of the Government and are therefore not relevant for the purpose of classification of CGF as aeronautical services. This is quite apart from the fact that provisions of an act passed by the Parliament take primacy over covenants of an agreement (even if entered into by the government) and that the Sovereign has no estoppel. Hence in the Authority's understanding, CGF are aeronautical services and are required to be regulated in terms of fixation of tariffs thereof.

**23.5.** Moreover, Bengaluru Airport that has almost identical Concession Agreement with the government had preferred an appeal before the Appellate Tribunal challenging the jurisdiction of the Authority to determine charges of CGF. The Authority had passed Orders determining the tariffs of CGF at Bengaluru. During the last hearing of this case, Bengaluru Airport sought to withdraw the appeal. By the judgment of the Appellate Tribunal (AERAAT) delivered on 03.05.2013, AERAAT allowed the Bengaluru Airport to do so and in its concluding part has directed that "implementation of tariff may now commence". This means that the tariffs for the three services of CGF as have been determined by the Authority under the AERA Act would come into operation. Bengaluru Airport has not pressed the plea that the Authority has no such jurisdiction to determine charges in respect of CGF services in view of the Concession Agreement which does not classify these charges as regulated charges.

**23.6.** Upon examining the provisions of the Concession Agreement, the Authority observes that the Schedule-3, Part-2 delineates Non-airport activities and, inter alia, includes airport hotels, restaurants, etc.

**23.7.** With respect to the charges that the parties have right to impose, the substantive provision is embodied in Clause-10 of that agreement. This Agreement states that *"subject to applicable law, no person (other than HIAL, any service provider and the holder granted a relevant service provider right or the AAI) may impose any charge or fee (a) in respect of the provision at the airport or any facilities and/or services which are included within airport activities or (b) in respect of the movement of passengers, or vehicular traffic at the airport or site."*

**23.8.** It is noteworthy that the stated right of HIAL et al is specifically subject to applicable law. The applicable law is also defined in the Concession Agreement meaning as *"laws provided over or effected by Govt. or the State Govt. including rules and regulations and notifications made thereunder and judgements, decrees, injunctions, writs or orders of any court of record, as may be in force and effect during the substance of this agreement of this Agreement."* The Airport Regulatory Authority Act is clearly such an applicable law, and more so, is the specific mention of the 'IRA' which is expressly mentioned in the Concession Agreement itself as have been set up to regulate any aspect of airport activities.

**23.9.** The charges, in respect of an airport, are classified into two categories:

23.9.1. Airport Charges and

23.9.2. Other charges.

**23.10.** The Airport Charges are specified in Schedule-6 as "Regulated Charges" and shall be consistent with ICAO policies. The category of other charges are in respect of the facilities and services provided at the airport or on the site, other than the facilities and services in respect of which regulated charges are payable.

**23.11.** Schedule -6 of the Agreement mentions the regulated charges as under:

23.11.1. Landing, Housing and Parking charges (Domestic and International)

23.11.2. Passenger Service Fee (Domestic and International)

23.11.3. User Development Fee (UDF) (Domestic and International)

**23.12.** The three services of Cargo Handling, Ground Handling and Fuel Supply find mention in the airport activities of the Schedule-3, Part-1. However, they do not find mention in Schedule-6, namely that of Regulated Services.

**23.13.** Furthermore, after passing of the AERA Act, services like Cargo, Ground Handling and Fuel Supply are defined as Aeronautical Services for which charges are required to be determined by the Authority. Since Act takes primacy over the agreements, etc., charges in respect of Cargo, Ground Handling and Fuel Supply cannot be determined at will by HIAL et al but need to be determined by the Authority. It has already done so with respect to the three independent service providers who are providing cargo and ground handling services at RGI Airport, Hyderabad.

***Dual till***

**23.14.** The grounds, considered by HIAL for supporting the dual till regime, include the following:

23.14.1. Concession agreement contemplated dual till

23.14.2. ICAO policies on economic regulation

23.14.3. Provisions of the AERA Act, 2008

23.14.4. Ministry of Civil Aviation's stand on choice of till

23.14.5. Govt. of Andhra Pradesh (GoAP) view on till

23.14.6. Planning Commission on till

23.14.7. ACI view on choice of till

23.14.8. UK competition commission on till

23.14.9. European Union on till

23.14.10. International examples and research studies of airports moving to dual till

**b Authority's Examination of General Submissions of HIAL (in support of dual till)**

**23.15.** All the grounds, considered by HIAL and presented above, have been duly examined by the Authority and have been addressed in the Paras below.

***Concession agreement contemplated dual till***

**23.16.** HIAL has emphasized that (a) "Concession Agreement should be adhered to" and (b) Concession Agreement means Dual Till (refer Para 1.38 above). As regards (a), the Authority notes that the GMR Group had not wanted the provisions of the agreements like OMDA in respect of IGI Airport, Delhi to be strictly followed wherein OMDA had stipulated that all finances of IGI Airport, Delhi must be brought by the joint venture company namely DIAL through equity and debt. Even so DIAL submitted application for grant of development fee first to the Government and thereafter to the Authority. The Government as well as the Authority considered the provisions of acts like Airports Authority Act (Section 22 A thereof) and AERA Act, 2008 (Section 13 (1) (a) (i) read with Section 13 (1) (b)) and determined DF giving primacy to the provisions of the Acts passed by the parliament over stipulations made over contractual agreements. In the instant case, however, HIAL wants to go by what is its interpretation of the Concession Agreement both in respect of regulatory till (it has stated in its letter to the Honble Minister for Civil Aviation that Concession Agreement means dual till) as well as its interpretation that under Concession Agreement the services like cargo, ground handling and fuel supply are not to be regulated (though these services are defined as aeronautical services under AERA Act according to which the Authority is required to determine the tariffs for these services). This appears to be selective approach.

**23.17.** Apart from the above, the Authority has also noted that in its submission of tariff card, HIAL has suggested charging of UDF for both embarking as well as arriving passengers. Even here HIAL does not seem to have conformed to the Concession Agreement wherein it is clearly stipulated that *"HIAL will be allowed to levy UDF with effect from Airport opening date, duly increased in the subsequent years with inflation index as set out hereunder, from* ***embarking*** *(emphasis added) domestic and international passengers…….".* In its submission of the rate card, HIAL has given reason for charging UDF on both embarking and arriving passengers as "to ease the burden on passengers". By splitting the UDF between embarking and arriving passengers and giving the reason thereof that this is done "to ease the burden on passengers", HIAL seems to have implicitly assumed that the set of departing passengers is different from the set of arriving passengers. In other words, the embarking passengers either do not return to Hyderabad or that they do so by means other than air so that they do not bear the burden of UDF on arriving passengers. This assumption may or may not hold true in practice (and most probably won't). At any rate, it appears that HIAL has kept the interest of the passengers over the provisions of the Concession Agreement. The Government of India as well as the Authority has also been consistently maintaining that the burden on passengers should be kept in view in economic regulation of the airports.

**23.18.** As far as ad-hoc UDF of Hyderabad airport is concerned, the Authority had determined this quantum in October, 2010 under single till. This Order was not challenged by any stakeholder (including HIAL) before any Appellate or judicial forum. It would thus appear that at that time HIAL did not think that the Concession Agreement means dual till.

**23.19.** HIAL has referred to the provisions of the Concession Agreement and has submitted that the Concession Agreement implies dual till. HIAL's arguments supporting its views are as follows:

23.19.1. During the presentation made to the Authority on 01.04.2013, HIAL submitted that adoption of single till goes against the provisions of the Concession Agreement as it indirectly restricts the return on non-aeronautical and real estate activities, which are against the prudent commercial principles. HIAL requested the Authority to approve dual till for HIAL. The provisions of concession agreement, referred to by HIAL, are as follows:

23.19.2. Referring to Clause 10.2.4 under Airport Charges, HIAL submitted that "The Concession Agreement contemplate the regulation of only Regulated Charges mentioned in the Schedule 6 of Concession Agreement. By adopting a Single Till, indirectly the non-aeronautical yield is also being regulated which is against the provisions of the concession agreement." HIAL presented the extract of the Clause 10.2.4, which is reproduced hereunder,

> *"10.2.4 From the date the IRA has the power to approve the Regulated Charges, HIAL shall be required to obtain approval thereof from the IRA. In this regard HIAL shall submit to the IRA, in accordance with any regulations framed by the IRA, details of the Regulated Charges proposed to be imposed for the next succeeding relevant period together with such information as the IRA may require for review…"*

23.19.3. Referring to Clause 10.3 on Other Charges, HIAL submitted that "By adopting single till and using revenues from Non-regulated charges, the Authority is indirectly regulating the Other Charges. This is conflicting with the provisions of the Concession Agreement." HIAL also submitted that "*Fixing the return on entire RAB under single till leads to indirect regulation of Non Aeronautical charges which is against to the provisions of Concession Agreement".* HIAL presented the extract of the Clause 10.3, which is reproduced hereunder,

> *"HIAL and/or Service Provider Right Holders shall be free without any restriction to determine the charges to be imposed in respect of the facilities and services provided at the Airport or on the Site, other than the facilities and services in respect of which Regulated Charges are levied."*

23.19.4. Referring to the list of Regulated Charges under the Concession Agreement, HIAL submitted that only four charges, namely, landing charges, parking charges, housing charges and UDF are mandated to be regulated by the Authority. HIAL further submitted that *"The bifurcation of the charges into two categories clearly shows that concession has mandated a DUAL till. Hence all the charges should not be brought under the single till method as this goes against the concession provisions"*.

23.19.5. HIAL has presented the extract of Para 13.5.2 of the Concession Agreement and has inferred from this Para that "This clearly goes on to show that the concession agreement contemplates a dual till. If a single till was envisaged the GOI would have opted to take over the entire gamut of business including Non Aeronautical and Real Estate". The extract of Para 13.5.2 is reproduced below:

> *"Prior to transfer of The Airport GOI shall have the right to conduct a due diligence of the contracts and the agreements pertaining to Non-airport Activities, the rights and obligations of which it is assuming and shall not be bound to assume the rights and obligations of the contracts ..."*

23.19.6. Lastly presenting the extract of Para 8.9 of the Concession Agreement as below, HIAL stated that concession envisages GHIAL to operate as a commercial undertaking and that the single till approach is not in sync with this provision.

> *"HIAL shall...manage and operate the Airport in a competitive, efficient and economic manner as a commercial undertaking"*

23.19.7. Assigning reasons for this inference, HIAL submitted that "Under Single Till, the "Total Return", considering Aeronautical and Non Aeronautical revenues together, is capped. Single Till scenario leaves no incentive for the operator to maximize its non-aeronautical revenue since any increase in the non-aeronautical income will be offset by an equivalent reduction in the aeronautical tariffs. Providing aeronautical services at artificially lower tariffs provides a distorted economic picture. Charges to passengers should be reflective of actual cost."

**23.20.** The Authority has carefully examined the arguments presented by HIAL to infer the Concession Agreement implies dual till. The Authority has gone into the Concession Agreement dated 20th December, 2004 between HIAL and Ministry of Civil Aviation, Govt. of India. Its observations are as follows:

23.20.1. At the outset, it is well settled that an agreement needs to be explicit and unless clearly stated, one may not be able to impute certain meaning as 'implied' into it. As far as the issue of dual till being implied in the agreement is concerned, as per HIAL according to Concession Agreement, HIAL et. is free to determine charges other than the regulated charges. Based on this freedom to levy such other charges, HIAL appears to have inferred that the Concession Agreement implies dual till framework.

23.20.2. In view of the opinion of the Authority, such inference is unwarranted even within the interpretation of the Concession Agreement. Freedom to levy "other charges" is not to say that the revenues therefrom should not be reckoned towards determination of aeronautical tariffs. Such a meaning cannot be imported into the Concession Agreement. Furthermore, as has been pointed out in Para 3.2 above), the AERA Act requires the Authority to take into consideration "revenue received from services other than the aeronautical services" that can include revenue from even those services outside the airport terminal and the ones that are generally associated with commercial exploitation of land leased to the airport operator that is in excess of requirement of airport. (See Para 3.7 above). As has been indicated, the Authority has delimited RAB boundary so as not to normally include in it those services outside the airport terminal while determining aeronautical tariffs should the Authority finally come to the tentative conclusion to adopt single till during the current control period.

23.20.3. The Authority had issued the Airport Order i.e. Order No. 13 of 2010-2011 (dated 12th January, 2011) and Airport Guidelines i.e. Direction No. 5 of 2010-2011 (dated 28th February, 2011). The Airport Order gives in detail the rationale of adoption of single till by the Authority (as is well known, Single till takes a holistic view of the airport business, taking into account the revenues from Non-aeronautical services' together with those from aeronautical services to arrive at the tariffs for aeronautical services. Dual till, on the other hand, takes into account revenues only from the aeronautical services to determine tariffs for such aeronautical services).

23.20.4. The Authority, therefore, has not, in this Consultation Paper, gone into the details and reasoning as to why it adopted the Single till framework for aeronautical tariff determination in its Airport Order and has limited its analysis to the points and submissions brought before it by HIAL in support of dual till.

23.20.5. Apart from classifying the charges into regulated charges and other charges, Consultation Agreement does not have any other covenants with regard to the methodology for the determination of the regulated charges. The Concession Agreement nowhere mentions, for example, that the revenues from the 'other charges' should not be reckoned during the determination of aeronautical tariff. The Authority also notes that the Non-aeronautical services have been outsourced to third party concessionaires. The charges of such third parties (with the exception of those providing the aeronautical services of Cargo, Ground Handling, and Fuel Supply) are not determined by the Authority. This is also consistent with the provisions of the Concession Agreement.

23.20.6. Section 13(1) (a) of the AERA Act contains detailed legislative policy guidance as to the factors that the Authority need to take into consideration while determining the tariffs for aeronautical services. The concession offered by the Central Government is one such factor. The Authority has thus taken into consideration the Concession Agreement dated 20th December, 2004 signed between the Central Government and HIAL. After analysing the covenants of the Agreement, the provisions of the AERA Act, the Authority has come to the conclusion that the dual till is not implied in the Concession Agreement and the inference of HIAL that the Concession Agreement implies dual till is unfounded.

**23.21.** As regards HIAL's argument regards its interpretation of Para 13.5.2 of the concession agreement (see Para 23.19.5 above) that "If a single till was envisaged the GOI would have opted to take over the entire gamut of business including Non Aeronautical and Real Estate", the Authority notes that the wording of the paragraph refer to "non-airport activities". These activities are defined in Schedule 3 Part 2 of the Concession Agreement as Landside Non-Airport Activities that is seen to generally pertain to the real estate development. Some of the activities mentioned in Schedule 2 also find mention in Part 1 of Schedule 3 listing the "Airport Activities"; for example, Business centre, Restaurants, bars, retail shops, conference centre. As has been indicated by the Authority, in normal course, the real estate development would be outside the RAB Boundary (See Para 3.7 above) and the Authority would not normally be taking these into account while determining tariffs under single till. Its proposed treatment of commercial exploitation of land in excess of airport requirements is separately given in Paras 9.22 to 9.27 above.

**23.22.** That apart, HIAL seems to have selectively quoted the paragraph because just after the wordings "shall not be bound to assume the rights and obligations of the contracts", the following wordings appear:

> *"that, in the sole opinion of GoI are unreasonably onerous, and would be considered onerous at the time that the contracts were entered into. GoI shall conduct the due diligence and identify the contracts and agreements that it is prepared to assume within 45 days of the opening of a data room by HIAL for these purposes following the exercise of a right of termination by GoI or HIAL under Article 13.4. For the avoidance of doubt, to the extent GoI opts to take over Non-Airport Activities calculation of*

*Termination Amount or Settlement Amount shall include investments amounts or costs of such Non-Airport Activities."*

**23.23.** The clear wordings of clause 13.5.2 indicate that GoI has the right to examine the contracts pertaining to non-airport activities. The same paragraph also indicates that **if satisfied, the GoI may take over such non-airport activities** (Emphasis added). Thus it can no way be inferred that this paragraphs lends any support to HIAL's averment that Concession Agreement contemplates dual till. On the contrary, the GoI's express intention of "to the extent GoI opts to take over Non-Airport Activities" would go to show, if the reasoning of HIAL is to be followed, that the Concession Agreement, in fact, does **not** contemplate dual till. Going further, if the GoI opts to take over entire non-airport activities, again going by HIAL's logic, the Concession Agreement would be interpreted to contemplate single till.

**23.24.** The Authority is now proceeding to examine HIAL submission in support of dual till based on documents other than Concession Agreement.

***ICAO policies on economic regulation***

**23.25.** HIAL, in its presentation dated 01.04.2013, to the Authority referred to the revised ICAO guidelines and stated that "ICAO has in its current edition of economic policies in Doc 9082 $9^{th}$ edition removed the ambiguity related to the choice of till. ICAO has clarified that it does not endorse Single Till regulation as the most preferred form of regulation. ICAO leaves it to respective member states to adopt their choice of till based on suitability to local condition." The clauses of ICAO 9082 presented by HIAL is reproduced below:

*"ICAO 9082 8th Edition*

*The Council also states that in determining the cost basis for airport charges the following principles should be applied:*

*i) The cost to be shared is the full cost of providing the airport and its essential ancillary services, including appropriate amounts for cost of capital and depreciation of assets, as well as the costs of maintenance, operation, management and administration, but allowing for all aeronautical revenues plus contributions from non-aeronautical revenues accruing from the operation of the airport to its operators.*

*ICAO 9082 9th Edition*

*The cost to be allocated is the full cost of providing the airport and its essential ancillary services, including appropriate amounts for cost of capital and depreciation of assets, as well as the costs of maintenance, operation, management and administration. Consistent with the form of economic oversight adopted, these costs may be offset by non-aeronautical revenues."*

23.25.1. Based on the above, HIAL has requested the Authority to review its conclusion that ICAO recommends single till.

**23.26.** The Authority has noted the provision of the Concession Agreement for RGI Airport, Hyderabad which states that *"The Airport Charges specified in Schedule 6 ("Regulated Charges) shall be consistent with ICAO Policies."* Further the Concession Agreement defines the ICAO Policies as follows:

*""ICAO Policies" means the first statement of the ICAC Council contained in the "ICAO Policies on Charges for Airports and Air Navigation Services" which was adopted by the Council of ICAC on 22 June 1992, at the 14th Meeting of its 136th Session, and subsequently amended on 8 December 2000, at the 18th Meeting o(the 161st Session, and which is published as ICAO document 9082/6 as may be amended from time to time;"*

**23.27.** As far as the issue of regulatory till is concerned, the Authority has, in detail, considered the ICAO position from ICAO documents based on the opinions of aviation experts and academicians. The Authority's consideration of these documents and positions was presented in the documents issued by the Authority namely, White Paper No. 01/2009-10 on Regulatory Objectives and Philosophy in Economic Regulation of Airports and Air Navigation Services and Consultation Paper No.3/2009-10 on Regulatory Philosophy and Approach in Economic Regulation of Airports and Air Navigation Services.

**23.28.** The Authority has had reference to ICAO Policies in terms of its prescription for any form of regulatory approach. The Authority noted the guidance provided in paragraph 20 of ICAO's Policies on Charges for Airports and Air Navigation Services which recommends the following:

*"States should select the appropriate form of economic oversight according to their specific circumstances, while keeping regulatory interventions at a minimum and as required. When deciding on an appropriate form of economic oversight, the degree of competition, the costs and benefits related to alternative forms of oversight, as well as the legal, institutional and governance frameworks should be taken into consideration."*

**23.29.** While the above guidance is regarding the selection of an appropriate form for economic oversight, the Authority has also had references to other provisions of ICAO documents to establish its preference, if any, for any specific regulatory till. While doing so it considered the opinions of aviation experts and academicians, and had come to a conclusion that the single till is recommended or supported by ICAO and presented these views in the White Paper 01/2009-10 and Consultation Paper 03/2009-10, which were put forth for stakeholder consultation.

**23.30.** Stakeholder consultation was undertaken on these documents and the views expressed by the stakeholders on the Authority's position was duly considered by the Authority while developing its Guidelines for determination of Aeronautical Tariff for major airports.

**23.31.** HIAL, vide its presentation dated 01.04.2013, has submitted to the Authority that as per the revised edition ($9^{th}$ edition) of ICAO 9082, ICAO has removed the ambiguity related to the choice of till.

**23.32.** The Authority has had reference to the revised edition of ICAO 9082. The Authority has noted the change in wording of the referred clause. Based on its reading of the changed wordings, the Authority concludes that ICAO is not favouring any particular form of regulatory till whether single till / dual till. The Authority believes that if ICAO had any inclination towards any particular form of regulatory till, it would not have left it to the fertile imagination or interpretation by interested parties. Hence if any inferences are drawn by HIAL that ICAO favours dual till, the same is misplaced.

***Provisions of the AERA Act, 2008***

**23.33.** HIAL, in their presentation on 01.04.2013, referred to the provisions of the AERA Act, 2008. HIAL presented arguments to support its view that single till was not envisaged under the AERA Act. HIAL first took reference to the preamble of the AERA Act and presented extract from the preamble as under,

> *"An Act to provide for the establishment of an Airports Economic Regulatory Authority to regulate tariff and other charges for the aeronautical services rendered at airports and to monitor performance standards of airports and also to establish Appellate Tribunal to adjudicate disputes and dispose of appeals and for matter connected therewith or incidental thereto."*

23.33.1. Based on the above reference to the preamble, HIAL inferred that "As such it is contemplated that Aeronautical Charges will be regulated and the performance standards will be monitored."

23.33.2. HIAL also referred to the Section 13 (1) (a) of the AERA Act, which provides the factors to be considered by the Authority in its determination of tariff for aeronautical services. Referring to these factors, HIAL stated that *"AERA Act, empowers AERA to consider only the revenues from services other than aeronautical while determining tariffs. There is no provision under the Act wherein opex and capex of non-aeronautical is to be considered while determining tariff for aeronautical services."* HIAL further stated that *"This clearly goes on to prove that Single Till was not envisaged under AERA Act. AERA also need to consider concession given by Govt. of India."*

**23.34.** The Authority has carefully examined this ground of HIAL. The Authority believes that in terms of clause (a) of sub-section (1) of section 13 of the AERA Act, 2008, the Authority is required to determine the tariff for aeronautical services taking into consideration several factors illustrated thereunder including *"(v) revenue received from services other than the aeronautical services"*. Therefore, the issue of consideration of the revenue received from services other than aeronautical services, i.e., non-aeronautical services has been legislatively required to be taken into account by the Authority while determining aeronautical tariffs. It is thus not open to other interpretations.

**23.35.** Going by the interpretation ascribed by HIAL, that while the AERA Act requires the Authority to consider revenue received from services other than the aeronautical services, it does not require the Authority to consider the expenses associated with such non-aeronautical services. Under such a novel interpretation, one possible scenario is to consider the revenue received from services other than the aeronautical services towards cross-subsidization of aeronautical services without including the expenses pertaining to such services in the determination of aeronautical tariff. Most of the non-aeronautical services have been outsourced by HIAL to third party concessionaires. As regards duty free shopping the (total) revenue from duty free shopping is Rs. 155.88 crores for the current control period. The expenditure incurred in providing these services is Rs. 153.36 crores for the current control period. Under the above interpretation made by HIAL the Authority would be required to take an amount of Rs. 155.88 crores for the current control period - as “revenue received from duty free shopping” **without** taking into account cost associated in providing this service i.e. Rs. 153.36 crores for the current control period. On a very rough calculation this would mean that its impact on the passenger charges would be to lower the UDF by Rs. 72 (Rs. 155.88 crores as income for the current control period divided by approximately 2.16 crores as the number of departing passengers for the current control period). The Authority, on balance and for the time being does not propose to resort to this possible and plausible literal interpretation though it flows from HIAL’s submissions.

***Legislative background and intent***

**23.36.** In its presentation HIAL has quoted the preamble of AERA Act and stated that,

> *“An Act to provide for the establishment of an Airports Economic Regulatory Authority to regulate tariff and other charges for the aeronautical services rendered at airports and to monitor performance standards of airports and also to establish Appellate Tribunal to adjudicate disputes and dispose of appeals and for matter connected therewith or incidental thereto.”*

**23.37.** Based on the above, HIAL has inferred that “As such it is contemplated that Aeronautical Charges will be regulated and the performance standards will be monitored”. The Authority proposes to determine only the tariffs for aeronautical charges in accordance with Section 13 of the AERA Act. It also notes, however, that whereas the preamble states that the Authority should regulate tariffs and other charges for the aeronautical services, Section 13 (a) (1) of the AERA Act gives detailed legislative policy guidance as to the elements that the Authority ought to consider while making such determination. Taking into account "revenue from services other than aeronautical" is clearly specified as one such element. Regulating only aeronautical charges in no way conflicts with taking into account revenue from non-aeronautical services whose charges are not regulated by the Authority.

**23.38.** ***Legislative history:*** The Authority has also noted the legislative history as to how the clause "revenue from services other than aeronautical" came to be included as one of the factors that the Authority should take into consideration while determining aeronautical tariffs [vide Section 13 (1) (a) (v)]. The Authority has been pointing out time and again that clause (v) of Sec 13(1)(a) requiring the Authority "to take into consideration the revenue received from services other than the aeronautical services" did **not** appear in the initial bill of AERA Act that MoCA introduced in the Lok Sabha on 5th Sept 2007. When the Bill was referred to the Department related Standing Committee, the Standing Committee made a recommendation that "*...The economies of airport operation depend on both revenue streams i.e., aeronautical revenue and non-aeronautical revenue…….. and Government may amend the Bill in order to include non-aeronautical services in the ambit of the Bill*". The wordings of the response to government to this recommendation are important and worth noting. The Government said that *"it is important to notice that internationally major airports earn bulk of their revenues through non-aeronautical stream. This enables them to moderate the aeronautical charges. In India also, there is an increasing realization that the non-aeronautical revenue has to increase so that core airport user, i.e., airlines, passengers and cargo facility users do not have to bear high aeronautical charges. Keeping this in view it is felt that one of the factors relevant for consideration to determine the tariff for the aeronautical services could be the* ***revenue generated by the subject airport operator through non aeronautical stream*** *(emphasis added)."* Accordingly, following clause was added in Section 13 (1) (a) of the Bill by way of official amendments:

*"(v) Revenue received from services other than aeronautical services"*

**23.39.** The intention of the legislature clearly was not only to regulate the non-aeronautical services but express recognition that *the economies of airport operation depend on both revenue streams i.e., aeronautical revenue and non-aeronautical revenue.* The government's response also clearly stated that in order that the airport users do not have to bear high aeronautical charges, "*one of the factors relevant for consideration to determine the tariff for the aeronautical services could be the* ***revenue generated by the subject airport operator through non aeronautical stream.***" Black's Law dictionary (9th Edition) defines "revenue" as "gross income". For a company, this is the total amount of money received by the company for goods sold or services provided during a certain time period.

**23.40.** The government through its various pronouncements have put passengers and cargo users as its main focus for economic regulation of airports and minimising passenger charges as its objective. The Planning Commission also stated "lowering of costs" as one of the objectives of private sector's participation in the infrastructure sector. MoCA had given its comments at the stage of White Paper vide its letter No.AV.2011/003/2009-AD dated 9th March 2010, wherein it stated inter alia that "…The ultimate objective should be to reduce the burden on the end users (passengers)." The Authority, vide its letter dated 12.03.2010, furnished its comments on the observations made by the Government. The Authority, therefore believes that its approach of lowering burden on the passengers while determining aeronautical tariffs of the major airports has MoCA's broad acceptance.

**23.41.** To minimize the burden of airport charges on the passengers has, therefore, been the focus of the economic regulation of major airports (albeit consistent with giving a fair rate of return to the airport operator). To minimize the burden on the passengers was also the publicly stated objective in the MoCA's Press Release of 16th October, 2012 when it asked AAI to contribute equity capital in DIAL as well as MIAL so as to do away with development fee with effect from 01-01-2013. Similarly, it also asked AAI not to ask for DF in the matter of tariff determination in respect of Kolkata and Chennai airports. This unwavering focus of the Govt. on minimizing passenger charges has important implication in the regulatory till.

**23.42.** The Government had thus put the passengers' interest firmly in focus while moving the official amendment accordingly. Dual/Hybrid or shared revenue till is thus not in consonance with that avowed focus repeatedly adopted by the government and also followed by the Authority as its primary anchor of economic regulation of airports, after the interests of the airport operator are fully addressed in terms of fair rate of return on his investments consistent with the risk profile and any risk mitigating measures.

***Ministry of Civil Aviation's stand on choice of till***

**23.43.** Presenting and referring to an extract of the affidavit filed by MoCA before the Appellate Tribunal, HIAL has submitted that adopting single till for Hyderabad Airport is not in consonance with the regulatory till (Shared Till) adopted for various other airports in the country namely, Jaipur, Amritsar, Udaipur, Varanasi, Mangalore, Trichy, Ahmedabad, Delhi and Mumbai. The extract from affidavit filed by MoCA, as presented by HIAL, is reproduced below:

> *"It is submitted that the levy of User Development Fee (UDF) at some of the Airports Authority of India managed airports (viz. Jaipur, Amritsar, Udaipur, Varanasi, Mangalore, Trichy, and Ahmedabad airports) has been approved by Respondent No. 1. In the determination of UDF at these airports, a hybrid / shared till approach has been adopted where only 30% of the non-aeronautical revenue has been accounted for in the calculation. This approach was adopted by Respondent No. 1 based on the philosophy specified in the State Support Agreement with the M/s Delhi International Airport Ltd and M/s Mumbai International Airport Ltd being a philosophy of economic regulation considered and approved at"*

23.43.1. Having reference to the above affidavit and consideration of shared till in respect of Delhi and Mumbai Airports, HIAL submitted as under,

> *"Therefore, it is not correct to assume that Hyderabad Airport, a Greenfield investment, with significantly higher risks have been privatized and developed on a single till basis whereas for other Major Airports in India, like Mumbai and Delhi and for smaller airports like Jaipur, Amritsar, Udaipur, Varanasi, Mangalore, Trichy,*

*Visakhapatnam and Ahmedabad, a Hybrid /Shared Till was adopted.”*

**23.44.** The Authority has carefully examined this submission of HIAL. At the outset, the Authority notes that the Government had not fixed any UDF for Ahmedabad and that the ad-hoc determination of UDF for Ahmedabad Airport has been made by the Authority under single till. However, the submission of HIAL mentions Ahmedabad under shared till, which is not the case. Secondly, the ad-hoc determination in respect of Hyderabad made by the Authority under single till (and reckoning a period of 5 years) vide its Order No 06/2010-11 dated 26.10.2010, has not been appealed either by the airport operator (HIAL) or by any of the stakeholders. It would thus appear that calculation of UDF based on single till and for a period of 5 years has broad acceptance.

**23.45.** From the Government’s affidavit, the Government appears to have followed shared revenue till (and not hybrid till). From the extract quoted by HIAL in their submission, the Government appears to have based 30% shared till approach based on the State Support Agreement of Delhi and Mumbai Airports. The Authority had an occasion to consider this aspect. It notes that the covenants of State Support Agreement / Operation, Maintenance and Development Agreement in respect of Delhi and Mumbai Airports and those of the Concession Agreement in respect of HIAL and BIAL are materially different as under:

23.45.1. DIAL and MIAL are required to pay 45.99% and 38.7% of their gross revenue, respectively, as revenue share to AAI (termed as Annual Fee). As per Article 3.1.1 of the State Support Agreement (SSA) in respect of Delhi and Mumbai airports, Annual Fee paid/payable by the DIAL or MIAL, as the case may be, shall not be included as part of costs for provision of Aeronautical Services and no pass-through would be available in relation to the same. On the other hand, the concession fee in respect of Hyderabad and Bengaluru airports is 4% only which is a cost pass through, and the payment of this Fee has also been deferred for the first 10 years.

23.45.2. The SSAs in respect of Delhi and Mumbai airports provide that 30% of revenue from services other than aeronautical services to be taken into account, i.e., shared while calculating aeronautical tariffs. However, it is specifically mentioned that the costs associated in obtaining such non-aeronautical revenues shall not be treated as a pass through. There are no provisions to this effect in the agreements in respect of Hyderabad and Bengaluru airports.

23.45.3. In Delhi and Mumbai airports, the issue of Hypothetical Regulatory Asset Base (RAB) is clearly mentioned as an amount to be added to the Regulatory Asset Base at the beginning of the first regulatory period. There is no mention of any such Hypothetical RAB in case of Hyderabad and Bengaluru airports.

23.45.4. The agreements in respect of Delhi and Mumbai Airports have clauses dealing with "Non Transfer Assets" and mode of treatment thereof. No such concept exists in the agreements in respect of Bengaluru and Hyderabad Airports.

23.45.5. The agreements of Hyderabad and Bengaluru Airports were signed in 2004 while those of Delhi and Mumbai were signed in 2006. The agreements of Hyderabad and Bengaluru Airports, therefore, predate those of Delhi and Mumbai Airports. The Government's Greenfield Airport Policy was announced in 2008. This policy, though, specifically mentions the Government's intention of formulating an independent economic regulator; it does not make any mention of Concession agreements signed in respect of the Bengaluru or Hyderabad Airports – whether provisions of these agreements were to be the guiding principles even for Greenfield airports.

23.45.6. The Agreements of Delhi and Mumbai airports contain details of methodology of tariff calculations. Agreements in respect of Bengaluru and Hyderabad airports do not contain any such details.

**23.46.** In view of the above, it is noted that there is no parity whatsoever between the provisions of the agreements in respect of Delhi and Mumbai airports on one hand and the agreements in respect of Hyderabad and Bengaluru airports on the other. Moreover, even the agreements of Delhi and Mumbai materially differ from each other in respect of percentage of revenue share. (Delhi has 45.99% and Mumbai has 38.7%).

**23.47.** HIAL has selectively taken only one element namely, 30% shared till in support of its submissions. The Authority also notes that according to the submissions made by HIAL before the Appellate Tribunal, it has been stressing that the Concession Agreement implies dual till. Its letter to the government also states as such (Para 1.37

above). It would thus appear that HIAL has been taking different positions in different fora in support of its contentions.

**23.48.** As regards the HIAL's statement on riskiness of the Airport, the Authority is of the view that the riskiness is a factor to be considered in determination of cost of equity for the concerned airport. Accordingly the Authority has duly considered the riskiness of RGI Airport, Hyderabad in determination of cost of equity for HIAL and has presented its views in Para 11 above. As far as the calculation of ad-hoc UDF by the government for certain airports is concerned, the Authority also understands that the Government took into account the effective cost of equity for AAI at 12% (in the absence of any debt component). On the other hand the Authority has determined fair rate of return on equity for HIAL at 16%. It has also determined similarly the cost of equity for Delhi and Mumbai at 16%. The characteristics of reckoning 30% of non-aeronautical revenue in calculation of aeronautical tariffs as obtained in Delhi and Mumbai are radically different from those of AAI Airports. In Delhi and Mumbai apart from 30%, the airports of Delhi and Mumbai are required to give, in addition, revenue share to AAI of 45.8% in Delhi and 38.6% in Mumbai that are not cost pass through in the regulatory determination of aeronautical tariffs. It would thus not be proper to take only the percentage of 30% without other attendant characteristics as are required for determination of UDF (which constitutes very significant percentage of revenue receipts for the airport-over two thirds in case of HIAL.)

**23.49.** The Authority has also recently determined aeronautical tariffs (including the User Development Fee) at Chennai and Kolkata Airports under single till. It has also determined ad-hoc UDF for Ahmedabad and Trivandrum under single till. The Government of Kerala thought the UDF rate as very high and had preferred an appeal before the Appellate Tribunal on this ground. This was despite the fact that the UDF under single till was found to be the lowest and these Orders have **not** been challenged on the ground of regulatory till. If hybrid or dual till to be followed, the UDF rate would have been much higher.

**23.50.** Furthermore the Authority has noted that the Government had determined ad-hoc UDF for private greenfield airports of Bengaluru and Hyderabad in 2008. For Hyderabad it determined UDF for domestic passengers at Rs. 375 per embarking passenger and Rs. 1,000 per embarking international passenger. For Bengaluru, the corresponding figures are Rs. 260 per embarking domestic passenger and Rs. 1,070 per embarking international passenger. If the Government's decision on UDF for AAI airports mentioned by HIAL above, is compared to the figures of UDF for Bengaluru and Hyderabad, it would be seen that the UDF for domestic passengers for Bengaluru and Hyderabad are substantially higher than those at all the AAI Airports referred to by HIAL. It would thus appear that the Government's decision incorporates various factors like airport characteristics, capital requirements, financing arrangements etc. HIAL has also made similar point as indicated in Para 23.96 below. The Authority has also been consistently stating that a comprehensive approach needs to be taken in the matter of economic regulation of airports. It would be erroneous to "cherry-pick" only on one element like dual till..

**23.51.** As far as the quantum of UDF required giving the airport operator fair rate of return is concerned, the Authority's analysis of Ahmedabad and Trivandrum Airports indicates the following:

**Table 102: UDF determined in respect of AAI Airports**

| Sl. No. | Airport | UDF in Rs. (inclusive of service tax and collection charges) | | Effective date of levy | Till used for arriving at UDF | Cost of capital | No of years for which UDF will be levied |
|---|---|---|---|---|---|---|---|
| 1 | Jaipur | 150 | 1000 | 01.01.10 | Hybrid Till* | 12% | 15 |
| 2 | Amritsar | 150 | 910 | 15.06.10 | Hybrid Till* | 12% | 10 |
| 3 | Udaipur | 150 | Nil | 15.06.10 | Hybrid Till* | 12% | 13.66 |
| 4 | Trichy | 150 | 360 | 15.06.10 | Hybrid Till* | 12% | 10 |
| 5 | Vishakhapatnam | 150 | Nil | 15.06.10 | Hybrid Till* | 12% | 15.25 |
| 6 | Mangalore | 150 | 825 | 01.09.10 | Hybrid Till* | 12% | 10 |
| 7 | Varanasi | 150 | 975 | 15.11.10 | Hybrid Till* | 12% | 20 |
| 8 | Ahmedabad | 110# | 415# | 01.09.10 | Single Till | 12% | 10 |
| 9 | Trivandrum | Nil | 755# | 01.03.11 | Single Till | 12% | 15 |
| * - Hybrid Till means 30% of non-aeronautical revenue was considered towards cross- | | | | | | | |

| Sl. No. | Airport | UDF in Rs. (inclusive of service tax and collection charges) | Effective date of levy | Till used for arriving at UDF | Cost of capital | No of years for which UDF will be levied |
|---|---|---|---|---|---|---|
| subsidization | | | | | | |
| # - Exclusive of statutory levies | | | | | | |

**23.52.** As far as the Authority's determination of ad-hoc UDF for Hyderabad is concerned, it has done so under single till (Rs. 430 per embarking domestic passenger and Rs. 1,700 per embarking international passenger). HIAL's initial proposal (not under single till) for ad-hoc UDF was at Rs. 450 per embarking domestic passenger and Rs. 2,918 per embarking international passenger. Clearly the level of UDF under single till was seen to be the lowest after taking into account the reasonable expectations of the airport operator.

**23.53.** The Authority has had reference to the Aeronautical Information Circulars (AICs) issued by the Director General of Civil Aviation (DGCA) viz. AIC SL. No. 7/2010 and AIC SL. No. 5/2010. The Authority has noted the following aspects from these circulars:

23.53.1. The UDF to be levied on domestic passengers has been fixed uniformly at Rs. 150/- in respect of the airports at Amritsar, Udaipur, Varanasi, Mangalore, Trichy and Visakhapatnam and the UDF to be levied on international passengers is different for different airports including zero for those airports, where there is no international passenger traffic.

23.53.2. The Authority has further observed that the UDF approved for Varanasi Airport is an ad-hoc UDF, which indicates that a detailed assessment of requirement of UDF may not have been done at that stage.

23.53.3. The ad-hoc UDF at Varanasi Airport has been approved for a period of 20 years while the period of levy of UDF for the other five airports namely, Amritsar, Udaipur, Mangalore, Trichy and Visakhapatnam has not been mentioned in the AIC. The period of 20 years is mentioned in the AIC dated 16.11.2010 in respect of Varanasi Airport. The Authority has not found similar mention of period in the AIC for other five airports. The AIC does mention the date of commencement of levy of UDF but not the duration / period thereof. Since the calculation of UDF is understood to be a revenue enhancing mechanism, this would mean that the levels of UDF so determined would continue till the issue of any fresh AIC upon a possible future redetermination of these charges. The Authority notes that a period of 20 years is a long horizon, which has helped in keeping the UDF numbers at a lower level.

23.53.4. While the Authority is not cognizant of the calculations behind the UDF numbers for the airports for which the Government has determined it, it infers from the available numbers that the approach for determination of UDF may have been to vary the period of levy and amount of levy on international passengers such as to keep the UDF number for domestic passengers fixed at Rs. 150. The Authority however understands that the period reckoned for calculation of domestic and international UDF in the calculations made by the Government go much beyond 5 years and are in the range of 10-15 years or so. This has enabled the Government to keep the UDF at a lower number. Furthermore Authority understands that if the UDF for AAI Airports were to be calculated by the Government not for 10-20 years at 30% non-aeronautical revenue taken into account, but only for five years, then even taking the entire non-aeronautical revenue may not prove sufficient to arrive at similar levels of UDF. Such a determination would then tantamount to a single till approach and not 30% shared till approach.

23.53.5. Under the Government's ad-hoc UDF determination of AAI Airports (with 30% shared till), the remaining 70% of non-aeronautical revenue remains in the hands of the airport operator i.e. a public authority namely AAI. The purpose of such additional monies with AAI is ex-ante clear in that it would be used for development of other airports in the country. If similar treatment were to be given to HIAL, this would mean that 70% of non-aeronautical revenue is left in the hands of a private party. This would result in higher UDF charge on the passengers. This means that if 30% principle were to be adopted for HIAL, the passengers would be paying additional UDF only to enable the private party earn higher than fair rate of return. This could be construed as unjust enrichment through operation of regulatory framework and extracting higher UDF from the passengers under the provisions of UDF that are enshrined in Aircraft Rules, 1937 (this Rules alone gives the power to the Authority to determine the level of UDF). Hence if UDF were to be determined (under dual till or for that matter under 30% principle) at a level higher than what is required to give airport operators a fair rate of return under single till, this would be tantamount to using a legal provision merely to unjustly enrich a private party (airport operator), which in the understanding of the Authority is neither a public purpose nor in public interest. The Authority also notes that capital requirement for expansion of the Airport is also stated to be one of the purposes for charging of UDF under the Concession Agreement and that the Authority may require using this provision in cases of airport expansion etc.. Hence the purpose of higher UDF would need to be for a public purpose. The financial implication of non-aeronautical revenue (under dual till) retained by HIAL over and above the fair rate of return is given in Paras 23.143 to 23.145 below.

**23.54.** The Authority notes that it would need to determine the level of UDF taking into account the regulatory period of 5 years. It also notes that it would need to calculate the return on equity based on its approach of calculation of equity beta, risk-free rate, equity risk premium etc. Furthermore it has determined ad-hoc UDF rates at Ahmedabad and Trivandrum (AAI Airports) based on single till as indicated in the 23.49 above and Table 102. Similarly it has also determined the ad-hoc UDF for Hyderabad Airport vide its Order 06 / 2010-11 at Rs. 430/- per domestic departing passenger and Rs. 1,700 per departing international passenger based on Single till. The Authority has noted that none of these ad-hoc UDF determinations have been challenged on the ground of application of single till. The Govt of Kerala appealed against the Authority's Order on the ground of UDF for international passengers being too high (it is to be noted that the level of UDF would have been higher had it been computed on the basis of dual or hybrid till).

**23.55.** Apart from the above determination of ad-hoc UDFs, the Authority has recently made final tariff determinations in respect of Kolkata and Chennai Airports on the basis of single till.

**23.56.** As indicated in the Tariff Order for Kolkata, realizing the very high levels of UDF, the Authority has finally determined UDF at a substantially lower level of Rs. 400/- for domestic and Rs. 1,000/- for international passengers consciously leaving a shortfall of Rs. 800 crores which would need to be carried forward during the next control period. Under 30% hybrid till or dual till, the levels of UDF would have been much higher, though the Authority had no occasion to go into this exercise. The Authority's Orders in respect of Kolkata and Chennai have also not been challenged before the Appellate Tribunal on the ground of regulatory till.

**23.57.** The Authority observes from the above that the Government has determined the UDF for domestic passengers at Rs. 150 uniformly across different airports. The Authority also notes that these airports vary in their physical characteristics in terms of capital cost, passenger throughput, percentage of non-aeronautical revenue, passenger mix (international / domestic) and types of aircrafts landing at these airports etc. yet the Government has kept UDF for domestic passengers constant at Rs. 150/-. It appears that keeping UDF for domestic passengers low as well as uniform may have been a key concern for the Government. This is in consonance with the Government's declared objective of minimizing the burden on the passengers. Further the UDF numbers for international passengers have also been kept at a lower level by increasing the period of levy to as much as 20 years in case of Varanasi Airport. Comparatively in respect of RGI Airport, Hyderabad, HIAL had approached the Government to determine UDF at Rs. 450 per embarking domestic passenger and of Rs. 2,918 per embarking international passenger for a period of 5 years. The Government forwarded HIAL's proposal to the Authority. After detailed examination, the Authority finally determined the ad-hoc UDF for Hyderabad at figures mentioned above in Para 1.24 above

**23.58.** In the above background, HIAL's request for consideration of hybrid / shared till in respect of RGI Airport, Hyderabad purely based on MoCA's consideration of only one single element namely, hybrid / shared till for the above mentioned six airports does not appear to be appropriate and tantamount to selective approach only to enable HIAL get more than fair rate of return for itself at the cost of passengers through UDF. This is because the Authority is of the view that it would not be pertinent to consider only one aspect of an exercise, which essentially is dependent upon several factors and all the factors responsible for the final outcome of the exercise should be considered together. Thus basing the consideration of hybrid / shared till on MoCA's approach for the above six airports would mean consideration of other factors such as restricting the UDF on domestic passengers to Rs. 150/- and extending the period of levy to as high as period as required to keep the overall UDF at lower levels. However the Authority has not resorted to consideration of these factors as it would not be in consonance with its legal mandate.

**23.59.** Based on the above, the Authority considers it appropriate to take a comprehensive view including the detailed legislative policy guidance contained in Section 13 of the AERA Act while considering the determination of aeronautical tariff in respect of RGI Airport, Hyderabad. Apart from that, the Authority notes that MoCA's affidavit does not support HIAL's contention of adopting dual till in their submission before AERAAT.

***Govt. of Andhra Pradesh (GoAP) view on till***

**23.60.** HIAL has made reference to two communications from Government of Andhra Pradesh (GoAP) to infer and present their views on the regulatory till to be considered for RGI Airport, Hyderabad. These are presented below:

23.60.1. Presenting and referring to an extract of the Letter of Award by Government of Andhra Pradesh (reproduced below), HIAL has submitted that *"GoAP envisaged uncapped returns"*.

> *"Return on equity over and above 18.33% to be shared equally over the life of the project in proportion to the equity holding between the Developer and the Government of Andhra Pradesh i.e., there will be no asymmetrical sharing of profits above 18.33% In favour of Government."*

23.60.2. HIAL further submitted based on the above extract as under,

> *"Government of AP, while approving GMR Consortia as a preferred bidder for Hyderabad Airport, envisioned that the project may have potential upside that would be shared in proportion to equity holding.*

*If AERA adopts a Single Till and allows a return equivalent to 18.33% as minimum assured by GoAP, then the above provision relating to sharing of return over and above 18.33% get redundant.*

*This goes against the promise made by the Government at the time of privatization. Any change in the conditions will cause irreparable loss to the airport operator."*

23.60.3. HIAL has also referred to a letter from Government of Andhra Pradesh, which, in HIAL's understanding, has been written by GoAP to the Authority clarifying GoAP's position on the Equity IRR and utilization of land. HIAL's understanding, as presented to the Authority, from the said letter is reproduced below:

*"GoAP has categorically clarified that article 10 (3) of the Concession Agreement gives the right to GHIAL to set tariffs for non airport facilities and services. The concession does not envisage cross subsidy of Non Aeronautical revenues to defray aeronautical charges.*

*GoAP also clarified that Cargo, Ground Handling and Fuel should not be regulated. Govt further clarified that an Equity Internal Rate of Return needs to be maintained.*

*GoAP also clarified that under clause 2.3b(i) of State Support Agreement, its necessary to maintain an Equity Internal Rate of Return of 18.33%. It was further clarified that 18.33% was not a cap on the return on equity.*

*GoAP also clarified that the land given was for the socio-economic benefit of the state and by reducing its market value from the RAB, the desired benefit will not be achieved."*

**23.61.** The Authority has carefully examined the HIAL submission on this ground. As far as the three services of cargo, ground handling and fuel supply are concerned, these have been defined as "aeronautical services" (Section 2 of AERA Act, 2008). Under Section 13(1) of the AERA Act, 2008, the legislature has mandated the Authority to determine tariffs for these services. Hence the contention that these services should not be regulated on account of the Concession Agreement is at variance with statutory requirement. The Authority therefore is required to determine tariffs for these 3 services that are clearly defined as aeronautical services. The Concession Agreement has no provisions about the determination of tariffs for aeronautical services except that they should be fixed in accordance with ICAO policies (Article 10.2.1 of the Concession Agreement). HIAL has also pointed that ICAO is neutral with regard to the regulatory till. Hence the Authority is unable to appreciate the argument that the concession agreement does not envisage cross-subsidy of non-aeronautical revenues to defray aeronautical charges.

**23.62.** As far as the return on equity is concerned, the Authority has determined the same with reference to well-established principles. While doing so, it has taken into account the risk profile of the airport. It has also introduced substantial risk mitigating measures like truing-up of passenger traffic, non-aeronautical revenue, interest cost at actuals (subject to reasonability). Even thereafter the Concession Agreement also provides for grant of user Development Fee. UDF is generally understood as a revenue enhancing measure to enable the Airport Operator to obtain a fair rate of return. However the Concession Agreement also admits of the possibility of UDF being used for capital financing. Hence not only the commercial risk is mitigated, even the financing risk for new investments as and when required is taken care of. The Authority also notes that the Central Government closed down a functioning airport at Begumpet so that the new airport was assured of traffic from the day it commenced its commercial operation. The Government of Andhra Pradesh also made available financial assistance in form of subsidy of Rs. 107 crores and IFL of Rs. 315 crores to help finance the project. It also lent substantial infrastructure support in terms of elevated approach road at the cost of state exchequer. Based on all these parameters, the Authority has considered a rate of return of 16% as fair.

**23.63.** As far as the equity return of 18.33% is concerned, this occurs not in the Concession Agreement with Government of India but in the State Support Agreement with Government of Andhra Pradesh. Going strictly by Section 13 (1)(a) (vi) of AERA Act, the Authority is required to take into consideration agreements, etc. only with the

Central Government. The Authority further notes that under Clause 2.3 (b) of the State Support Agreement, it has been stated as under,

> *"Govt. of Andhra Pradesh (GoAP) shall make available to HIAL an Interest Free Loan (IFL) in the sum of Rs. 315 crore. IFL shall not in any circumstances attract interest payment. GoAP agrees and accepts that the IFL may be adjusted pro-rata upward or downward on completion of detailed project report (DPR), if the determination is made that such pro-rata adjustment is required as a result of change in the project cost and so as to maintain equity internal rate of return @18.33%."*

**23.64.** The Authority notes that this agreement is between GoAP and HIAL in which the GoAP through Transport, Road and Buildings (Ports) Dept. holds 13% shares. The Authority, based on well-established financial principles and on the basis of a report of a reputed consultant like National Institute of Public Finance and Policy (NIPFP), arrived at a fair rate of return on equity of 16%. The Authority has noted the submission of HIAL with respect to Letter of Award. The tariff determination is required to be made on the basis of fair rate of return, which in Authority's view, is not 18.33% but 16%. The financial and commercial arrangements between GoAP (that is one of the shareholders in HIAL) and HIAL should thus not require the passengers to bear the extra burden of grant of rate of return on equity that is in excess of the fair rate of return, namely 16%.

**23.65.** The Authority's Order No. 13 of 2011 dated 12th January, 2011 has given detailed reasoning for ring fencing of land and the circumstances under which its market value is reduced from the RAB. The Authority has noted the relevant contents of the Letter dated 1st March, 2011 from the Govt. of Andhra Pradesh to the Authority in which it is mentioned that "*as already mentioned in Recital 'C' of the Land Lease Agreement dated 30.09.2003, 5500 acres of land was leased by the GoAP for the general economic and social development of the State of Andhra Pradesh*."

**23.66.** According to Authority's reading, Recital 'B' refers to the "Airport" as defined hereafter on a build, own and operate basis (Project)". The 'Project' has been defined to have meaning assigned to it in Recital 'B'. Recital 'C' refers to the project being of prime importance to the State of Andhra Pradesh and refers to the policy of the lessor (State of Andhra Pradesh) to encourage and provide industrial development, tourism, passengers, cargo movement and general economic and social development of the State of Andhra Pradesh. The same Recital also speaks about the provision of financial support to assist the project. Recital 'E' explicitly states that "the project is feasible only with State Support of the lessor"

**23.67.** "Airport" has also been defined as the Greenfield international airport to be constructed and operated by the lessee at Shamshabad near Hyderabad and includes all buildings, equipment, facilities and systems, aeronautical and non-aeronautical and airport-centric activities and includes without limit, where the circumstances so required, any expansion of the airport from time to time."

**23.68.** The Authority upon combined reading of these recitals felt that land was given to make the project feasible. It, therefore, appears to the Authority that any revenues obtained from commercialization of land in excess of the project requirements are required to be ploughed into the project. The GoAP had also made available State Support for the project to make it feasible. Hence the Authority had considered the mechanism of reducing RAB by the market value of such commercial activities generally outside the terminal building (except what clearly are aeronautical services). This, in view of the Authority, would establish the nexus between the purpose of grant of land (to make the project feasible) and lowering the charges on the passengers.

**23.69.** The Authority, in any case, is mandated to determine tariffs for aeronautical services (including amount of Development Fees) taking into consideration the economic and viable operation of the major airports. Hence, after determining such aeronautical tariffs (as well as User Development Fee (UDF), the airport would in any case become viable and feasible in terms of financial returns. Any amount obtained through commercial exploitation of land would be over and above what is required for such economic viability or feasibility. According to the understanding of the Authority, land in excess of the airport requirement was leased out to make the 'Project' (namely, the Airport) feasible through commercial exploitation. Upon going through the purpose of grant of lease (Clause 3.1(b)), the Authority noted that some of the purposes are related to hotels, resorts, commercial and residential complexes, industrial facilities, and any other lawful commercial activity. According to Authority's understanding, the disposal of land acquired for a 'public purpose' is normally not given for pure commercial or residential activities unless revenue generated from such activities is utilized for making some other public purpose feasible. In the extant case, therefore, the Authority felt that the revenues from such commercial activities should flow to the airport. One of the mechanisms, that the Authority had thus contemplated, was to reduce the market value from RAB so as to lower the charges on the passengers which, in its view, is consistent with the scheme of the grant of lease to HIAL for the project.

**23.70.** The Authority has noted from the extract of the Letter of Award submitted by HIAL that it speaks about the circumstances if the return on equity is over and above 18.33% (that is to be shared equally over the life of the project in proportion to the equity holding between the developer and the GoAP). It is thus unable to appreciate the argument that this provision tantamount to making a regulatory regime such that the developer ought to get a return on equity over and above 18.33%. HIAL has also inferred that "GoAP envisaged uncapped returns". From reading of its provisions, it is clear that what is contemplated is a mechanism of sharing returns over and above 18.33% and that the regulatory framework cannot be tailored so as to always give an equity return over and above this figure

**23.71.** As far as the issue of land is concerned, the Authority has noted from the State Support Agreement that 5450 acres of land is leased out at what appears to be a concessional rental of 2% per annum of the cost of land (Rs. 155 crores). Part of the land can be used for commercial exploitation. Both the concessional rental as well as the commercial exploitation appear to have been stipulated to make the Project feasible. The project, as defined in the State Support Agreement is the development of the Airport. The Recital E of the State Support Agreement in this respect is reproduced below:

> *"The Project is feasible only with State Support of the Lessor, and as part of the State Support to be made available by the Lessor to the Lessee, pursuant to the State Support Agreement, the Lessor has agreed to provide on lease to the Lessee contiguous unobstructed, unencumbered and freehold land owned and possessed by the Lessor measuring about 5,000 (Five Thousand acres) at Shamshabad, near Hyderabad, as*

*described in Schedule 1 to this Agreement and shown on the site plan attached hereto as Schedule 2 (the "Land"), and the Lessee has agreed to accept the Land on lease subject to and on the terms and conditions contained in this Agreement."*

**23.72.** The Authority further notes from Recital C that the Project (development of the Airport) is of prime importance to the State and is expected to induce benefits for the State, however this induced benefit is not directly part of the Project. Thus the Authority is of the view that the revenue from monetization of land would not have been envisaged to have been left with the Airport Operator but to be invested in the project to make the project feasible. The Authority has no intention of taking this incentive away from HIAL, however the money so raised should be utilized for the project. The Authority notes that around 5,000 acres of land has been leased to HIAL out of which the Airport requires 3,000 acres. Out of the remaining 2,000 acres, around 900 acres of land will be available for monetization by HIAL.

**23.73.** The conclusion as the Authority understands is inescapable. Land is acquired for a public purpose viz. the airport. The airport will not be feasible unless the commercial exploitation of land in excess of the airport requirements is permitted. It would follow that the revenues from such commercial exploitation should benefit the passengers of the airport in question. This is quite apart from the fact that under the Authority's regulatory remit, it will have to determine aeronautical tariffs to make the airport feasible even without, if need be, addressing the land receipts. Receipts from commercial exploitation of excess land would then be monies in the hands of the private airport operator without any nexus with public purpose for which the land could be acquired by the Government of Andhra Pradesh in the first place.

***Planning Commission on till***

**23.74.** HIAL has referred to the letter from Planning Commission to the Authority dated 06.10.2010. During its presentation to the Authority dated 01.04.2013, HIAL presented to the Authority as under,

*"We understand that the Planning Commission of India (PC) has written to AERA in October 2010 clarifying its position on the choice of till to be adopted.*

- *We understand that PC has advocated need for a Hybrid Till regulation. This has been also in light of the fact that India required a huge private sector investment into the Airport sector under the 12th plan.*
- *PC has underscored the importance of the choice of economic regulation especially a Hybrid Till approach in achieving the investment goals.*

*Therefore, we again reiterate that the views of the PC may be taken into consideration. Therefore, we earnestly request to Authority to accept the views of the Planning Commission in finalizing philosophy applicable to GHIAL"*

**23.75.** During its presentation to the Authority dated 01.04.2013, HIAL requested to the Authority to accept the views of the Planning Commission in finalizing philosophy applicable to HIAL. Hence it would appear that HIAL wants the Authority to apply hybrid till in the determination of aeronautical tariff for RGI Airport, Hyderabad. This request is not in consonance with its submissions before the Appellate Tribunal, where HIAL has stated that the Authority should adhere to the Concession Agreement and that dual till is implicit in the Concession Agreement. This is also stated by HIAL in its Letter dated 20.04.2013 to the Hon'ble Minister for Civil Aviation.. By its present submission (made on 01.04.2013) referring to the letter of Planning Commission, HIAL seems to feel that hybrid till is also consistent with the Concession Agreement, a position which is at variance with its appeal before the Appellate Tribunal. The Authority therefore has proceeded with the examination of the submissions made by the Airport Operator, which are under single and dual till.

**23.76.** The Authority has carefully examined HIAL's submission having reference to the letter from Planning Commission. HIAL has inferred from the letter that the Planning Commission assigns a great importance to the choice of economic regulation in achieving the investment goals and also that the Planning Commission has advocated need for a hybrid till.

**23.77.** The Authority concurs with the views of the Planning Commission that choice of economic regulation is an important factor in attracting private sector investment.

The Authority has followed the principles of transparency and consistency in preparing its approach for determination of aeronautical tariff for major airports. To ensure the same the Authority has involved the stakeholders at various stages and considered the views expressed by them in developing its approach.

**23.78.** The Authority however notes that in this context, the term private sector investment needs to be understood. Incentivizing or attracting private sector investment of an amount may be assigned a meaning that either the private parties should be investing the target amount of money as equity or should arrange for finances from banks and financial institutions in private sector as well as FDI, if any, for this amount.

**23.79.** In context of HIAL, it is observed that out of the said project cost of Rs. 2,920 crores, HIAL has brought in the equity of Rs. 378 crores, which is about 13% of the said project cost. In comparison to this, the State Government has supported through funding of Rs. 422 crores (Interest Free Loan of Rs. 315 crores and Advanced Development Fund Grant of Rs. 107 crores). Thus it can be seen that while private sector investment is around 13% of the said project cost, the State Government has supported the project through its funding of around 14.5% of the project cost.

***ACI view on choice of till***

**23.80.** HIAL has referred to Airports Council International (ACI) communication to the Authority, wherein ACI stated that the conclusions with regard to ICAO Doc 9082 as well as ICAO Doc 9562 in Paras 5.17 -5.32 of the Authority's Order 13/2010-11, are not tenable and require rectification. HIAL stated as under,

> *"Airports Council International (ACI), Montreal while referring to the AERA Order 13/2010-11, has brought to the notice of AERA about the amendment done to the para 30(i) of Doc 9082 and clarified about the neutral position of ICAO on the matter of regulatory till and stated that the conclusions with regard to ICAO Doc 9082 as well as ICAO Doc 9562 in paras 5.17 -5.32 of the AERA Order 13/2010-11, are therefore not tenable and require rectification."*

**23.81.** The Authority has noted HIAL submission on the above aspect. The Authority is aware that Airports Council International has in its deliberations taken a view on the Authority's conclusion on the matter of regulatory till in its Order no 13/ 2010-11. The Authority is also aware that the wordings in the ICAO clauses have been revised in its 9th edition of ICAO 9082 and accordingly ICAO has taken a neutral stand on the issue of regulatory till to be adopted.

***UK competition commission on till***

**23.82.** HIAL has referred to UK's Competition Commission's conclusion that ICAO neither suggests nor precludes a single till or a dual till approach. HIAL on this issues presented to the Authority as reproduced under,

> *In UK, in 2002 the Civil Aviation Authority (CAA) proposed to move from a single till approach to a dual till approach at any of the three BAA London airports subjected to economic regulation.*
>
> *The Competition Commission (CC), in drawing its conclusions on this issue, has assessed whether "the dual till approach could be regarded as consistent with international obligations, guidelines and practice".*
>
> *[Source: Competition Commission (2002), A Report on the Economic Regulation of the London Airports Companies (Heathrow Airport Ltd, Gatwick Airport Ltd and Stansted Airport Ltd),]*
>
> *The CC, explicitly referring to ICAO policies and* guidelines*, stated that:*
>
> *"The ICAO has said that there should be flexibility in applying either the single till or dual till approach.*
>
> *[Source: Competition Commission (2002), A Report on the Economic Regulation of the London Airports Companies (Heathrow Airport Ltd, Gatwick Airport Ltd and Stansted Airport Ltd)].*

**23.83.** The Authority has carefully examined the material furnished by HIAL with regard to the Competition Commission's observation mentioned above. HIAL has pointed out that the Competition Commission has assessed whether "the dual till approach could be regarded as consistent with international obligations, guidelines and practice". The Authority concludes that Competition Commission has mentioned the flexibility in applying either the single till or dual till as per ICAO. It however also notes that HIAL has refrained from pointing out the recommendation of Competition Commission to the Civil Aviation Authority with respect to adoption of single till in economic regulation of UK airports like Heathrow, Gatwick and Stansted. After analysis, the Competition Commission did not accept the proposal of CAA for dual till and recommended single till. The reasons for rejecting CAAs proposal of dual till and recommending single till have been summarized by Competition Commission UK as under:

*"Conclusions on single/dual till*

*2.221. Because the issue of single or dual till understandably preoccupied us and many of the parties to the inquiry in its internal stages, on 11 July 2002 we issued a statement of our, then, thinking on the issue (see Appendix 2.3). We said we had found the arguments and current evidence for moving to a dual till at any of the three BAA London airports not persuasive. None of the evidence we subsequently received led us to change that view: we therefore believe it appropriate to retain the single-till approach in setting airport charges for Q4.*

*2.222. Our main reasons are as follows:*

*(a) There is no evidence that the single till has led to any general under-investment in aeronautical assets at the three BAA London airports in the past, nor any expectation that it will do so over the next five years (see paragraph 2.122).*

*(b) It is not clear that the dual till, as opposed to the single till, would be likely to lead to significantly better aeronautical investment in the future and in some respects is likely to be worse (see paragraph 2.122).*

*(c) The dual till could improve the efficient utilization of capacity, but the benefits are unlikely to be more than marginal even at Heathrow, where they would not occur until Q5 (see paragraph 2.141).*

*(d) Nor do we see significant benefits from any deregulation of commercial activities. We are not persuaded that the distinction between locational and monopoly rents is useful in this context. In so far as airport*

*charges affect fares, the current relatively high profits from commercial activities are applied to the benefit of passengers; the dual-till approach is likely to require increased regulation of such activities (see paragraph 2.148).*

*(e) The dual till could also risk unduly benefiting commercial activities, at the expense of non-capacity-enhancing aeronautical activities, which may not attract sufficient space, funds or attention (see paragraph 2.161).*

*(f) It is difficult sensibly to separate commercial and aeronautical facilities. Commercial revenues at the three BAA London airports cannot be generated without aeronautical facilities: they should therefore be regarded as one business (see paragraph 2.170).*

*(g) Since the successful development of commercial revenues requires airlines to deliver passengers to or from the airport, the benefits of commercial activities should be shared with airlines and airline users (see paragraph 2.171).*

*(h) We believe that average fares would be affected at both congested and uncongested airports if airport charges were to be higher at the three BAA London airports as a result of a switch to a dual-till regime, and we do not think that effect can be justified where it arises from application of dual-till regulation with little or no offsetting benefits (see paragraph 2.197).*

*(i) A move from the single till to the dual till would in the longer term mean a substantial transfer of income to airports from airlines and/or their passengers and be to their detriment, potentially undermining regulatory credibility and creating regulatory uncertainty (see paragraph 2.200).*

*2.223. We also note:*

*(a) No useful inferences can be drawn at this time from overseas airports which use the dual till in whole or in part, as their circumstances are different from those of the three BAA London airports (see paragraph 2.74).*

*(b) Nor are we persuaded that the dual-till approach would act as an effective incentive on BAA to maintain or improve performance by providing 'something to lose' (through reversion to a single-till approach) at future regulatory reviews should it fail to do so (see paragraph 2.121).*

*(c) The CAA proposal of raising the price cap above single-till levels at Gatwick and Stansted in Q4 but not at Heathrow would be contrary to efficient resource allocation in Q4 (see paragraph 2.141).*

*(d) It is difficult, in practice, to allocate both investments and operating costs between aeronautical and commercial activities. To the extent that some of the judgements that have to be made are arbitrary, future disputes about cost allocation could harm relations between the airport and its users (see paragraph 2.216)."*

**23.84.** The CAA accepted this recommendation and proceeded to determine the relevant price cap under single till. Thereafter in the subsequent control period Q5, CAA did not reopen this issue and continued with single till and. as per CAA's statements in its Economic Regulation of Heathrow and Gatwick Airports, 2008-20, (11th March 2008), Appendix E: Regulatory Policy Statement:

*"in its December 2005 policy consultation, the CAA consulted on the view that its evolutionary approach to this review, the extensive discussion and analysis of the issue at the last (Q4) review and the resulting conclusions, mitigated against re-opening the debate over the introduction of a dual till. Instead, it proposed that price caps for airport charges in Q5 be set on the basis of a single till. In its May 2006 publication, the CAA confirmed its intention to continue to develop policies and price cap proposals consistent with its statutory duties within a single till framework (Para E 30)… In its October 2007 advice to the CAA, the Competition Commission restated its main reasons for retaining the single till approach in the last (Q4) review, and stated that **it had seen nothing to change its previous assessment of the issue.** (Emphasis added) The Competition Commission therefore recommended that airport charges should continue to be set on a single till basis. (Para E 31)".*

**23.85.** The Authority further notes that CAA UK in its most recent (30.04.2013) price cap proposals in respect of Heathrow, Gatwick and Stansted for the sixth quinquennium (Q6) has decided to continue with single till.

**23.86.** It would thus be clear that the Competition Commission, UK as well as the CAA UK have found single till approach as consistent with its regulatory objectives. The reasons advanced by the Competition Commission UK are, in the opinion of the Authority, relevant in the Indian context. The Competition Commission UK had stated that shift to dual till, inter alia, would result in large swing of revenues from airlines to airports. In the Indian context, the swing would be directly from the passengers to the private Airport Operators through the operation of higher passenger charge (User Development Fee). The quantum of such a swing from passengers to private Airport Operator over a five year period for HIAL is estimated at approximately Rs. 968 crores (calculated as the sum of revenue to be recovered from UDF for the balance years in the current control period)

**23.87.** The Government of India has consistently maintained that the ultimate objective of economic regulation of airports should be anchored to the passengers and cargo facility users. For e.g. in its affidavit before AERAT, it has clearly mentioned that *"The ultimate objective should be to reduce burden on end users (passengers). The Government also referred to its reaction to AERA's White Paper on 22.12.2009 namely that the adoption of a specific "till" methodology should be airport specific, keeping in mind the contractual obligations (if any), socio-economic objectives of the Government as in the case of the airports in the north-eastern states and in remote locations (if covered under the ambit of AERA) and other such conditions"*. While passing its Airport Order of 12.01.2011, the Authority had considered these views of the government appropriately.

**23.88.** Having regard to the focus on the interest of the passengers and cargo facility users, the Authority considers it appropriate to balance the interests of the airport operator with passengers in such a manner that once the airport operator is assured a fair rate of return (on equity) consistent with the risk profile (with various risk mitigating measures incorporated), the capital requirements for expansion etc. having been addressed, the charges on the passengers would need to be minimized.

***European Union on till***

**23.89.** Referring to the EU directive on the issue of regulatory till, HIAL submitted that EU Directive does not prescribe the basis on which airport charges should be set, and explicitly leaves open key issues such as the regulatory till. HIAL presented to the Authority as under,

*"The EU Directive, that explicitly mentions policies on airport charges endorsed by ICAO, states that:*

*"It is necessary to establish a common framework regulating the essential features of airport charges and the way they are set […]. **Such a framework should be without prejudice to the possibility for a Member State to determine if and to what extent revenues from an airport's commercial activities may be taken into account in establishing airport charges.**" (Emphasis added) .*

*[source; Competition Commission (2002), A Report on the Economic Regulation of the London Airports Companies (Heathrow Airport Ltd, Gatwick Airport Ltd and Stansted Airport Ltd),]"*

*The above quotation provide evidence that the EU Directive, in coherence with ICAO policies, "does not prescribe the basis on which airport charges should be set, and explicitly leaves open key issues such as the regulatory till"*

*[Dr. Francesco Lo Passo and David Matthew, NERA (2009), The EU Directive on Airport Charges: Principles, Current Situation and Developments.]*

**23.90.** The Authority has noted HIAL submission on the above aspect. The Authority is aware of the latest wordings in the ICAO 9082 and accordingly notes that ICAO has taken a neutral stand on the issue of regulatory till to be adopted. As also indicated by HIAL, the EU Directive admits both single and dual tills depending upon the situation in the Member State.

***International examples and research studies of airports moving to dual till***

**23.91.** HIAL in its presentation has referred to a case study on Aéroports De Paris (ADP). Presenting the findings of the case study, HIAL has submitted that *"World over the fact that single till regulations are not economically efficient, are not cost reflective, provide limited incentive to the operator to increase traffic and does not enable airports to create value over long term and build capacities."* Findings from the case study, as presented by HIAL to the Authority, are reproduced below:

> *For the period 2006-10, Single Till principle was used, but for 2011-15 the French Government has allowed "Adjusted Till‟ principle for tariff regulation with the withdrawal of commercial and real estate diversification activities from regulated scope •Some of the arguments put forward by the authority in its Consultation paper included:*
>
> - *Would be a stronger incentive to improve the competitiveness and attractiveness to users because traffic growth is a positive external driver of retail activities*
> - *Would be a driver for increasing employment. The retail and restaurant activities majorly employs local labor and represent nearly 7,000 jobs on these airports*
> - *Would allow the airport to capture some of the value created over the long-term will help strengthen its financial robustness and hence its investment capacity*
> - *Decreasing the level of cross-subsidy between non-aviation activities and aviation activities will enable airport fee rates to be a price signal linked more directly to the cost of developing infrastructure and services, favoring sound and responsible economic behavior.*

**23.92.** The Authority has analysed the points with respect to the ADP experience given by HIAL mentioned above. As a preliminary observation the Authority notes that ADP has majority holdings of public entities that is not the case at HIAL. The Competition Commission of UK had also observed that it remains unimpressed by the examples of other dual till airports since according to Competition Commission they cannot be said to be comparable to Heathrow, Gatwick and Stansted. It had stated that it could not find any private airport comparable to Heathrow etc. under dual till. That apart, the Authority also notes that HIAL has in its appeal before the Appellate Tribunal made a submission for dual till. Its submission before the Authority is also for both single till as well as dual till. The ADP experience mentioned above speaks of "adjusted single till" and not dual till. In dual till, the entire non-aeronautical revenue would remain in the hands of the airport operator that would augment its overall rate of return. Consequently the aeronautical charges (particularly impinging directly on the passengers in the form of UDF) would be higher than what they would be under single till. For example, the Authority has analysed in case of HIAL that the average UDF per passenger under single till with 16% return on equity would be Rs. 558.05/- (which is weighted average of domestic UDF of Rs. 330.49 and international UDF of Rs. 1,306.60 – assuming the existing domestic / international UDF ratio), but under dual till it would be Rs. 1,453.70/- (which is weighted average of domestic UDF of Rs. 845.77 and international UDF of Rs. 3,343.73 –assuming the existing domestic / international UDF ratio) further assuming that both under single till and dual till, the UDF is charged only on embarking passengers as per the provisions of the Concession Agreement - Schedule 6. The approach of HIAL in proposing UDF on both embarking and dis-embarking passengers as not being in consonance with the provisions of the Concession Agreement is already discussed in Para 22.5 above).

**23.93.** The Authority has calculated that the total non-aeronautical revenue accruing to HIAL during the current control period is approximately Rs. 912 crores (excluding the Hotel and MRO that have been ring-fenced and hence not taken into account in the exercise of tariff determination but including the duty free revenue share accruing to HIAL as non-aeronautical revenue, duty free shopping being within the terminal building). The non-aeronautical services of duty free shopping are provided by a 100% subsidiary of HIAL. The non-aeronautical service of parking is provided directly by HIAL (through appointment of what can be called an agent (that however is termed as O&M contractor by HIAL) to whom HIAL reimburses a pre-determined operation and maintenance costs. However the entire revenue from the car parking activity is booked in the accounts of HIAL). All other non-aeronautical services are outsourced to third party concessionaires. The net income (surplus) from non-aeronautical services accruing to HIAL (after accounting for the expenses, depreciation, interest expenses and taxes attributable to non-aeronautical activities) has been worked out at approximately Rs. 430 crores for five years or roughly Rs. 86 crores per year (calculated by broadly assuming a tax paid @ MAT of 20.96% from FY 2012-13 onwards and historical tax paid for FY 2011-12 separately on the non-aeronautical income). Taking the equity base of HIAL at Rs. 378 crores (excluding the contribution of HIAL equity to Hotel and MRO), this is apportioned at 83% equity for aeronautical (approximately Rs. 314 crores) and at 17% equity apportioned for non-aeronautical (approximately Rs. 64 crores). The Authority, under dual till would be determining the aeronautical tariffs (including UDF from the passengers) so that the airport operator gets fair rate of return at 16% of his aeronautical equity. Hence the airport operators return on equity from non-aeronautical net income would come to 134% (=86 crores / 64 crores). Hence for HIAL as a standalone entity (refer Para 3.4 above) the return on total equity (under dual till) would be 36.06% (=16% * 83% + 134% * 17%). If HIAL's estimate of fair rate of return on equity of 24% is held admissible, what HIAL is asking, under dual till is a total effective rate of return on equity of 42.70% (=24% * 83% + 134% * 17%). Whichever way one looks at it, this means that under dual till the extra amount of Rs. 895/- per passenger (see Para 23.92 above) is extracted from the passengers only to give the airport operator an **incremental (additional) return on equity** of 20.06% (assuming fair rate of return on equity at 16%) or 18.70% (assuming fair rate of return on equity of 24% as indicated by HIAL). The Authority does not feel that this would be the objective of public policy and in public interest.

**23.94.** The Authority has been consistently saying that the purpose of extra revenue (over and above what are required to give the airport operator a fair rate of return) must be a priori clear and transparent to all stakeholders, and especially to the passengers on whom will fall the burden of giving the airport operator additional revenue. If it is a public purpose (like capital requirement for airport expansion or improvement of passenger conveniences or service quality), such additional burden may be held justifiable after appropriate stakeholder consultations. This consideration is also in consonance with what has been indicated by HIAL when it says that the airport should have financial robustness for its investment capacity.

**23.95.** In the Indian context the generation of non-aeronautical revenue is primarily passenger related. The UDF impinges directly on the passengers the Authority considers it as fair that the passengers are able to derive full benefit of the non-aeronautical revenue subject to fair rate of return to the airport operator as well as requirements of additional investments as mentioned above.

**23.96.** HIAL submission regarding single till not necessarily leading to lower tariffs states as under,

> *Prices are determined by the characteristics of the airport, their ownership structure and the way it is managed rather than the charging methodology and one should not conclude that single till leads to lower tariffs.*

**23.97.** HIAL has given some elements that, according to it, influence the prices at the airport. The statement, *"one should not conclude that single till leads to lower tariffs",* if put in a logical construct, would mean that *"some of the dual till airports have lower tariffs than some single till airports".* This however is not the hypothesis to be tested. What is to be tested is whether for **a given airport** single till would yield lower charges than dual till. The Authority's calculations in respect of its ad-hoc UDF determination in respect of Ahmedabad and Trivandrum airports indicate that this is so. In the current determination this aspect has also come out very clearly that UDF under dual till is around 80% higher than in single till. Hence to say that for a given airport single till may not lead to lower tariffs does not appear to be borne by facts.

**23.98.** The Authority has carefully noted the contents of the letter No GHIAL/MOCA/regulatory/2012-13/001 dated 20.04.2013 from Mr. Siddharth Kapoor, CFO and President - Airports. HIAL has stated that "adoption of till should be based and in consonance with Concession Agreement signed by HIAL with Ministry of Civil Aviation" and further that "AERA should 'adopt' dual till in compliance with provisions of Concession Agreement". HIAL has also stated that the Authority should *"not deduct the value of land meant for non-aeronautical activities from RAB and also not to consider the revenues generated therefrom while fixing the regulated charges as per Concession Agreement at RGIA, Hyderabad."* The letter has also reproduced various provisions of Concession Agreement as well as other relevant documents and facts in support of HIAL's contention. This has been reiterated by HIAL in its letter date 03.05.2013 (Page 7) wherein HIAL has indicated in its conclusion on till that "*The reading of various provisions of the concession agreement. It can be concluded that a dual till is envisaged in the concession agreement*".

**23.99.** From these submissions, HIAL has stated that since Concession Agreement has to be adhered to, it follows that,

23.99.1. Dual till should be adopted and

23.99.2. Land meant for non-airport activities should be permitted to be used by HIAL and revenues therefrom should be permitted to be used at its discretion which, according to HIAL, is also as per Concession Agreement at RGIA, Hyderabad.

**23.100.** The other points mentioned in the letter are substantially similar to those made by HIAL in its presentation and are addressed in the respective building blocks. The Authority has also given financial calculations under both single and dual till.

**23.101.** The letter from GMR also includes a report from NERA Economic Consulting on two issues, namely, (a) ICAO principles of Regulatory Till and (b) land treatment.

**23.102.** As far as the ICAO Principles of Regulatory Till is concerned, the report of NERA includes a table giving different regulatory tills in different countries. Based on this table, NERA has concluded that

> *"the fact that each state thought having ratified to Chicago Convention have decided to adopt different regulatory regimes conforms the absence of international obligation to preclude or encourage the single till approach rather than the dual till approach or hybrid approach."*

**23.103.** The Authority has also maintained that ICAO's position is neutral in so far as regulatory till is concerned. It appears that NERA has not fully appreciated the Authority's Order No. 13 of 2010-11 dated 12th January, 2011 regarding its reasoning for adoption of single till. NERA mentions (in Conclusions- Para 5)

> *"on the contrary, the AERA's order of 12th January, 2011 prescribes that the regulatory approach in the major airports in India has to be of single till price cap regulation since according to AERA a single till regime is the*

*solely approach that may be regarded as consistent with ICAO policies and guidelines."*

**23.104.** NERA has further stated

*"we believe the AERA' interpretation of ICAO principle not to be appropriate. By making anonymous reference to the fact that single till regulation is recommended or supported by ICAO, AERA does not make a reasonable case to support the adoption of a single till price cap ……….."*

**23.105.** NERA has not gone through various considerations indicated in the Authority's Order under reference nor its reasons of adopting single till. First, the Authority's order is based on the reference material as was available between 22nd December, 2009 (the date of White Paper) and January, 2011. Reference to ICAO in respect of single till has been only one of the considerations. Finally, the Authority has in Para 5.26 of its order under reference has referred to the writings of experts in aviation economics and regulation in academic literature in so far as their interpretation of ICAO guidelines is concerned. The Authority had normally indicated that *"though these authorities do not favour dual till approach on considerations indicated in their writings, they appear to be unanimous in the view that ICAO recommends single till".*

**23.106.** In paragraph 5.27, the Authority has given examples of the writings of David Gillen, Hans-Martin Niemeier, Rui Cunha Marques, Ana Brochado as well as review of the new European Airport Charges Directions by Andrew Charlton as well as EU Directive, 2009 itself. In fact, the paper by Rui Cunha specifically states that *"the single till approach is widely used and its main advantages are to minimize the airport charges and to keep with the international recommendations (e.g. ICAO)".* Based on these numerous opinions, the Authority then concluded in Para 5.32 that "single till is recommended or supported by ICAO". Apart from ICAO, the Authority has addressed a large number of issues on single till which were raised by various stakeholders in response to its consultation paper (see paras 5.33 to 5.135). Finally, the Authority summarized its position under AERA Act giving brief legislative history (para 5.136). Thereafter, it stated in para 5.137 that *"for the reasons aforesaid, the Authority is of the opinion that single till is most appropriate for economic regulation of major airports in India."*

**23.107.** From these discussions, the Authority is unable to appreciate the conclusions drawn by NERA that "*according to AERA the single till regime is the solely approach that may be regarded as consistent with ICAO policies and guidelines.*" The Authority had drawn upon and benefitted from the writings of experts in the field as aforesaid. Its conclusions in para 5.137 do not indicate that its adoption of single till is solely on account of ICAO. It appears that NERA has selectively read the reasons mentioned by the Authority to adopt single till. Its reading of the Authority's Order thus appears to be both selective and misinterpreted. Probably this may be on account of the limited remit of NERA regarding ICAO principles and single till.

**23.108.** NERA has also given examples, of other countries regarding regulatory till. At the outset, the Authority has always maintained that economic regulation of the airports needs to be viewed in a comprehensive manner with specificities of each individual country. In fact, NERA has also stated that specificities of each airport need to be taken into account while addressing the issue of regulated tariffs. NERA has felt that *"the regulated tariffs of HIAL should set such to allow economic viability and by taking into account the specificities of each airport, including the fact that HIAL pays an annual contribution (expressed in terms of a percentage of gross revenues) as a result of the privatization processes."*

**23.109.** The Authority is mandated to take into account, inter alia, the "economic and viable operation of major airports" as well as "the capital expenditure incurred and timely investment in improvement of airport facilities". Hence its determination of aeronautical tariffs would be in accordance with the legislative policies and guidelines under AERA Act and it would take into account all the relevant factors mentioned in the policy guidelines. The Authority would also take into account the specificities of HIAL in its exercise of determination of aeronautical tariffs for HIAL. However, it is unable to appreciate the principal import and meaning of wordings used by NERA that HIAL pays an annual contribution. Under the Concession Agreement signed between Govt. of India and HIAL, the annual contribution is determined @4% of the gross revenues, as cost pass through, further, that this is deferred for a period of 10 years. Along with other numerous specificities, under the Lease Deed Agreement between HIAL and Govt. of Andhra Pradesh, HIAL pays 2% of the lease rental (based on the cost of the land acquisition). The Authority would take these costs into account while determining the aeronautical tariffs. Likewise, the Authority has also taken into account the financial assistance by the State Govt., assured traffic by the Govt. of India, risk mitigating measures adopted by the Authority (which effectively transfer the risk from the airport operator to the passengers.), etc.

**23.110.** NERA has referred to the observations of Competition Commission (2002) regarding ICAO policies and guidelines stating that,

> *"The ICAO has said that there should be flexibility in applying either the single or dual till approach. [...] [DfT] also suggested to us that, where appropriate, different treatment at different airports — for example, dual till at congested airports, single till at uncongested airport —would be more consistent with the ICAO's principle of flexibility." (Emphasis added)"*

**23.111.** The Authority notes two important aspects in this provision given by NERA. The first is that according to the Department for Transport, UK, it appears that the different regulatory tills are suggested to be made applicable for congested and non-congested airports. It also appears that the Department for Transport considered this treatment to be more consistent with the ICAO principles of flexibility.

**23.112.** **Purely for argument sake, applying this principle in case of Hyderabad could result in following single till, since Hyderabad is a non-congested airport.** Secondly, the Competition Commission in its final decision did not appear to agree with this suggestion of Department for Transport and stated that, International practices neither suggests nor precludes a dual till approach. In its report NERA gives evidence that the regulatory approaches, that enforce ICAO principles, may comprise ex post regulation as well as ex ante regulation.

**23.113.** The Authority has also considered the fact that as against the capacity of 12 million passengers, RGI Airport, Hyderabad presently has traffic of around 8.25 million. The Competition Commission (Para 2.71 of Chapter2) has stated that to apply the single till at uncongested airports and the dual till at congested airports would also, as the CAA pointed out, have adverse effects on incentives, encouraging airports to be congested. The Authority is aware that this view is also been advocated by Prof. Czerny in his Article “Price-cap regulation of airports: Single Till versus Dual Till” (J. Regul Econ (2006) 30:85-97). According to Prof. Czerny, *“the contribution is to model single till and dual till regulation, evaluate their welfare implications, and compare them to Ramsey Charges. We show that single till regulation dominates dual till regulation at non-congested airports with regard to welfare maximization. However, none of them provides an airport with incentives to implement Ramsey Charges. A Ramsey optimal price cap regulation which achieves this goal is also presented.”* Hence, Prof. Czerny appears to be actually advocating application of “Ramsay pricing”. Another article "Price Cap Regulation of Airports: A New Approach" by Kevin Currier of Oklahoma State University argues that both single and dual till regimes will in general lead to regulated prices that are Pareto inefficient. It further suggests a price cap scheme that according to the author generates Pareto improvements relative to the status quo by bringing the price of commercial services into the sphere of regulatory control. So while Prof Czerny advocates Ramsey pricing, Prof Currier appears to suggest regulating non-aeronautical services for Pareto optimality.

**23.114.** Apart from Prof. Czerny, the Authority has also noted a large number of academic literatures, some in support of single till and the others in support of dual till. For example, the Authority notes the observations made in a paper (Sept 2008), “Impacts of Airports on Airline Competition: Focus on Airport Performance and Airport-Airline Vertical Relations”, by Tae H. OUM, The Air Transport Research Society (ATRS) & Xiaowen FU, Hong Kong Polytechnic University. The authors have given a comprehensive summary of the different strands in academic literature. Their conclusion, however, are interesting. They state: *“In principle, under the dual-till system, the possible (excess) profits earned by airports from non-aeronautical services can be utilized to expand capacity and improve service quality*[1]. ***However, there is no easy answer to how to provide incentives for airports to do so*.”** (Emphasis added)

**23.115.** Purpose of additional investments required by and airport in support of dual till that allows the airport operator to retain with it the non-aeronautical revenues has also been highlighted by the Association of Private Airport Operators in India (APAO)

[1] This then effectively becomes single till.

that consist of the five private airports of India as its members. For example, their Secretary General Mr. Satyen Nair writing in “Cruising Heights, March 2012) states that:

> *“The scale of current and forecast demand at many airports clearly indicates a need for increasing levels of investment to maintain and enhance capacity at an appropriate service quality. Airport charges and non-aeronautical revenues are major sources of funds for investment. Airports should be permitted to retain and invest these revenues to finance future up gradation and modernization. Any action to restrict this use of revenues, or to require all commercial revenues to be used solely to reduce current user charges, could conflict with this objective and inhibit the much needed investment….Even if contribution from non-aero revenue is to be taken it is only for airport operations not from other activities like hotel, real estate etc.”*

**23.116.** Similar have been the views of ACI on the need for dual till approach (that the revenues from non-aeronautical services are required by the airport operator to enable much needed investments). APAO has also given the US example regarding more number of airports following residuary approach (that is akin to dual till). However it has omitted to mention the other important conditions of the USA airports that they are owned by public authorities, there is ban on revenue diversion of airport revenues (including those arising from the non-aeronautical sources) to other uses and the airlines have a much stronger say in the investment plans of the airport. Hence APAO has read the position in USA selectively to suit its objective.

**23.117.** The Authority has also maintained that regulatory till is a mechanism and not the underlying objective in itself and the regulatory regime will need to address the issue of timely investments at the airport. Airports under single till regime like Heathrow, Gatwick and Stansted, those in Ireland and South Africa, as well as Brussels, to name a few, have witnessed large investments both under private as well as public ownership. The Authority is mandated to ensure timely investments in airports under the AERA Act and shall discharge this mandate appropriately. Secondly, the Authority does not include the revenue contributions from outside hotels and real estate in the ambit of regulatory till. In fact it has been HIAL that has requested to include the revenues from its hotel subsidiary in the single till regulatory submissions. The Authority has removed these revenues in its analysis of tariff determination under single till approach. Its treatment of land given by the Government of Andhra Pradesh to HIAL airport is separately discussed extensively in Para 9.22 to 9.27 above.

**23.118.** Finally, Tae H. OUM, & Xiaowen FU in their article "Impacts of Airports on Airline Competition: Focus on Airport Performance and Airport- Airline Vertical Relations" Sept 2008 (See Para 23.114 above) state that "Overall, single till regulation appears to be superior to other regimes in terms of setting appropriate prices. **The notion of regulating only the monopoly services (aviation services) is appealing in theory. However, dual-till regulation ignores the economies of scope for airports in providing aviation and concession services jointly. More importantly, dual till regulation does not internalize the demand complementarity between aviation and commercial services.** (Emphasis added) As airlines that bring passengers to the airport may not benefit directly from the concession sales, they may ignore such positive demand externality in their decisions. On the other hand, under a single till regulation, concession revenue may be used to cross subsidize aeronautical charges." In fact, even for congested airports, the authors further go on to suggest that "However, the best remedy for capacity utilization may be peak-load pricing, or some sort of congestion pricing of the facilities such as slots, checking counter and bridges etc. The extra revenue generated from such a pricing may be used for capacity investments. In practice, however, such policy changes may be difficult due to influence of vested interests". While it is well recognized that private sector capital will not flow unless there are profits to be made and hence profit motive is but natural and should not be eschewed, what is necessary is to determine a reasonable profit and not a framework that gives profits in excess of this reasonable profits.

**23.119.** The Competition Commission has also noted in its "REPORT BY THE COMPETITION COMMISSION - NOVEMBER 2002"; BAA plc: a report on the economic regulation of the London airports companies (Heathrow Airport Ltd, Gatwick Airport Ltd and Stansted Airport Ltd) (para 2.75 infra – argument for dual till) that

> *"CAA's basis for proposing the dual till was largely a theoretical one. In addition, during the enquiry we were shown a number of papers by*

*academic authors submitted either on behalf of parties to the enquiry or by the individuals concerned regarding the choice between the single and dual till of economic regulation. All were largely theoretical in nature though different in their approach and focus."*

**23.120.** The Competition commission has also analysed in its report of Nov 2002 the examples of other international airports on dual till presented before it. It did not appear to have been persuaded by these comparisons. For example, it has noted that Sydney Airport cannot be regarded as providing guidance. It has noted that US airports were required to retain all revenues—aeronautical and non-aeronautical alike—for reinvestment on the airport (See for example, "THEORY AND LAW OF AIRPORT REVENUE DIVERSION" by Paul Stephen Dempsey, Airport Cooperative Research Program, May 2008.) Finally, it concluded that "we were not presented with a single example of a comparable type of private sector airport operating a full dual till in the way and for the reasons envisaged by the CAA." (See Para 2.72, 2.73 and 2.74 of the CC report)

**23.121.** The Authority notes that application of regulatory till on the basis of congestion is also impractical. For example, on this basis Hyderabad would be regulated on the basis of single till. As and when traffic increases and the airport tends to become congested, the regulatory till would be required to be shifted purely on the congestion argument to dual till. Under dual till, the airport operator may start getting substantial non-aeronautical income without any binding mechanism to use it for expansion. Again, theoretically, the airport operator may choose not to expand and lead, what is called "the quiet life of Hicks". On the other hand, a congested airport under dual till after expansion would become non-congested and the regulatory till would need to shift to single till. It is also theoretically arguable that this would result in the airport operator losing the extra non-aeronautical income that he was enjoying under dual till and this may become a dis-incentive to undertake capacity expansion and become non-congested and may be a perverse incentive to remain congested.. These shifts from single till to dual till and vice versa may as well occur within a particular control period. Such pendulum swinging between single and dual is conducive neither to regulatory certainties nor to stability of regulation.

**23.122.** The Authority, therefore, is not persuaded to base its regulatory approach purely on such theoretical considerations but to comprehensively take into account the nature of the airport, its requirements, passenger conveniences, etc. It would thus need to balance the interests of the airport operator (fair rate of return consistent with the risk profile as well as capital needs for expansion etc.) with minimizing the charges on the passengers (through UDF). Such a balance, in view of the Authority, would be appropriate in the Indian context. This tends to suggests adoption of single till as long as a mechanism can be found to address any specific needs of airport in terms of capital requirements for expansion etc. In Authority's view, such a mechanism can be found which will be consistent with both the reasonable expectations of the airport operator as well as those of airport users.

**23.123.** The Authority notes that HIAL, in its letter dated 20.04.2013 to the Hon'ble Minister for Civil Aviation (copy endorsed to the Authority) as well as letter dated 03.05.2013 to the Authority (received on 10.05.2013) has presented a table (on Page 15 of letter dated 20.04.2013 and Page 10 of letter dated 03.05.2013) indicating the countries having single till and dual till. This table is about 9 countries (of which Belgium/Brussels is still on single till and has been so for quite some time). Furthermore the NERA's report attached by HIAL in its letter to Hon'ble Minister for Civil Aviation (Page 4 of the Section, Land Treatment) state that the Brussels Airport is under single till regulation that will become dual till regulation by 2025 (Royal Decree 21/6/2004). NERA also states that South African Airports, which are on single till, also include the real estate activities in the regulatory till. Amsterdam Airport is stated to be under dual till however non-aeronautical activities like car parking, shopping, hotel are included in the regulatory till. For easy reference, this table is reproduced below:

**Table 103: List of Privatized Airports and their Tills (Except UK Airports-BAA)**

| Country | Airport | Private Ownership | Till at Privatisation | Till Now |
|---|---|---|---|---|
| Belgium | Brussels | Yes | Single till. Dual Till gradually | Single till. Dual Till gradually |
| Denmark | Copenhagen | Yes | No till | Hybrid |
| Hungary | Budapest Ferihegy | Yes | No till | No till |

| Country | Airport | Private Ownership | Till at Privatisation | Till Now |
|---|---|---|---|---|
| Italy | Rome | Yes | No Till | Hybrid |
| | Naples | Yes | No till | |
| | Venice | Yes | No till | |
| Malta | Malta Int’l | Yes | Dual Till | Dual Till |
| Slovak Republic | Bratislava | Yes | N/a | |
| Australia | Melbourne | Yes | NoTill/Dual Till | Unregulated/Dual |
| | Perth | Yes | NoTill/Dual Till | Unregulated/Dual |
| | Brisbane | Yes | NoTill/Dual Till | Unregulated/Dual |
| | Adelaide | Yes | NoTill/Dual Till | Unregulated/Dual |
| | Sydney | Yes | Unregulated/Dual | Unregulated/Dual |
| New Zealand | Auckland | Yes | Unregulated/Dual | Unregulated/Dual |
| | Wellington | Yes | Unregulated/Dual | Unregulated/Dual |
| Mexico | Cancun | Yes | Dual Till | Dual Till |
| | Guadalejara | Yes | Dual Till | Dual Till |
| | Monterrey | Yes | Dual Till | Dual Till |
| | Mexico City | Yes | No Till/Dual Till | No Till/Dual Till |

**23.124.** The Authority does not believe that this set represents the entire globe. As has been pointed out above, different countries have included different elements of non-aeronautical revenue in the regulatory till though calling it as “dual till” (also see Para 23.134 below). At any rate, the regulation in Australia and New Zealand is what is known as “light handed regulation”. It is thus unclear if the airport operators there follow strictly dual till or does use some part of the non-aeronautical revenues towards defraying aeronautical expenses (some kind of hybrid or adjusted single till). It would, therefore, be incorrect to call the regulatory till in Australia and New Zealand as dual till unless actual information is available[2]. Regulatory till at Bratislava does not appear to have been available. Malta may not be considered as comparable with Indian

[2] Even the Australian Competition and Consumer Commission (ACCC) that is tasked with “monitoring” the airports, does not appear to have full information as it is not required under the Australian framework.

conditions and airports. Hungary is stated to have “No Till”. Hence effectively, the table represents a set of only three countries which in the Authority’s opinion is too small to indicate any definitive global preference in support of a particular regulatory till. Airport economic regulation is to be viewed in its totality without cherry picking only on regulatory till in different countries, carefully selected (that have followed dual till), conditions in which may not be similar to those in India.

**23.125.** Moreover, there have been tendencies elsewhere of a kind of vertical integration between airports and airlines, not seen yet in India. In Frankfurt, the dominant airline, namely, Lufthansa holds around 10% share and have a seat on the board. That apart, the majority shares of the Frankfurt airport are in the hands of public authority. Prof Oum and Fu further observe in their article (See Para 23.114 above) that “terminal 2 of Munich airport is a joint investment by the airport operating company FMG (60%) and Lufthansa (40%), the dominant airline at the airport. Lufthansa has also invested in Frankfurt airport, and holds a 29% share of Shanghai Pudong International Airport Cargo Terminal. By 2006, Thai Airways had invested over US$400 million at the new Bangkok International Airport”. This is not the situation in India. Again, the short point is that it will be inappropriate to take only one element viz. regulatory till in the entire aviation ecosystem and graft it onto India where the other elements of the ecosystem are quite dissimilar.

**23.126.** The Authority has also come across tables similar to Table 103 in the writings of academic experts as well as other regulatory orders in this regard. HIAL itself has given another table in its letter dated 03.05.2013 to the Authority (Page 9 thereof) as well as its letter dated 20.04.2013 to the Hon’ble Minister for Civil Aviation (Page 13 thereof) giving regulatory approaches in selected countries. This table is reproduced below for ready reference:

**Table 104: Regulatory Approaches in Selected Countries**

| Country | Airport | Regulatory Till |
|---|---|---|
| Australia | Adelaide, Brisbane, Melbourne, Perth, Sydney | Ex post regulation |
| Belgium | Brussels | Single till (moving towards dual till)* |

| Country | Airport | Regulatory Till |
|---|---|---|
| Denmark | Copenhagen | Hybrid till |
| France | Charles de Gaulle, Orly | Single till** |
| Germany | Frankfurt, Hamburg | Dual till |
| Germany | Berlin, Cologne-Bonn, Dusseldorf, Hannover, Munich, Stuttgart | Single till |
| Greece | Athens | Dual till |
| Hungary | Budapest, Ferihegy | Dual till |
| Ireland | Dublin | Single till*** |
| Italy | Rome, Milan, Venice | Dual till |
| Italy | Other Airports | Hybrid till |
| Malta | Malta International | Dual till |
| New Zealand | Auckland, Christchurch, Wellington | Ex post regulation |
| The Netherlands | Amsterdam | Dual till |
| Portugal | ANA airports | Single till |
| South Africa | ACSA airports | Single till |
| Spain | AENA airports | Administrated tariffs |
| Sweden | Stockholm-Arlanda, Malmo | Single till |
| United Kingdom | Heathrow, Gatwick, Stansted | Single till**** |

* No-airport-related (non-airport) real estate activities are excluded from the regulatory till

** Activities such as retail, advertising, no airport-related (non-airport) real estate, ground handling and activities carried on by subsidiaries are excluded from the regulatory till

*** Activities with non-nexus to the airport (AerRianta International, Cork and Shannon airports, International investments, property related to joint ventures) are excluded from the regulatory till

**** Some retail activities and real estate pertaining hotels are excluded from the regulatory till

Source: NERA analysis

**23.127.** This table gives a list of 18 countries of which New Zealand and Australia are stated to have “Ex-Post Regulation”. Leaving aside the differences in economic regulation of airports in these two countries, the Authority understands that basically both of them follow “Light Handed Regulation”. As indicated in Para 23.124 above, the actual regulatory till adopted by each individual airport in Australia would need to be ascertained. As for New Zealand the Authority understands that the Commerce Commission NZ submits a report to the government indicating whether the airport in question has earned rate of return in excess of what the commerce Commission has felt as reasonable. The Authority has come across a recent assessment (08.02.2013) of the Commerce Commission NZ. The Commission is required to report to the Ministers of Commerce and Transport on how well information disclosure regulation is promoting the purpose of regulation for each of the regulated airports. The Commerce Commission NZ made its final report regarding Wellington Airport wherein it found that Wellington airport is likely to recover between $38 million and $69 million more from consumers between 2012 and 2017 than it needs to make a reasonable return. According to CC NZ, a reasonable return for Wellington Airport is 7.1% to 8.0% but the Wellington airport’s expected return would be 12.3% to 15.2%.

**23.128.** From the table presented by HIAL it is seen that 6 airports in Germany follow single till while 2 are on dual till. This means that different airports have found different approach to regulatory till as appropriate (within the same country). Brussels is still on single till (see Para 23.124 above). Apart from that many of the airports on dual till have majority public ownership (for example Frankfurt, AENA – Spain, etc.). From the footnote to this table, it appears that what HIAL is highlighting is the fact that non-airport related (real estate) activities are excluded from the regulatory till. This is also summarized in another table given by HIAL (Page 15 of its letter dated 20.04.2013 to the Hon’ble Minister for Civil Aviation and Page 14 of its letter dated 03.05.2013), which is reproduced below:

**Table 105: Regulatory till and real estate treatment in selected countries**

| Country | Airport | Regulatory till | Real estate IN/OUT the regulatory till |
|---|---|---|---|
| Australia | Adelaide, Brisbane, Melbourne, Perth, Sydney | Ex-post | OUT |
| Belgium | Bruxelles | Single till | OUT |

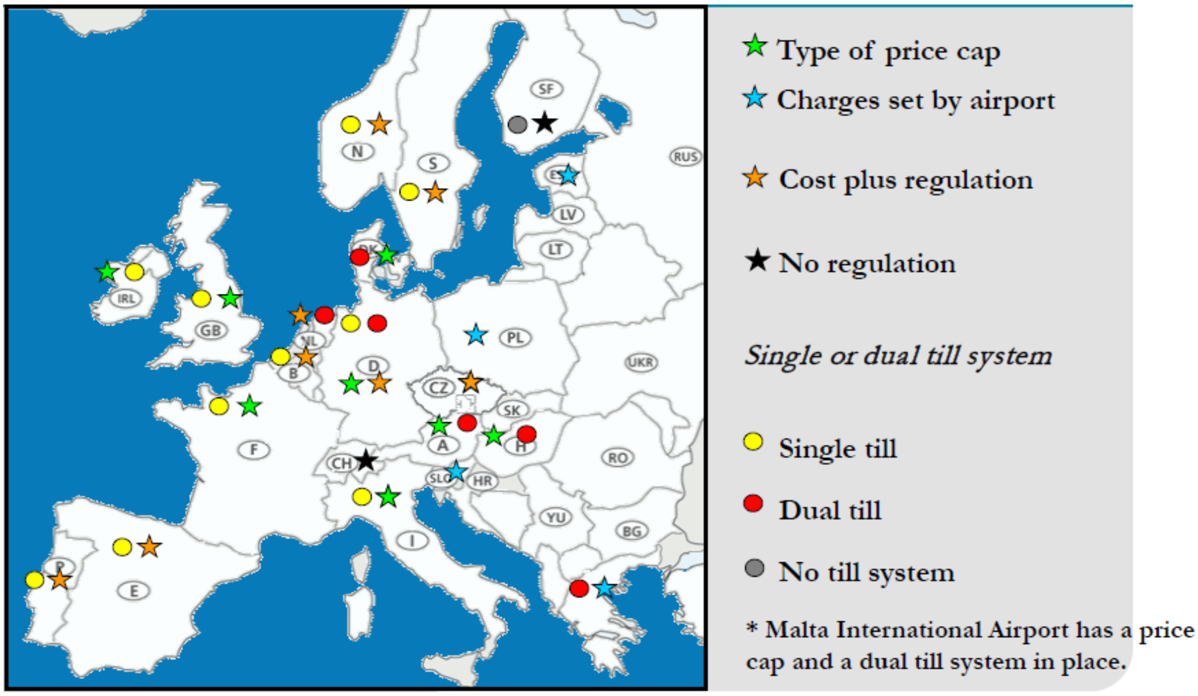
| Country | Airport | Regulatory till | Real estate IN/OUT the regulatory till |
|---|---|---|---|
| Denmark | Copenhagen | Hybrid till | Partially IN* |
| France | Charles de Gaulle, Orly | Single till | OUT |
| Germany | Frankfurt, Hamburg | Dual till | OUT |
| Ireland | Dublin | Single till | IN |
| Italy | Rome, Milan, Venice | Dual till | OUT |
| Italy | Other Airports | Hybrid till | Partially IN/OUT** |
| New Zealand | Auckland, Christchurch, Wellington | Ex-post | OUT |
| South Africa | ACSA airports | Single till | IN |
| The Netherlands | Amsterdam | Dual till | OUT(but hotels IN) |
| United Kingdom | Heathrow, Gatwick, Stansted | Single till | In (but hotels OUT) |
| (*) A percentage of the difference between revenue and costs related to real estate is included in the regulatory till<br>(**) Real estate with no monopoly condition or locational rent is outside the regulatory till. Otherwise 50% of the commercial margin (difference between revenues and costs) is included in the till | | | |

**23.129.** The Authority has especially noted that in respect of airports in Italy, *"Real estate with no monopoly condition or locational rent is outside the regulatory till. Otherwise 50% of the commercial margin (difference between revenues and costs) is included in the till"*. This means that there are instances where 50% of the commercial margin in real estate is taken in the regulatory till. The Authority however generally follows an approach of excluding real estate activity from the regulatory till unless the special circumstances (Lease Agreement or Concession Agreement etc.) warrant otherwise. Its treatment of land in respect to HIAL on account of its understanding of various provisions of the lease deed between HIAL and the GoAP has been discussed separately in Para 9.22 above.

**23.130.** The Authority is giving one graph below as representative of prevalence of different regulatory tills in economic regulation of airports in different regions. The Authority also notes that apart from the regulatory till, the ownership structures of the airports also vary across countries and often enough even within a particular country. The Authority does not believe that taking out only one single element namely the regulatory till is either appropriate or warranted.

**23.131.** Regarding airport regulation in Europe, Prof Niemeier gives the following graph (Incentive Regulation of Airports – An Economic Assessment Hans-Martin Niemeier, Peter Forsyth, and Jürgen Müller, 5th CRNI conference, 30-11-2012, Brussels)

**Figure 1: Type of Regulation at European Airports**




**23.132.** The Authority notes that single till appears to be prevalent in a large number of countries. For example, the Infrastructure research note by Colonial First State Global Asset Management, April 2010, titled "Flying high: A review of airport regulation in Australia" gives a graph of the regulatory till across the globe[3]. It further observes that

> *"Single-till regulation is still prevalent in Europe – 13 of the top 20 airports in the EU are single-till (accounting for 72% of the combined*

[3] "Flying High" gives a graph showing the regulatory till approaches across the world. It is seen that a large part of the globe follows single till. Many countries have public ownership of their airports. Canada has "not for profit" companies running Canadian airports.

*traffic at these airports)…. Airports with dual-till regulation, therefore, are seen as more desirable for airport owners than airports regulated on a single-till basis.*

**23.133.** That the airports and their associations would favour dual till is understandable as the private airport operators' primary duty is to their shareholders. Hence they would be interested in getting as high a rate of return on equity and if possible, even more than the fair rate. Estimates of what HIAL as a standalone entity would earn on equity are given in Para 23.93 above). However, in the Indian context, this higher than fair rate of return to the airport operators under dual till is directly at the expense of the passengers through UDF. Looked at differently, dual till approach means that by the operation of this framework, monies have been extracted from the passengers and put in the hands of the airport operator.

**23.134.** Secondly, care needs to be taken while coming to a definitive conclusion regarding regulatory till in an airport. For example, according to a study by the World Bank (2012) "Airport Economics in Latin America and the Caribbean Benchmarking, Regulation, and Pricing." By Tomás Serebrisky, most airports in Latin America rely (explicitly in a few cases and implicitly in most) on the single till approach. The Table 1 of this report shows that six countries (viz. Argentina, Bahamas, Bolivia, Brazil, El Salvador, and Guatemala) reported setting tariffs following a single till model. However, the report also notes that the answers provided by regulatory agencies regarding this issue are contradictory. For instance in Argentina, Brazil, El Salvador, and Guatemala, regulatory agencies claim that their tariff-setting mechanism responds to the single till model. However, in a separate question, these four regulatory agencies claim that the costs associated with the provision of aeronautical services are fully recovered through aeronautical tariffs.

**23.135.** Adoption of dual till either because there are some international examples thereof (where the other attendant conditions and circumstances may be quite dissimilar from the Indian conditions) or on the basis of some theoretical considerations that may also not be practical in the Indian context is in the opinion of the Authority unwarranted especially when it increases the incidence of charges directly on the passengers (through UDF).

**23.136.** The Authority has carefully considered the submissions made by HIAL in its letter dated 03.05.2013. It notes that many of these submissions have already made by HIAL in its letter to the Hon'ble Minister for Civil Aviation dated 20.02.2013. The letter from HIAL also concludes that *"the bifurcation of the charges into two categories, namely, (a) airport charges, that is to say, the regulated charges and (b) other charges; clearly shows that Concession Agreement envisaged a dual till and not a single till."* In the same vein, the letter also states that *"since the Concession Agreement contemplated a dual till and ICAO left the choice of till to the member states, the provisions of Concession Agreement, which has been signed by the State does not envisage single till, should be adhered to."*

**23.137.** The Authority is unable to be persuaded to agree with the interpretation put by HIAL as above. It appears that HIAL has juxtaposed the provision in Concession Agreement regarding what charges are regulated, what charges are not regulated (other charges) and ICAO principles. As has been mentioned in its analysis elsewhere, as far as non-regulation of other charges is concerned, to that extent any provision in the Concession Agreement which is directly repugnant to the provisions of the AERA Act cannot be implemented. At any rate, the Concession Agreement also clearly mentions the intention of the Govt. to establish an Independent Regulatory Authority (IRA) to regulate certain aspects, as may be determined. Services like Cargo, Ground Handling and Fuel Supply are aeronautical services and thus need to be regulated as required by the AERA Act. Furthermore, mere bifurcation of charges into two categories, namely, regulated charges and other charges, does not imply that Concession Agreement has envisaged a dual till. Concession Agreement does not mention anywhere that the revenues arising from such other charges should not be taken into account while determining aeronautical tariffs. Apart from that, the provision in the AERA Act that the Authority shall take into consideration "revenue from services other than aeronautical" clearly gives to the Authority, the legislative policy guidance that it would need to take into account the revenue from non-aeronautical services. As far as ICAO's position on regulatory till is concerned, it is clear that ICAO has left the choice of the till to the member states. The Authority would, therefore, need to adopt a particular form of regulatory till that according to it best services the interests of both the airport operator as well as those of the passengers.

**23.138.** The letter under reference also indicates some of the alleged advantages of dual till. These alleged advantages, in view of the Authority, are largely illusory. In the Authority's view, the alleged advantages of dual till appear to pertain more to the aspects of commercial exploitation of land under real estate development (outside the terminal building), as can be seen from the argument made by HIAL that initiatives of long-term benefits in non-aeronautical are safeguarded in dual till and it improves economic growth. As indicated above, in the guiding principles, the Authority would not normally bring the real estate in the regulatory ambit unless there are other specific reasons to do so. Comments of the Authority on these points are given below:

23.138.1. Dual Till promotes investment and Dual Till incentivised investment in aero assets as that will mean more passengers: HIAL has itself stated that airports "retain the extra profits on commercial activities generated by additional passengers." This is precisely the point that has been made by the Authority. As has been calculated by the Authority, under dual till the charges directly impinging on the embarking passenger through UDF are around 156% higher than single till for domestic passengers and also around 156% higher for international passengers (see Table 100). The passengers have paid for the non-aeronautical facilities or services and yet the extra income arising therefrom would go entirely to the airport operator without any express public purpose (like need for expansion) that is known ex-ante and has been put to stakeholders' consultation. The Authority considers these arrangement iniquitous and not sub serving interests of the passengers. Once the airport operator is assured of a fair rate of return (that the passengers are ensuring through the revenue top-up charge of UDF), minimising the passenger charges should be the reasonable objective. Secondly, the Authority has also noted that airports under single till - Heathrow, Gatwick, Stansted, South African airports, Brazil, to name only a few, have made significant investments under single till regime.

23.138.2. Dual till safeguards passenger from developments in Non-Aero: As has been seen, the dual till implies substantial increase in UDF as compared with single till.

Secondly, most of the non-aeronautical activities in the terminal building at HIAL have been outsourced and it should also be the concern of the third party concessionaires to generate more non-aero revenue.

23.138.3. Initiatives of long term benefits in Non-Aero are safeguarded in dual till and it promotes economic growth: HIAL is free to develop land in excess of the requirements of the airport to stimulate economic growth. The Authority, in normal course, would not bring such revenues from real estate development into regulatory ambit. Its treatment of revenues/capital receipts to HIAL on account of exploitation of land in excess of airport requirements is on account of the provisions of the Lease Deed signed between the GoAP and HIAL that the and is given to make the airport feasible.

23.138.4. Burden of non-aero costs not there in dual till: The requirement of asset allocation as well as bifurcation of operation and maintenance expenditure between aeronautical and non-aeronautical activities in dual till, taxes to be attributed to aero and non-aero income, in the experience of the Authority, calls for a significantly higher regulatory burden as compared to single till approach. Such a bifurcation essentially involves judgement calls that can lead to avoidable litigation, an issue that has also been stressed by the Competition Commission UK in 2002 as well as its proposals (30$^{th}$ April 2013) for Q6. The Authority therefore is unable to agree with HIAL on this account.

**23.139.** The Authority's approach to economic regulation of airport is that a comprehensive view of economic needs of the airport is to be taken in to account. The Authority has also stressed on the Government's objective of minimizing the charges on passengers (which in the airport tariff determination are the User Development Fee). The Authority has also been of the view that the purpose of retaining non-aeronautical revenue in the hands of the airport operator (which would happen in a dual till scenario and which would enhance the rate of return accruing to the airport operators beyond what can be determined as fair) like airport capacity expansion or improving passenger conveniences should be clearly known ex-ante. This aspect is also highlighted in the academic paper of Oum and Fu referred to in Para 23.13 above wherein they state "In principle, under the dual-till system, the possible (excess) profits earned by airports from non-aeronautical services can be utilized to expand capacity and improve service quality[4]. However, there is no easy answer to how to provide incentives for airports to do so.”. If this indeed is the purpose (i.e. to make money available for expansion), then the most appropriate approach to achieve this objective balancing the interests of the airport operator with those of the passengers can be worked out.

**23.140.** The Authority has also been emphasizing that regulatory till in itself cannot be an objective or an end in itself. In the Authority’s view, the regulatory till is only a mechanism or means to achieve given objectives like, capital for expansion, amounts to be spent for passenger conveniences, etc. Moreover, in all the discussions on dual till, the Authority has invariably noticed the advocacy of dual till through arguments with reference to some purpose like, capital needs, strengthening financiability, increasing eligibility for obtaining debt at reasonable terms etc.

**23.141.** The regulatory approach in other regimes does not mitigate the risks associated with the Airports’ commercial operations or Traffic. With the instrumentality of UDF, truing up the elements of Traffic and Non-aeronautical revenue; Cost pass-through of statutory and mandated costs considered by the Authority in its tariff determination as also the concessions given by both the Government of India and Government of Andhra Pradesh, **the risk of the airport has been transferred to the passengers**, who are required to make the airport economically viable, especially through user charges.

**23.142.** In the concession agreement of Hyderabad Airport, express provision is made for use of UDF for capital expansion. There does not, therefore, on this ground appear any further need to allow non-aeronautical income to remain in the hands of the airport operators (as would happen in dual till) without any attendant purpose attached to it. Since, UDF is imposed through operation of the Aircraft Rules, 1937 as well as the AERA Act, this can be considered as compulsory extraction of money from the travelling passengers to be put in the hands of the airport operator without any express purpose attached to it, save to allow the airport operator to obtain returns substantially more than the fair rate of return. This can be viewed as unjust enrichment of the airport operators at the expense of the travelling passengers through operation of statutory

[4] This then effectively becomes single till.

provisions. Successive Government pronouncements on protecting the interest of passengers and reducing the burden on them are also not in conformity with this.

**23.143.** The Authority has given its detailed analysis on the various submissions made by HIAL both with respect to the individual building blocks with reference to single and dual till. It has also given the financial implications of both these approaches (single and dual till) on the passenger charges. Based on the above analysis, the Authority has come to the tentative conclusion that single till does not cause any injury to the airport operator except not allowing him to obtain more than fair rate of return on the investment as he would reap under dual till. The Authority does not feel that inability to reap such more than fair rate of return can be termed as injury. In fact, it can be termed as injury to passengers who would be required to pay more UDF only to enable the airport operator to get higher than fair rate of return under dual till.

**23.144.** The Authority, however, notes that the LPH etc. charges have remained the same for the last 12 years (since about 2001) except for a 10% increase granted by the Government in 2009. Hence the Authority feels that the proposal of HIAL to increase the LPH etc. charges is reasonable and therefore it tentatively proposes to determine the UDF according to Table 100.

**23.145.** This would translate into transfer of real resources of approximately Rs. 968 crores (refer workings in Table 106) from passengers to the airport operator, the amount representing the difference between UDF under single and dual till. Presented differently, the YPP calculation according to the Authority is Rs. 416.64 under single till and Rs. 801.98 under dual till (as per Table 94). The YPP calculation is made on the total passenger throughput (both departing as well as arriving). The UDF is however proposed to be levied only on the departing passengers. Hence the ratio of UDF (weighted average) to the YPP can be seen to be 67% (=558.05 / 416.64*2) under single till and slightly above 90% (=1453.70 / 801.98*2) under dual till (refer to Table 100). It would appear that 90% of the revenue required under dual till to give the airport operator fair rate of return is contributed by the passengers while the entire non-aeronautical revenue which also is generated by the passengers is retained by the airport operator without any express purpose (that is known a-priori) for its utilization.

**Table 106 : Transfer of real resources from passengers to the airport operator, the amount representing the difference between UDF under single and dual till**

| All Figures in Rs. Cr. | Single Till | Dual Till |
|---|---|---|
| Total Aeronautical Revenues for the balance years of the current control period calculated as per Authority's YPP computation (i.e. Rs. 416.64 under single till and Rs. 801.98 under dual till (as per Table 94)) | 1,047 | 2,015 |
| Recoverable from LPH Charges - for balance years of the current control period (as per HIAL ATP) | 353 | 353 |
| Recoverable from CIC, GPU Charges - for balance years of the current control period (as per HIAL ATP) | 72 | 72 |
| Recoverable from UDF - for balance years of the current control period | 622 | 1,590 |
| Transfer of real resources (recoverable from passengers in case of dual till) | | 968 |
| The total charges recoverable from LPH, CIC and GPU of Rs. 425 Cr. (Rs. 353 Cr. from LPH and Rs. 72 cr. from CIC and GPU) for the balance years in the current control period are subtracted from the total aeronautical revenues (calculated as per Authority's YPP computation i.e. Rs. 416.64 under single till and Rs. 801.98 under dual till (as per Table 94)) under single till and under dual. The difference between the amounts recoverable under dual till and that under single till is then subtracted which results to an approximate amount of Rs. 968 crores. | | |

**23.146.** Looked at from another perspective, the total non-aeronautical net income (non-aeronautical revenue minus non-aeronautical expenses including depreciation, interest and tax expenses) of HIAL in the first control period comes to approximately Rs. 430 crores (Para 23.93 above). Under dual till, this is not reckoned towards calculation of aeronautical tariffs. Hence this amount is retained by HIAL. This is nearly 113% of the total equity of HIAL of Rs. 378 crores, meaning thereby HIAL, under dual till, would have recouped 100% of its initial equity within a period of first 4 years of the current control period itself. Its implication on additional return on equity of HIAL, over and above the fair rate consistent with the risk profile, risk mitigating measures put in place by the Government of India and proposed to be put in place by the Authority in this consultation paper are also given in Para 23.93 above. This transfer of resources from passenger to the airport operator (under dual till) is without any express purpose of utilization of this amount of the non-aeronautical income being ex-ante clear to the stakeholders. The Authority does not believe that so doing is in public interest or for that matter serves public purpose in the tariff determination during the current control period

**23.147.** The Authority is summarising its analysis regards both single and dual till as under:

23.147.1. The Authority's single till approach takes into account income from the non-aeronautical services within the terminal building (and car parking). This income from non-aeronautical services within the terminal building is generated by passengers whose contribution through direct charges in the form of UDF to give the airport operator fair rate of return is substantial (over two thirds in HIAL even in single till). The Authority generally does not take into account real estate income in regulatory ambit of single till. Its treatment of real estate income to HIAL is a consequence of the Land Lease Agreement that states that the land is given to the airport operator to make the project (airport) feasible. As indicated in Para 9.32 above, Authority has not subtracted from RAB the valuation of land (outside the terminal building) that HIAL has developed (as commercial exploitation of part of land in excess of airport requirements) for the purposes of calculation of RAB in this consultation paper. On considering the stakeholders' response, it will make appropriate final decision.

23.147.2. For the given airport, single till results in lowest passenger charge. This is much higher in Dual till.

23.147.3. As long as fair rate of return is given to the airport operator, he should be indifferent to the regulatory till. In dual till, the airport operator gets more than fair rate of return directly at the expense of the passengers. To put it differently, passengers are required to pay higher charges only to enable the airport operator get more than fair rate of return.

23.147.4. The Government's declared policy is to minimize passenger charges. This has been made very clear for the govt. Press Release of 16th October, 2012 whereby it proposed to discontinue ADF with effect from 01-01-2013. According to the latest pronouncements of the Hon'ble Minister for Civil Aviation, the move to allow UAE city-state Abu Dhabi's airlines increased access to the Indian market, was made keeping "passenger convenience" in mind as more foreign carriers would increase options for fliers and **bring down airfares on overseas routes** (Emphasis added). (Anindya Upadhyay, ET Bureau May 1, 2013, 06.38AM IST) Mention is also made (Para 23.40 above) wherein the Government has emphasized the ultimate objective to be to reduce the burden on the end user (passengers). Airport Development Fee, at least, is a time-bound charge and depending on the quantum and the rate thereof, its burden on the passengers would expire after a certain period of time. User Development Charge which is higher in dual till is an on-going charge without time limit as mentioned above. Single till, therefore is fully in consonance with the Government's publicly declared policy of minimizing the passenger charges. On the other hand, dual till goes against the declared policy as above.

23.147.5. ICAO is neutral on the regulatory till. European Union also in its recent Directive (2009) is also neutral on the regulatory till to be adopted by its member states.

23.147.6. Different countries in the world present different regulatory tills. Hence different counties have adopted policies of regulatory till suitable for the particular country. The private operators wishing to operate in that country have conformed to regulatory till policy of that country.

23.147.7. The AERA Act gives Legislative policy guidance as to what factors are to be taken into account while determining the aeronautical charges. One of such factor is *"the revenue received from services other than the aeronautical services".* The Legislative background and intent in introducing this clause clearly shows that both the Govt. as well as the Legislature intended that all the revenues from the services other than aeronautical services should be taken into account while determining aeronautical tariffs. This is also consistent with the professed Govt. objective of minimizing the passenger charges.

23.147.8. The Legislature has also given the policy guidance to the Authority that it should also take into consideration, *"the capital expenditure incurred and timely investment in improvement of airport facilities",* while determining the tariffs of the aeronautical services. The Authority is, therefore, conscious of this legislative requirement. The Authority, therefore, for the express purpose of making funds available for capital expenditure or timely investment, may require non-aeronautical revenues to remain in the hands of the airport operator so that the extra amount available with the airport operator can be utilized for capital expenditure. While doing so, the Authority would need to keep in view that the passengers are required to pay for the timely investments in such a determination and that this gives the airport operator more than fair rate of return. As and when such a situation develops, the Authority would put for stakeholders' consultation appropriate treatment of the non-aeronautical revenues retained by the airport operator for capital needs for expansion, passenger conveniences etc.

**23.148.** The Authority thus tentatively proposes to adopt single till for RGI Airport, Hyderabad on account of these considerations.

**Proposal No. 19. Regarding Regulatory Till-**

**19.a. Based on the material before it and its analysis, the Authority tentatively proposes**

**i. To determine the aeronautical tariffs in respect of RGI Airport, Hyderabad under single till.**

# 24. Quality of Service

## a HIAL Submission on Inflation

**24.1.** HIAL has in their submission dated 01.04.2013 requested that the Authority may only monitor those quality parameters that are given in the Concession Agreement.

## b Authority's Examination on Quality of Service

**24.2.** The Authority has noted that Section 9 of the Concession Agreement for RGI Airport, Hyderabad lays down the performance standards to be followed in respect of the airport. Clause 9.2 mentions the following:

> *"9.2.1 Throughout the term of this Agreement the Airport's performance shall be monitored by passenger surveys in accordance with this Article 9. The criteria used to measure the Airport's performance shall be the IATA Global Airport Monitor service standards set out in Schedule 9, Part 2 or such criteria as may be mutually agreed upon from time to time (the "Standards").*
>
> *9.2.2 HIAL shall participate in IATA surveys and shall ensure that a survey is conducted each year in accordance with lATA's requirements to determine the Airport's performance. The first such survey shall be conducted during the third (3rd) year after Airport Opening.*
>
> *9.2.3 If three (3) consecutive surveys show that the Airport is consistently rated as lower than IATA rating of three and a half (3.5) (in the current IATA scale of 1 to 5) for the service standards under HIAL's direct control, HIAL will produce an action plan in order to improve the Airport's performance which must be implemented within one (1) year."*

**24.3.** The Concession Agreement also provides for a mechanism to levy penalty on HIAL for not meeting the set performance standards. Clause 9.2.5 and 9.2.6 in this respect are reproduced below:

> *"9.2.5 Should HIAL fail to produce such an action plan or if the Airport continues to be rated as lower than IATA rating of three and a half (3.5) (in the current IATA scale of 1 to 5) for the service standards under HIAL's*

*direct control, in the survey conducted in respect of the year after implementation of such action plan, GoI shall have the right to impose liquidated damages and/or to give directives to Relevant Authorities participating in the joint coordination committee referred to in Article 8.2 to assist HIAL in improving the rating. The quantum of liquidated damages will, taking into account factors leading to the drop in ratings, be discussed and agreed between the Parties.*

*9.2.6 Any liquidated damages pursuant to Article 9.2.5 above shall be paid into an Airport development fund. Monies from the Airport development fund shah be utilised to fund improvements at the Airport at the direction of the Gol."*

**24.4.** Further the Concession Agreement provides that after formation of the Independent Regulator, HIAL shall be required to comply with all requirements framed by such independent Regulator. Clause 9.2.9 in this respect states as under,

*"9.2.9 From the date the IRA has power to review, monitor and set standards and penalties and regulate any such related activities at the Airport, HIAL shall be required, instead of the provisions of Articles 9.2.1 to 9.2.7, to comply with all such regulations framed by IRA."*

**24.5.** The Authority notes that in the scheme of the AERA Act, the Authority has two mandates relating to quality of service – first, to consider the quality of service for determination of tariff and secondly, to monitor the set performance standards relating to quality of service. These are two distinct functions - one relates to determination of tariff whereas the other relates to monitoring of set performance standards.

**24.6.** The Authority in its Airport Order had ordered that while it will discharge its other functions under the AERA Act with respect to monitoring the set performance standards as may be specified by the Central Government (Section 13 (1) (d) of the AERA Act), it will, in accordance with the provisions of Section 13(1) (a) (ii) of the AERA Act, take into consideration the quality of service provided by Airport Operators on specified parameters and measures while determining tariffs.

**24.7.** The specific Objective Quality of Service Parameters and Benchmarks and the Subjective Quality of Service Parameters and Benchmarks to be measured at the major airports have already been adopted by the Authority in the Airport Guidelines (Appendix 2 and Appendix 3 of the Airport Guidelines).

**24.8.** In the Airport Guidelines, the Authority had also adopted a mechanism to consider reduced tariffs for under-performance vis-a-vis specified benchmarks on quality of service to adequately protect the interest of users. Under such a mechanism, the calculated level of rebate for a year will be passed on to users of airport services in the form of reduced tariffs in the following year(s). The Authority had specified that under-performance with respect to specified benchmark for each objective service quality measure will have a monthly rebate incidence of 0.25% of aeronautical revenue, subject to an overall cap of 1.5%. As regards the subjective service quality parameters the Authority had adopted an overall benchmark of 3.5 on the Airports Council International's Airport Service Quality (ACI ASQ) survey for subjective quality of service assessment to be undertaken by all major airports. The Authority believed that in order to progressively ensure better service quality performance within the control period, it would be appropriate to prescribe a higher overall benchmark for fourth and fifth years of the first control period. Accordingly it had decided that the overall benchmark for subjective quality requirements for the fourth and fifth year of the first control period shall be 3.75 on the ACIASQ survey.

**24.9.** The Authority has considered the issue of specifying a transition period for implementation of the scheme of quality of service measurement and determination of any rebates as relevant for HIAL and feels that a period of six months from the date of tariff determination would be a reasonable time for HIAL to appropriately align their processes/ procedures and make any other required interventions.

**24.10.** In the current determination of aeronautical tariff(s) for HIAL, a period of about two years and two months of the first control period have already elapsed and given the transition period of six months, for implementation of the above scheme (quality of service measurement and determination of any rebates) would be applicable at the earliest only from the fourth tariff year of the Control period i.e., 2014-15. The Authority notes that it will be possible to calculate the rebate for the year 2014-15 only in the tariff year t+2, viz., in 2016-17, which is the first tariff year of the next control period. In this light the Authority tentatively proposes to use the rebate mechanism as indicated in the Airport Order and the Airport Guidelines for HIAL.

**Proposal No. 20. Regarding Quality of Service**

**20.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

i. **To use the rebate mechanism as indicated in the Airport Order and the Airport Guidelines for RGI Airport, Hyderabad.**

ii. **To implement the rebate scheme from 4th Tariff year of the Current Control period i.e., 2014-15. Rebate for year 2014-15 would be carried out in 2016-17, which is the first tariff year of the next control period.**

# 25. Matters regarding Error Correction and Annual Compliance Statement

## a Authority's Examination on Matters regarding Error Correction and Annual Compliance Statement

**25.1.** The Authority had in its Airport Guidelines laid down the error correction mechanism with reference to the adjustment to the Estimated Maximum Allowed Yield per passenger, calculated using the error correction term of Tariff Year t-2 and the compounding factor. The error correction calculated as per the Airport Guidelines indicated the quantum of over-recovery or under-recovery due to increase or decrease respectively of the Actual Yield per passenger with respect to Actual Maximum Allowed Yield per passenger in the Tariff Year.

**25.2.** The Authority has noted that this is the first control period in which a period of two years has already elapsed. Tariff being determined is to be recovered in the balance period of about two and half years of the current control period.

**25.3.** In the case of HIAL, the Authority has proposed to make appropriate adjustments to the RAB at the beginning of the next Control period in respect of actual investments. The Authority has also proposed to consider the depreciation calculated in accordance thereof and Roll Forward RAB during the Control Period for the purpose of determination of tariffs for aeronautical services at HIAL. The Authority has also proposed to true up the traffic projection based on actual growth. The Authority has also tentatively proposed that the non-aeronautical revenue would be trued up, in the interest of the passengers as well as those of the airport operator. Hence, the truing up for non-aeronautical is also proposed after the completion of the current control period.

**25.4.** Further, the Authority also proposes that in view of all the corrections/truing up to be carried out at the end of the control period there may not be any requirement for HIAL to submit Annual Compliance Statements etc., as per the timelines indicated in the Airport Guidelines. Instead, HIAL should submit the Annual Compliance Statements along with the MYTP for the next Control Period.

**Proposal No. 21. Regarding Matters regarding Error Correction and Annual Compliance Statement**

**21.a. Based on the material before it and its analysis, the Authority tentatively proposes:**

**i. That HIAL should submit the Annual Compliance Statements for the individual tariff years of the first control period along with the MYTP for the next Control Period.**

# 26. Summary of Tentative Views

**Proposal No. 1. Regarding Pre-Control Period Loss .................................................... 50**

*1.a. Based on the material before it and its analysis, the Authority tentatively proposes: ....................................................................................... 50*

i. To consider Pre-Control Period Loss (for the period 23.04.2008 to 31.03.2011) (inclusive of carrying costs) as of 31.03.2011 at Rs. 260.68 crores under single till and Rs. 447.14 crores under dual till. .................. 50

ii. To add this amount of pre control period loss to the ARR for FY 2011-12 while determining the tariffs for aeronautical services for the current control period so as to recoup these losses. .......................................... 50

**Proposal No. 2. Regarding Control Period ................................................................. 52**

*2.a. Based on the material before it and its analysis, the Authority tentatively proposes: ....................................................................................... 52*

i. To consider the first Control Period in respect of determination of tariffs for aeronautical services in respect of RGI Airport, Hyderabad to be from 01.04.2011 up to 31.03.2016. ................................................................ 52

**Proposal No. 3. Regarding Asset Allocation (Aeronautical / Non-Aeronautical) ........... 59**

*3.a. Based on the material before it and its analysis, the Authority tentatively proposes: ....................................................................................... 59*

i. To consider the allocation of assets as submitted by HIAL (Refer Table 13) for computation of ARR under dual till for the current control period. .. 59

ii. The Authority also tentatively proposes that it will commission an independent study to assess the reasonableness of the asset allocation submitted by HIAL and would take corrective action, as may be necessary for determination of tariffs under dual till, at the commencement of the next control period commencing with effect from 01.04.2016. The Authority further proposes that upon analysis / examination pursuant to such a study, the Authority may conclude that the allocation of assets considered under dual till needs to be changed. In such a case the

Authority would consider truing up the allocation mix at the commencement of the next control period as may be relevant. ...........59

**Proposal No. 4. Regarding Future Capital Expenditure ............................................ 107**

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ii. To include the General Capital Expenditure (Refer items in Group 2 in Table 14 details of which are given in Table 15) as submitted by HIAL for the present, for the purpose of the determination of tariff for aeronautical services during the current control period. .....................107

iii. To true-up the difference between the General Capital Expenditure (Refer items in Group 2 in Table 14 details of which are given in Table 15) considered now and that actually incurred based on evidential submissions along with auditor certificates thereof at the time of determination of aeronautical tariff for the next control period, based on the approach adopted for inclusion or exclusion of assets in Regulatory Asset Base ...........................................................................................108

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i. To include the assets - both aeronautical and non-aeronautical assets, of the standalone entity of HIAL (refer Para 3.4 above) in RAB for the purpose of determination of aeronautical tariffs for the current control period under single till. ............................................................................129
ii. To include only the aeronautical assets of the standalone entity of HIAL (refer Para 3.4 above) in RAB for the purpose of determination of aeronautical tariffs for the current control period under dual till. ........129
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ii. To consider a ceiling in respect of the cost of debt for rupee term loan availed by HIAL at 12.50%. ........................................................................ 139

iii. Not to accept the proposed increase of 0.5% in the rate of interest of rupee term loan for calculation of future cost of debt for the FY 2013-14, FY 2014-15 and FY 2015-16. ........................................................................ 139

iv. To true-up the cost of debt for the current control period with actual values (determined as weighted average rate of interest for the individual tranches of loan drawn within the control period) subject to the ceiling of 12.50% for the Rupee Term Loan and 8.00% for the ECB Loan. ........................................................................ 139

v. To review this ceiling upon reasonable evidence that HIAL may present to the Authority in this behalf. ........................................................................ 139

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ii. To institute an independent study to assess the reasonableness of operation and maintenance costs. The Authority would consider the results of the study in its tariff determination for the next control period commencing on 01.04.2016, including truing up as may become necessary. ....................208

iii. To review and true up if necessary the following factors for the purpose of corrections (adjustments) to tariffs on a tariff year basis....................208

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*11.a. Based on the material before it and its analysis, the Authority tentatively proposes: ....................212*

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*14.a. Based on the material before it and its analysis, the Authority tentatively proposes: ........................................................................................245*

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ii. Having regard to 14.(a).(i).(a)- 14.(a).(i).(e) above, to treat for the time being the revenues from cargo service as non-aeronautical (both under single and dual till) ........................................................................ 245

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## 27. Stakeholder Consultation Timeline

**27.1.** In accordance with the provisions of Section 13(4) of the AERA Act 2008, the proposal contained in the Summary of Tentative views (Para 26 above) read with the Authority's analysis, is hereby put forth for stakeholder consultation. To assist the stakeholders in making their submissions in a meaningful and constructive manner, necessary documents are enclosed. For removal of doubts, it is clarified that the contents of this Consultation Paper may not be construed as any Order or Direction of this 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 decision fully documented and explained in terms of the provisions of the AERA Act.

**27.2.** The Authority welcomes written evidence-based feedback, comments and suggestions from stakeholders on the proposal made in Para 26 above, **latest by Monday, 1st July 2013** at the following address:

**Capt. Kapil Chaudhary (Retd.)**
**Secretary**
**Airports Economic Regulatory Authority of India**
**AERA Building,**
**Administrative Complex,**
**Safdarjung Airport,**
**New Delhi- 110003**
**Email: kapil.chaudhary@aera.gov.in**
**Tel: 011-24695040**
**Fax: 011-24695039**

**Yashwant S. Bhave**
**Chairperson**

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